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 12th, 2014

PROCEEDINGS

BEFORE:

Bernard Magnan,

Panel Chair/Commissioner

Liisa O'Hara **Commissioner**

Richard Revel **Commissioner**

VOLUME 5

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L. MUNN	Insurance Bureau of Canada
B. FLEWELLING	Automobile Insurance Committee of the Canadian Bar Association.
S. KHAN	B.C. Pensioners' and Seniors' Organization *et al* (BCSPO)
F.J. WEISBERG	Toward Responsible, Educated and Attentive Driving (TREAD)
L. WORTH J. QUAIL	Cope Local 378
G. ADAIR	Self
R. LANDALE	Self

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1 **CAARS**
2 VANCOUVER, B.C.
3 February 12th, 2014
4 **(PROCEEDINGS RESUMED AT 9:04 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: Mr. Miller, if you would, please.
14 MR. MILLER: Thank you, Mr. Chair. Before I recommence
15 my cross-examination, there is one procedural matter
16 from my end, and I believe that the Insurance
17 Corporation is also going to give us some information
18 with respect to the undertakings that are still
19 outstanding.
20 With respect to the first item, I've been
21 in communication with Ms. Flewelling from the
22 Insurance Committee of the Bar Association. She has
23 been provided with a copy of Exhibit -- I believe it's
24 B-16, the cover page and closing, the confidential
25 information related to her undertaking. She has
26 indicated that she does intend to challenge the issue

of confidentiality. She will not be able to be here today, so she has indicated she hopes to be able to file submissions by this morning.

So if they are received, then we can deal with that matter when it arises. But until then, the Panel doesn't have to do anything on that issue.

And I'll leave it to Mr. Ghikas now.

MR. GHIKAS: Thank you, Mr. Chairman. Good morning, Panel.

THE CHAIRPERSON: Good morning, Mr. Ghikas.

COMMISSIONER REVEL: Good morning.

MR. GHIKAS: The first point was that yesterday we addressed an undertaking with respect to BI severity, and Mr. Weiland addressed it right after the break. And the reference has slipped -- I lost my page marker here. So I don't have that for you. But when he spoke he transposed two digits. The number he provided was 35,861 and it should have been 35,681. And perhaps I'll just confirm that is accurate with Ms. Minogue. Yes? And does -- is it still the case that the impact is less than one-half of one percent?

MS. MINOGUE: A: Yes.

MR. GHIKAS: Okay.

THE CHAIRPERSON: Put the other way.

MR. GHIKAS: Thank you.

THE CHAIRPERSON: Put the other way. The reverse.

1 Because it's less than the number that was in the
2 exhibit, if I remember correctly.
3 MS. MINOGUE: A: Correct.
4 MR. GHIKAS: The second issue -- oh, sorry. I have that
5 reference now, it was at page 627 of the transcript
6 from yesterday, lines 14 to 17.
7 The second document, Mr. Chairman, is a
8 corrected IR response. During the course of reviewing
9 materials the panel identified an error in this
10 response, and wanted to make sure it was corrected.
11 So this is the response to 2013 Round 2, BCUC 180.2.
12 And perhaps -- it's not indicated in black-line as to
13 what's changed, but perhaps Ms. Minogue can speak to
14 specifically what changed in this response.
15 MS. MINOGUE: A: First of all, just to be clear, it's
16 180.1. You said 180.2, so just to clarify.
17 MR. GHIKAS: Oh.
18 **Proceeding Time 9:09 a.m. T2**
19 MS. MINOGUE: A: And the change here is an update to
20 the scenario that's called "Unanticipated inflation",
21 and the numbers were 114 and 141 to be replaced with
22 118, 145 respectively. And essentially what happened
23 is the wrong scenario was put into this IR response.
24 And our thinking in terms of providing this response
25 is to provide the scenarios that are consistent with
26 what we put in prior DECAT analyses, and so now with

the correction the two are aligned.

MR. GHIKAS: And Ms. Minogue, can you just clarify, does the change that you just made affect the conclusion that 130 percent MCT remains appropriate as the solvency target?

MS. MINOGUE: A: It does not affect the conclusion.

MR. GHIKAS: Thank you. And if we can mark this as Exhibit B-18, Mr. Chairman.

THE HEARING OFFICER: Exhibit B-18.

(CORRECTED IR RESPONSE TO BCUC 180.1 MARKED EXHIBIT B-18)

MR. GHIKAS: The final issue this morning, Mr. Chairman, is that yesterday in questioning the panel, Mr. Miller left an undertaking regarding the experience to date, the 12-month experience to date for accident year 2013 with respect to frequency, and that can be found just for reference at page -- we don't have to turn there but page 582 of the transcript yesterday, lines 3 to 6. And what the -- in the course of preparing the response to that undertaking, Mr. Chairman, it still hasn't been put together yet, but there is some issues with the data that the panel wish to speak to now, just in case Mr. Miller has follow-up questions on it.

And so we thought, and I've spoken to Mr. Miller about this, just leading through -- the undertaking response hasn't been prepared on paper

1 yet, but just leading the panel through what they can
2 expect to see and that, and explain the nuances that
3 the panel wanted to make sure were understood so that
4 it didn't come as a surprise when it's filed after the
5 fact.
6 MR. GHIKAS: So if we can start with Ms. Minogue, me
7 asking, do you recall the undertaking that Mr. Miller
8 left with respect to the updated BI claims frequencies
9 at 12 months?
10 MS. MINOGUE: A: Yes, I do.
11 MR. GHIKAS: Okay. And can you just for context remind
12 us what was the forecast BI frequency for 2013
13 accident year that was used in the application?
14 MS. MINOGUE: A: That was the 1.47.
15 MR. GHIKAS: Okay. And with the benefit of the
16 experience that you now have with the rest of 2013
17 having passed, and having applied the development
18 factors that you consider to be appropriate, what does
19 the 1.47 become?
20 MS. MINOGUE: A: 1.46.
21 MR. GHIKAS: Okay. And as I understood it from our
22 discussions, Ms. Minogue, that while the estimate of
23 BI frequency when you consider the updated experience
24 and development has gone down by .01, the experience
25 to date when considered on its own before the
26 development has applied has gone down by .07, so a

larger number.

MS. MINOGUE: A: Yes.

MR. GHIKAS: Okay. Now, that effectively means -- does that effectively mean that you have added the amount of development that you would be adding with the benefit of this new experience, larger than what is included in the application?

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

MR. GHIKAS: Okay.

Proceeding Time 9:13 a.m. T03

MR. GHIKAS: Okay. Can you please explain why it's necessary in your view to add more development to the lower experience to date for 2013?

MS. MINOGUE: A: About middle of the year, it came to the attention of the actuaries, we track the claims frequency data on a weekly basis, in fact. What's coming in the door. And we noticed a marked drop in the frequency levels. And it wasn't something that was just gradual, like you would expect in a normal change in frequency. It was something that we identified that must be operational. We talked to our colleagues in the claims division, and learned that the first notice of loss process that I believe they talked some about was resulting in a delay in the recognition of bodily injury claims.

And for that reason, we as actuaries found

it necessary to make an adjustment to correct for this change in the data. It's due to operational changes.

COMMISSIONER REVEL: May I just ask for a clarification on that, Ms. Minogue? When you say you track it on a weekly basis, is that every time there is an accident and it's filed with you, and it comes in through the door, is that the point at which it counts?

MS. MINOGUE: A: No, there is some procedural things that go on at ICBC before it might be recognized as a bodily injury claim. Most often, the property damage component of it is recognized pretty quick, but there is now with the process changes, there is more of a lag between the property damage and the bodily injury.

COMMISSIONER REVEL: And those are still dealt with as a single claim, are they?

MS. MINOGUE: They are dealt with as two different claims.

COMMISSIONER REVEL: Okay, thank you.

MR. GHIKAS: And just for clarification, is it that delay that you've just referred to that's driving the need to make the adjustment?

MS. MINOGUE: A: Yes, and in fact accepted actuarial practice calls for reflecting -- making adjustments to reflect changes in operations that affect the data, so.

COMMISSIONER REVEL: So in essence -- again, you have

1 almost an immediate response to the property damage,
2 but there is a lag in many cases in the medical,
3 because it's not discovered for a certain period. Is
4 that correct?
5 MS. MINOGUE: A: It's more the process in the claims
6 division in terms of when they actually put the coding
7 on the claim. So, the claims division probably can
8 speak to that better than I.
9 MS. TAYLOR: A: When the exposure is opened, so, we
10 would have to have the information about the liable
11 party before we can open up the exposure, and
12 sometimes that's the lag. And also the process.
13 COMMISSIONER REVEL: Okay. Thank you very much.
14 MR. GHIKAS: And can you just perhaps elaborate on what
15 specifically is changing operationally that is driving
16 what Ms. Minogue is referring to?
17 MR. WILSON: A: Sure. We spoke earlier about us
18 wanting to meet the customer's needs immediately when
19 they phone in to ICBC. The prior process was that
20 they would book an appointment, and then you would
21 wait sometimes a few days to visit a claims centre.
22 They would deal with your vehicle and they would
23 activate your benefits, so you could get the medical
24 treatment you needed.
25 What we've done is, we've changed that
26 process so that you can phone in 24 hours a day and

1 get your vehicle taken care of, and your medical needs
2 activated immediately. You don't need to go to a
3 claims centre. Although that helps our customers,
4 what it does is, it accelerates that process and it
5 delays the process of an adjuster contacting you,
6 getting the information they need as Ms. Taylor said,
7 to open the tort or the injury claim, the BI claim.
8 A second part of that is that an adjuster
9 would open all of the reserves, and then if there was
10 a lawyer, they would then send it to an adjuster who
11 handles legal or represented claims. Those files,
12 again, when you phone in, we take care of your car, we
13 take care of your medical benefits right away, and
14 then those go straight to an injury adjuster who then
15 has to contact the lawyer, and it's a much, much
16 lengthier process to activate that exposure.
17 So the result being that the initial --
18 initially frequency will appear to have declined, but
19 it's actually a delay in when we activate that tort
20 exposure.
21 **Proceeding Time 9:17 a.m. T4**
22 COMMISSIONER REVEL: Thank you very much.
23 MR. GHIKAS: Thank you, Mr. Wilson. And Ms. Minogue, I
24 understand you will be providing this context in the
25 response to the undertaking itself.
26 MS. MINOGUE: A: Yes.

1 MR. GHIKAS: Thank you. Thank you, Mr. Chairman, those
2 are my issues this morning.
3 THE CHAIRPERSON: Thank you, Mr. Ghikas. Mr. Miller?
4 MR. MILLER: Thank you, Mr. Chair.
5 **CROSS-EXAMINATION BY MR. MILLER (Continued):**
6 MR. MILLER: Q: Ms. Minogue, one follow-up point on the
7 answer to the undertaking as you've just addressed.
8 So I understand from what you've said that you started
9 off with a forecast number of 1.47, correct, for BI
10 frequency? And then before development, the number
11 was down .07, so around 1.40 for development? And
12 then --
13 MS. MINOGUE: A: That's not -- the .07? I'm sorry.
14 MR. MILLER: Q: So we had -- well, let's start off. We
15 had forecast the 1.47, right? And then now you've
16 indicated it's 1.46.
17 MS. MINOGUE: A: Right.
18 MR. MILLER: Q: And that's included or based on numbers
19 that include some development factors or development
20 adjustments, correct?
21 MS. MINOGUE: A: Correct.
22 MR. MILLER: Q: Okay. Did I hear you correctly that
23 you used development adjustments that are slightly
24 different than those that were used in the application
25 to update that number?
26 MS. MINOGUE: A: That is correct.

1 MR. MILLER: Q: What would the number have been using
2 the development adjustments used in the application?
3 MS. MINOGUE: A: I don't have that with me.
4 MR. MILLER: Q: Can you file that as an undertaking?
5 MS. MINOGUE: A: Yes. We can address that in the
6 undertaking. I am averse to putting that down as an
7 estimate. And again, accepted actuarial practice
8 calls for making adjustments and we do not just simply
9 apply loss development factors to numbers when it's
10 not appropriate. And it would not be appropriate to
11 apply the same development factor, given that we know
12 about these operational changes. These are not real
13 changes to reported claims frequency. So I have to
14 put that caveat. It's a very important aspect of
15 actuarial practice, to take into account factors like
16 this and adjust appropriately.
17 MR. MILLER: Q: We would like the number in any event
18 and you can put whatever qualifications on the numbers
19 you choose to.
20 **Information Request**
21 Okay, I want to move into the capital
22 management plan this morning, and this has already
23 been addressed to some extent by previous questioners
24 and also by Mr. Ghikas and the Panel. So hopefully we
25 can move through some of these issues fairly quickly.
26 The 2013 government directive requires that

1 ICBC base its application on the existing Commission
2 approved capital management plan, correct?
3 MS. MINOGUE: A: Correct.
4 MR. MILLER: Q: And the existing capital management
5 plan has a minimum capital test, or as it's called,
6 MCT target of 130, 130 percent, correct?
7 MS. MINOGUE: A: That's correct.
8 MR. MILLER: Q: And that existing target has been in
9 place since the Commission approved it in January
10 2008, correct?
11 MS. MINOGUE: A: Correct.
12 MR. MILLER: Q: Okay. And the 130 percent target was
13 set after review of the Office of Superintendent of
14 Financial Institutions or OSFI as we called it here,
15 stress tests, to establish a buffer above the minimum
16 100 percent MCT, to reflect what the Commission
17 thought was the ICBC risk profile, correct?
18 MS. MINOGUE: A: That's correct.
19 MR. MILLER: Q: Now, those OSFI stress tests that were
20 examined included scenarios of adverse events that
21 might incur to an insurance company and its
22 investments, correct?
23 MS. MINOGUE: A: That's correct.
24 MR. MILLER: Q: And we've talked about how risk
25 profiles for various insurers change, right? So the
26 MCT levels should reflect the risk profile, correct?

1 MS. MINOGUE: A: That is correct.
2 MR. MILLER: Q: Okay. If we turn to BCUC IR Round 1,
3 60.2, there's a graph that shows the MTC levels
4 running from 2003 and onward. I just want to review a
5 couple of things to provide context. We'll wait till
6 you have it in front of you.
7 MS. MINOGUE: A: I have that in front of me.
8 MR. MILLER: Q: Okay. So in 2003 the MCT level was
9 about 20 percent, correct?
10 MS. MINOGUE: A: That's correct.
11 MR. MILLER: Q: And then in 2008 when the capital
12 management plan came into effect it was approximately
13 136 percent, correct?
14 MS. MINOGUE: A: That's correct.
15 **Proceeding Time 9:23 a.m. T05**
16 MR. MILLER: Q: And it kept growing to a high of 165
17 percent in 2010 before being adjusted by the IFRS,
18 correct?
19 MS. MINOGUE: A: Correct.
20 MR. MILLER: Q: Okay. And then it fell in 2011 and
21 2012, before the capital transfer from optional in
22 December, 2012, correct?
23 MS. MINOGUE: A: Correct.
24 MR. MILLER: Q: Now, even without the optional
25 transfer, the MCT would have remained in 2012, the end
26 of 2012, above 100 percent, correct? Would have been

1 101.5, I think that's your response to BCUC IR 64.1.
2 MS. MINOGUE: A: Correct.
3 MR. MILLER: Q: Okay. So, do you agree that the 130
4 percent target that's been established by the
5 Commission combined with capital build and release
6 features of the existing plan has worked reasonably
7 well during the downturn in capital markets, and
8 unforeseen changes in BI frequency. It's kept you
9 above the 100 percent minimum.
10 MS. MINOGUE: A: I would agree with that.
11 MR. MILLER: Q: Now, we know that the BI frequency in
12 2013 is slightly better than was forecast, correct?
13 1.01 percent?
14 MS. MINOGUE: A: Correct.
15 MR. MILLER: Q: And we know that severity seems to be
16 on track for forecast for 2013, correct?
17 MS. MINOGUE: A: Correct.
18 MR. MILLER: Q: How did your -- or generally, do you
19 agree that the equity markets or that component of
20 your investment portfolio did fairly well in the last
21 quarter of 2013? Did it follow the broad market
22 indexes and increase?
23 MS. MINOGUE: A: I would have to refer that question to
24 panel 2. Questions around the movement and MCT and
25 investment markets are best answered by panel 2, Mr.
26 Leong and Ms. Gould.

1 MR. MILLER: Q: So we have, I believe, an update for
2 the third quarter for MCT level, correct? I think you
3 provided one.
4 MS. MINOGUE: A: I believe that's correct.
5 MR. MILLER: Q: I think it's 129 percent for the month,
6 nine months ended September 30, 2013. That's -- well,
7 let's start here. You forecast in the application
8 that the MCT at the end of 2013 was to be about 123
9 percent, correct?
10 MS. MINOGUE: A: That's correct.
11 MR. MILLER: Q: And then I believe it's been updated by
12 the September 30 numbers to be about 129 percent. So,
13 if you can take that subject to check, do we know
14 where we're at on year-end? Or are we on track to be
15 somewhere around high 120s, low 120s?
16 MS. MINOGUE: A: I don't have that information. Mr.
17 Leong, on panel 2, would be the subject matter expert
18 on that.
19 MR. MILLER: Q: How often do you update -- or how often
20 do you review the MCT to try and figure out where
21 you're at? Is it done monthly, or only quarterly?
22 MS. MINOGUE: A: I believe it's just done quarterly.
23 MR. MILLER: Q: Okay. It's panel 2?
24 MS. MINOGUE: A: Yeah.
25 MR. MILLER: Q: I want to briefly run through some of
26 the directions from government which influence some of

1 the matters the panel is going to be addressing. And
2 probably the best place to start is if you go to the
3 application, Chapter 4, right towards the end. There
4 is Order in Council 152. It's in Appendix 4(a) of
5 Chapter 4. This is in reference to the new capital
6 plan. Let me know when you have that in front of you.
7 **Proceeding Time 9:28 a.m. T06**
8 MS. MINOGUE: A: OIC 153?
9 MR. MILLER: Q: 152.
10 MS. MINOGUE: A: 152. I have it.
11 MR. MILLER: Q: Okay. So if we go to the schedule
12 which is the second page of the Order in Council,
13 under Section 1(b) we have the definition of the new
14 capital management target, and clause (a), subclause
15 (a) identifies the minimum MCT of 100 percent,
16 correct?
17 MS. MINOGUE: A: That's correct.
18 MR. MILLER: Q: And then subclause (b) is what you're
19 now calling, or ICBC is calling solvency target and is
20 proposed to be the same 130 percent of MCT as the
21 current management target, correct?
22 MS. MINOGUE: A: That's correct.
23 MR. MILLER: Q: And finally subclause (c) identifies
24 any additional MCT margin consistent with relatively
25 stable and predictable universal compulsory insurance
26 rates. And ICBC is proposing that there be an

1 additional 20 percent MCT for what you're referring to
2 as a rate smoothing margin, correct?
3 MS. MINOGUE: A: That's correct.
4 MR. MILLER: Q: So as per Section 1(b) of OIC 152, the
5 Commission needs to decide if the current management
6 target is appropriate as the new solvency target, and
7 whether any margin is needed for rate smoothing, and
8 if so, how much. And we'll put aside the CRC for now.
9 Correct? The Commission has to decide if 130 is still
10 appropriate for the new solvency target, and whether a
11 margin or how much of a margin is needed for rate
12 smoothing.
13 MS. MINOGUE: A: Yeah, I think the premise of our
14 application was that the Commission could continue to
15 adopt the 130 as still an inappropriate solvency
16 target and then consider the narrower issue of the
17 rate smoothing margin.
18 MR. MILLER: Q: Yes. Now, let's deal first with the
19 130 percent, the solvency target. It's your view or
20 ICBC's view that this continues to be reasonable as
21 you just indicated, correct?
22 MS. MINOGUE: A: Yeah.
23 MR. MILLER: Q: Okay. And in the IR response, I don't
24 think you need to turn there right now, but in Round
25 2, 180.1, you indicated that you tested the solvency
26 target against greater volatility in the equity

1 markets, correct? You can turn there if you like.
2 MR. GHIKAS: This is the one that just got updated, Mr.
3 Chairman, so it would be Exhibit B-18.
4 MR. MILLER: Q: So see in the first paragraph of the
5 response you indicated that the solvency target of 130
6 continues to be reasonable?
7 MS. MINOGUE: A: Yes.
8 MR. MILLER: Q: Okay. And then off, we turn to the
9 second page of that document. It says:
10 "Similar to the analysis filed with the
11 Commission in June 2008, single adverse
12 scenarios were constructed at the 10 percent
13 probability level."
14 Correct?
15 MS. MINOGUE: A: Correct.
16 MR. MILLER: Q: Okay. So how much more volatility in
17 the equity market was assumed for the 10 percent
18 probability?
19 MS. MINOGUE: A: I don't have that information in front
20 of me but I could undertake to give that.
21 **Information Request**
22 MR. MILLER: Q: Thank you. And then the second part of
23 that would be how does that information compare to
24 what was done in the 2008 DECAT testing, if you could
25 take that as an undertaking as well.
26 **Information Request**

1 MS. MINOGUE: A: Mm-hmm.
2 MR. MILLER: Q: Then the final one you may or may not
3 have to take as an undertaking is the solvency --
4 well, should we say the test that you applied, is that
5 the same test that OSFI applies?
6 MS. MINOGUE: A: The test that we apply in terms of --
7 are you talking about the scenarios that we've
8 constructed, or --
9 MR. MILLER: Q: On this table.
10 MS. MINOGUE: A: Okay, so OSFI has guidelines on the
11 tests that the insurance company conduct on its
12 balance sheets. The testing is sensitivity. And
13 these are guided by the OSFI guidelines.
14 **Proceeding Time 9:33 a.m. T07**
15 MR. MILLER: Q: Okay, and you followed them?
16 MS. MINOGUE: A: Yes, we followed them.
17 MR. MILLER: Q: Now, if we look at the table on this
18 document, the adverse scenarios, the impact of asset
19 decline is much more severe than the other stress
20 scenarios. Correct?
21 MS. MINOGUE: A: That's correct.
22 MR. MILLER: Q: It requires the highest solvency target
23 and management target?
24 MS. MINOGUE: A: Yes.
25 MR. MILLER: Q: Okay. So, let's deal with events over
26 2008 to 2010. When we look at the -- let me put it

1 this way. Is it fair to compare the risk of asset
2 decline with the extreme events of the 2008-2010
3 decline in the equity markets, and the subsequent
4 rebound after that?
5 MS. MINOGUE: A: Is it fair to compare --
6 MR. MILLER: Q: With the -- well, let me put it this
7 way. Was that event to your knowledge, the 2008 to
8 2010 decline, one of the worst economic events since
9 the Depression?
10 MS. MINOGUE: A: It was pretty severe.
11 MR. MILLER: Q: Okay. Are the 2008 and 2009 decline
12 included in the stress test? For asset decline?
13 MS. MINOGUE: A: What's included in the stress test is
14 an estimate of the standard deviation in the market
15 returns. And so we tested at the 10 percent
16 probability level. So, it's not that this plausible
17 scenario is a repeat of the market declines in the
18 '08-'09 period. It's really -- it's more just looking
19 at the volatility over the last, I believe, 80 years
20 of the market returns, and then creating a probability
21 distribution around it, and getting normal standard
22 deviations in returns. And then striking it at that
23 90th percentile.
24 So, what you're referring to is what's
25 called a stress test, where you look at, you know, how
26 -- if one of these worst-case scenarios occurred

again, how much would it take you under 100. It definitely would take you under 100 percent.

MR. MILLER: Q: Okay, but the 2008 and 2009 results are included in the asset decline listed in Table 1.

MS. MINOGUE: A: It's reflected in the volatility, in our estimate of how much volatility there is in the market.

MR. MILLER: Q: So, if we excluded 2008/2009, do we know what the results would be for asset decline in Table 1?

MS. MINOGUE: A: We don't have that available.

MR. MILLER: Q: Could you produce that number as an undertaking?

MS. MINOGUE: A: We could.

Information Request

MR. MILLER: Q: Thank you. Now, there has been some evidence in the IRs that other government owned insurance monopolies in Saskatchewan, Manitoba, operating with lower capital levels. Has the government monopoly nature of ICBC's basic insurance product taken into account in setting the 130 percent MCT?

MS. MINOGUE: A: I'm really unclear on how you would take into account it being a monopoly, because what we do in terms of our dynamic capital adequacy testing is look at the actual financial risk the Corporation has,

1 and oftentimes some people talk about the monopoly
2 status there is this presumption that government can
3 backstop the product, and that's not what our
4 government has set up for us as a solvency framework
5 here. They want us to look after all of the financial
6 risks and not put the B.C. taxpayer at risk of a
7 bailout.
8 So, our testing is all around our own
9 financial risks, which are substantial. We have a
10 bodily injury product, the claims liabilities have a
11 lot of risk inherent in them. And the estimation can
12 swing the number somewhat. So that's one area, you
13 know. We talked about, in my opening presentation,
14 there is a number of reasons why a company needs
15 capital. One of them is that claims may emerge higher
16 than you expected, from when you set the prices
17 initially. You may have more claims, or they may cost
18 more. You might have case law that changed, that
19 affects all your claims. You might have investment
20 returns that come out very differently than you
21 expected, or the assets decline in ways you didn't
22 predict. And for these reasons, ICBC needs capital.
23 And in this way we're no different from a normal
24 insurance company.
25 **Proceeding Time 9:39 a.m. T8**
26 Now, the way we are different is that we're

1 not subject to competitive threats, an innovative
2 competitor coming and stealing away all of our basic
3 business because we are the compulsory carrier. We do
4 not put a stress test in for that and include extra
5 capital for that kind of a risk.
6 So I would say that, you know, we do
7 reflect the monopoly status and that we don't reflect
8 adverse scenarios that are meant for competitive
9 companies.
10 COMMISSIONER REVEL: Mr. Miller, may I ask a question
11 just qualifying or following on Mr. Miller's.
12 Wouldn't you agree that by all appearances the
13 empirical evidence would suggest that the government
14 does step in and backstop you when necessary?
15 MS. MINOGUE: A: The optional business has -- we've
16 benefited from transfers from the optional business.
17 But I would consider that different from a situation
18 where the taxpayer might be called upon, and --
19 COMMISSIONER REVEL: I agree entirely with you on that
20 point.
21 MS. MINOGUE: A: Yes, okay.
22 COMMISSIONER REVEL: But the government has stepped in on
23 a number of occasions to facilitate things.
24 MS. MINOGUE: A: Mm-hmm.
25 COMMISSIONER REVEL: Thank you.
26 MR. MILLER: Q: So I just want to follow up on a point

1 in your answer before Commissioner Revel asked you a
2 subsequent question. You indicated that to some
3 extent the Insurance Corporation doesn't face
4 competitive pressures that other private insurers
5 face, correct?
6 MS. MINOGUE: A: That's correct.
7 MR. MILLER: Q: And so one of the benefits from that,
8 I'm going to suggest to you, is that if you have an
9 adverse outcome in one year, you can make it up in
10 rates in subsequent years without losing customers,
11 because you have a captive base, correct?
12 MS. MINOGUE: A: That's correct, and rates smoothing
13 does capitalize on that.
14 MR. MILLER: Q: So should there be a reduction in the
15 MCT level from 130 to factor in that benefit?
16 MS. MINOGUE: A: I guess I'm having a hard time
17 following the logic there.
18 MR. MILLER: Q: Okay, well, let me ask this question
19 then. Does OFSI to your knowledge contain any tests
20 or requirements for different MCT levels to be set
21 between private and public insurers?
22 MS. MINOGUE: A: Oh, right. So we talked about
23 yesterday, I believe. So this minimum 100 percent is
24 based on the financial risks on the balance sheet. So
25 it calculates and it's true whether a monopolistic
26 insurer or a competitive insurer. It looks across

1 your balance sheet and of all the financial risks, and
2 from that it arrives at this 100 percent of required
3 capital calculation. And for a for profit or
4 competitive company, they actually require them to
5 have 150 for the risks that can't be reflected in this
6 financial calculation. And so it already is
7 differentiated. OSFI differentiates with that 50
8 point margin.
9 MR. MILLER: Q: Thank you. I want to move on to rate
10 smoothing. Tell me if you agree with this, that ICBC
11 is submitting that there should be or must be a rate
12 smoothing margin because of the increased volatility
13 in the MCT, partly as a result of the 1.5 percentage
14 point limitations in OIC 152 that could result in rate
15 exclusions in some years as capital as used for rate
16 smoothing, correct?
17 MS. MINOGUE: A: Correct.
18 MR. MILLER: Q: And then subsection 1(b) of OIC 152
19 where it talks about the rate smoothing margin, it
20 says, "Any additional margin expressed in percentage
21 points of MCT". So is it your understanding that that
22 means the Commission can consider a rate smoothing
23 margin anywhere between zero and some positive number?
24 MR. GHIKAS: I would accept that, Mr. Chairman, on behalf
25 of the Corporation.
26 MR. MILLER: Q: Thank you, Mr. Ghikas. So let's assume

1 for the purpose of the next questions that something
2 is required as you've indicated. We're not dealing
3 with zero, okay? Commission Staff said you'd be happy
4 to have heard that, so.
5 Okay. ICBC has explained its reasons why a
6 20 percent smoothing margin could be more reasonable
7 than a 10 percent margin, and you essentially give
8 four reasons, and tell me if you agree with these.
9 The first is to cover the single worst lost
10 cost variance in the last ten years.
11 **Proceeding Time 9:44 a.m. T09**
12 MS. MINOGUE: A: Correct.
13 MR. MILLER: Q: Okay. Now, if you turn to Round 1,
14 BCUC 66.2.1. Do you have that?
15 MS. MINOGUE: A: Yes, I do.
16 MR. MILLER: Q: And so if we look at 66.2.1, it says,
17 "The time period since the last rate change
18 is 21 months, *i.e.*, February, 2012 to
19 November, 2013."
20 And it says,
21 "How likely will the 20 percent margin be
22 exhausted in two annual rate applications?"
23 Okay?
24 And the Insurance Corporation responds that
25 it says over the -- at least on my copy, it's over the
26 top of the page, it says,

1 "It is true that the 6.6 forecast variance
2 corresponds to a 21-month period since the
3 last rate application. For this reason, the
4 6.6 forecast variance is akin to the
5 accumulated forecast variance of almost two
6 years. Going forward, ICBC will have
7 forecast variances reflective of only 12-
8 month periods between forecasts.:
9 So, if the 6.6 forecast variance is the
10 worst lost cost forecast variance and it corresponds
11 to the 21-month period, isn't that equal to 7.5
12 percent MCT on an annual basis?
13 MS. MINOGUE: A: 7 percent?
14 MR. MILLER: Q: 7.5. So it's 6.6 times 12 over 21. Is
15 that -- oh, sorry. Yes. So, 6.6 times 12 over 21.
16 And then the 2 is your rough rule of thumb.
17 MS. MINOGUE: A: Okay, yes.
18 MR. MILLER: Q: So that means that a 7.5 rate smoothing
19 margin is indicated for one year, or 15 percent rate
20 smoothing margin for two years. Correct?
21 MS. MINOGUE: A: I'm sorry, could you repeat that?
22 MR. MILLER: Q: Sure. Does that mean that a 7.5
23 percent rate smoothing margin is indicated for one
24 year, or a 15 percent rate smoothing margin for two
25 years?
26 MS. MINOGUE: A: Well, that's premised on the 6.6 being

1 the worst, and --
2 MR. MILLER: Q: Yes.
3 MS. MINOGUE: A: And so, and I would question that
4 assumption, because -- well, we did, you know, we did
5 say it's over two years, and so it's kind of -- has a
6 different status. There is a forecast variance of 5.5
7 percent that we experienced from the application
8 before. And so I think taking that into account as
9 well would be appropriate.
10 MR. MILLER: Q: Now, the second reason why ICBC submits
11 a 20 percent margin is perhaps better than a 10
12 percent, is to recognize an unfavourable lost cost
13 forecast gradually into rates over more than one year,
14 without putting solvency at risk, correct?
15 MS. MINOGUE: A: That's correct.
16 MR. MILLER: Q: So, why can't a 10 percent smoothing
17 margin achieve this? And then after that, there is
18 the 30 percent solvency target for such adverse
19 events. Why is that not reasonable?
20 MS. MINOGUE: A: There is -- so, for example, if we
21 take -- if we look at Figure 4.1, where we lay out the
22 forecast variances, and putting the 6.6 aside,
23 recognizing that partly was due to not taking annual
24 increases, so looking at the 5.5, that has an impact
25 of about 10 points of MCT, using the rule of thumb.
26 And then to spread that over, to bring that in

1 gradually, you would even need more than 10 points of
2 MCT to bring that in without breaching the solvency
3 target.
4 **Proceeding Time 9:49 a.m. T10**
5 So again, let me just start from first
6 principles here. So assuming that you're at the 150
7 and you experience -- let's just round numbers, a 5
8 point forecast variance, that'll eat ten points of
9 capital. So now you're down to 140 and now you want
10 to bring that smoothly back into rates and so you
11 might need to use five and then two and a half. So
12 you can see that you need the 20-point margin for
13 that.
14 MR. MILLER: Q: Let me put this scenario to you. If
15 the solvency target plus the smoothing target were set
16 at 140, so the 130 and then just plus 10 percent per
17 smoothing margin, and ICBC had a very poor outcome,
18 let's say 15 percent decline, then the MTC would fall
19 to 125 percent. Correct?
20 MS. MINOGUE: A: Could you repeat that?
21 MR. MILLER: Q: Sure. So if the solvency and a
22 smoothing target were set at 140, a hundred and forty,
23 right? So 130 plus only 10 percent, okay, and then we
24 had a negative effect on MCT because of adverse
25 events, so we're down to 125, okay?
26 MS. MINOGUE: A: Mm-hmm.

1 MR. MILLER: Q: So then the following year the rates
2 could only go up within this band, the one and a half
3 percent, and that would hopefully start to recoup the
4 MCT level, first above the -- to get to the 130, and
5 then work towards the extra 10 percent, 140, correct?
6 MS. MINOGUE: A: That's correct.
7 MR. MILLER: Q: And then wouldn't both -- and we still
8 have a capital build provision taking place until the
9 140 was restored, correct? So why is that not
10 reasonable?
11 MS. MINOGUE: A: For what reason did we drop 15 points
12 of MCT? Was that --
13 MR. MILLER: Q: Forecast variance. Lost cost forecast
14 variance.
15 MS. MINOGUE: A: I'm not sure why you're saying why
16 isn't that reasonable? You've, you know, you've
17 basically accounted for forecast variance that's
18 foreseeable and decided to use your solvency capital,
19 and so you're intentionally going below the 130 just
20 to smooth through rates. And in my view that's not
21 what the intention of the IC-2 is.
22 And furthermore, in our capital management
23 plan, we do draw a line at the 130 in terms of if
24 you're below it you're not going to use that capital
25 in the solvency range for rate smoothing. Only if
26 you're above it. So that's our proposal. That way

we're continuing to protect the solvency of the basic business.

MR. MILLER: Q: The third reason you're proposing 20 percent margin as I understand it is, and we've already addressed this to some extent, is to limit the likelihood of MCT falling below the minimum 100 percent level, correct?

MS. MINOGUE: A: Correct.

MR. MILLER: Q: And we've already agreed, I think so far, that the 30 percent solvency margin has worked reasonably well and you still think it works well. You're proposing that, correct?

MS. MINOGUE: A: Correct.

MR. MILLER: Q: So the difference between the 100 percent and the 130 percent relates to solvency, and so again just one more time, why isn't just 10 percent necessary for smoothing? Why do we need another 20 percent?

MS. MINOGUE: A: I think it's looking out for the normal variation that you'll see in our forecasts and our -- one standard deviation of our forecast variance is about 3.4, and if you want to protect for two standard deviations, then that's 6.8. So it depends on what the risk tolerance is and how much capital the Commission wants to have available for smoothing through rate volatility.

1 So I would suggest that there's no one
2 right answer and it really has to do with the
3 Commission's preference ultimately on how much
4 available they want for rate smoothing to smooth
5 through these periods of volatility.
6 MR. MILLER: Q: When we talk about volatility, the last
7 two years have been I guess some of the worst for loss
8 forecast variance, correct? In years prior to that,
9 you weren't so far off in your estimation.
10 MS. MINOGUE: A: That's correct. The flattening of the
11 frequency has created a lot more forecast variance
12 than we've seen.
13 **Proceeding Time 9:55 a.m. T11**
14 MR. MILLER: Q: So rather than planning for what's
15 been based on the last two years, perhaps an unusual
16 variation in the forecast estimations, why not base it
17 on more historical numbers where you are much closer.
18 Wouldn't that bring us down closer to a requirement of
19 only ten points for rate smoothing, rather than
20 twenty?
21 MS. MINOGUE: A: One could do that. However, we don't
22 have a lot of historical data points for that. ICBC
23 hasn't set rates for basic alone since it's been
24 regulated by the Commission, so that's since 2003. So
25 there's not a lot of data points. What we did do,
26 just for informational -- information request is look

at another jurisdiction that's similar to B.C., namely Alberta, because they make rates in a tort jurisdiction, and looked at the forecast variance that they've experienced in that jurisdiction and I would suggest to you that even in light of the volatility that we've seen lately, that our estimate of 3.4 standard deviation is very very reasonable in terms of what one would expect going forward.

MR. MILLER: Q: Okay. The last item that ICBC cites or submits in support of a 20 percent margin, is to limit rate impacts on customers. Now, wouldn't most of ICBC's customers prefer the lower rates that result from 140 percent management target, rather than 150 percent? So a ten percent rate smoothing, rather than 20 percent?

MS. MINOGUE: A: I think that customers will always prefer to have a lower rate than otherwise given the choice from a short-term perspective. From a long-term perspective though, the trade-off for them is having more predictability and smoothness in their rate changes, and so again, it's a trade-off, there's not one right answer. I think that even with a twenty-point margin the burden on the customer is not that great. It's a short-term impact that gets added to the rate and then removed once the capital is at the right level.

1 So it's not like the rates are held at a
2 high level for indefinitely, it's only for the short
3 period in which the -- to get the capital up the
4 twenty points.
5 MR. MILLER: Q: But by using a twenty percent margin,
6 we are building capital more quickly than by using a
7 ten percent margin, correct?
8 MS. MINOGUE: A: Say that again.
9 MR. MILLER: Q: By using a twenty percent margin, that
10 has the effect of building the capital more quickly
11 than by using a ten percent margin, correct?
12 MS. MINOGUE: A: Yes.
13 MR. MILLER: Q: And so don't issues of inter-
14 generational equity arise? That there may be people
15 that are planning now to build capital more quickly
16 that will never enjoy the benefit because they'll no
17 longer be insuring with the Insurance Corporation in
18 the future.
19 MS. MINOGUE: A: I agree that there's an inter-
20 generational aspect of it and there is in the whole
21 public auto in the fact that inexperienced drivers do
22 not pay their expected costs, and so I'm not -- I'm
23 not sure where that -- how that comes into play here.
24 MR. MILLER: Q: Now, am I correct to say that industry
25 standards stress test did not have the -- don't seem
26 to have the ability to test the rate smoothing margin?

1 MS. MINOGUE: A: Industry standards stress testing is
2 -- let me just give a quick little preview of --
3 description of it. It really is a set of guidelines
4 in terms of what risks the company should test in a
5 dynamic adequacy testing analysis. And so we use
6 those industry standard guidelines and test the
7 financial risk to our Corporation.
8 They do not -- because dynamic capital
9 adequacy testing, DCAT, is more of a defensive type of
10 analysis, that's how the guidelines are written. So
11 they were written around what kind of risks the
12 company would be faced with. They give guidelines
13 across all the different risk areas that one could
14 conceive of for insurance companies, and then use the
15 ones that are appropriate to your company.
16 **Proceeding Time 10:01 a.m. T12**
17 And so, they don't have rate smoothing as
18 part of that framework. However, that said, it's very
19 easy to take the scenarios and say, "Okay, if you had
20 rate smoothing, if you had the ability to defer or,
21 you know, exclude these unfavourable forecast
22 variances, how would that affect the scenarios?"
23 That's very easy to flow through the analysis. And
24 that's exactly what we've done in the IR response
25 180.1 that we've put before -- we've talked about
26 earlier today.

1 MR. MILLER: Q: Is it fair to say that the 20 percent
2 smoothing margin is based on ICBC's informed judgment
3 looking at various data?
4 MS. MINOGUE: A: What we proposed initially was based
5 on informed judgment and a great deal of actuarial
6 intuition, and how the DECAT analysis would come out.
7 It's not surprising to an actuary that when you have a
8 standard deviation around forecast variances of 3.4,
9 and a rate smoothing mechanism that brings it in
10 smoothly over time, that you'll land on about a 20
11 point margin, which our DECAT testing did corroborate.
12 MR. MILLER: Q: Thank you. I want to talk now about
13 capital maintenance. Now, with the proposed capital
14 management target of 150 percent, ICBC is proposing
15 that the capital maintenance provision be shortened to
16 10 years from the existing 20 years, to achieve the
17 capital management target of solvency plus smoothing.
18 Correct?
19 MS. MINOGUE: A: Right. But part of what you didn't
20 say is that we have already been phasing in the
21 capital maintenance provision.
22 MR. MILLER: Q: Okay. So ICBC is proposing to use ten
23 years to move up to the 150 percent MCT from the
24 current transient target level of about 110 and a half
25 percent, at a rate of four points per year, if we
26 exclude 2014. Correct? As compared to the old plan,

where there was 13 years left to move up to the 130 percent MCT level.

So you're intending to move up four points a year, not including 2014.

MS. MINOGUE: A: I am looking for that reference right now, Mr. Miller.

MR. MILLER: Q: Okay. If we look at --

MS. MINOGUE: A: Okay.

MR. MILLER: Q: We'll go to page 4-14 of the application.

MS. MINOGUE: A: I'm there.

MR. MILLER: Q: And on paragraph 48. It says,

> "ICBC proposes the maintenance provision be calculated based on a new transient target ratio that increases each year in increments of 4 percent until 2023, with the exception of 2014, which would be based on an incremental increase from the current transient MCT target of 110 and a half percent to an MCT transient target of 114 percent."

Correct?

MS. MINOGUE: A: That's correct.

MR. MILLER: Q: And then, in response to -- and I don't think you need to turn there. Just going to ask you a question about this right now. In BCUC Round 1, 71.7,

ICBC explains that the impact of using the ten-year transition period as being less than 50 cents of the premium dollar, as referring to the PY 2014 rate change, does that sound familiar?

MS. MINOGUE: A: Yes.

MR. MILLER: Q: What does "premium dollar" mean? Does that mean that the average ratepayer is only going to see 50 cents more on his or her basic insurance bill for the 2014? Or does it mean something else?

MS. MINOGUE: A: It refers to the average premium. It's with reference to the average premium that customer is paying.

MR. MILLER: Q: So the average customer is going to see 50 cents more on their bill. For the year -- for 2014. Is that what we're seeing?

MS. MINOGUE: A: I believe that's correct.

MR. MILLER: Q: Can you confirm that if it's -- if your understanding is otherwise?

MS. MINOGUE: A: Yes. Right. We can -- I can.

Information Request

Proceeding Time 10:06 a.m. T13

MR. MILLER: Q: And of course if it means something else, please let us know.

MS. MINOGUE: A: Okay.

MR. GHIKAS: I can deal with that undertaking right now. We can confirm that that is what it means.

1 MR. MILLER: Thank you.
2 THE CHAIRPERSON: So that's 50 cents premium per year.
3 MR. GHIKAS: That's what we understand.
4 MR. MILLER: Q: On average.
5 MS. MINOGUE: A: On average.
6 MR. MILLER: Q: Thank you. Okay, I think we've
7 already established this but the transient target MCT
8 ratio increases four percentage points each year
9 excluding 2014 until reaching 150 percent in 2023.
10 That's the current plan, correct.
11 MS. MINOGUE: A: That's correct.
12 MR. MILLER: Q: And then after that, it will follow
13 the long-term growth in claims costs. That's what's
14 expected, correct?
15 MS. MINOGUE: A: That's correct.
16 MR. MILLER: Q: Now, today's cost claim growth rates,
17 about how much capital or how many millions of dollars
18 capital would be required annually as a result in
19 growth in claims costs as a proxy for the -- what's to
20 happen after 2023?
21 MS. MINOGUE: A: I don't have that number in front of
22 me at this moment but --
23 MR. MILLER: Q: Could you file it as an undertaking?
24 **Information Request**
25 MS. MINOGUE: A: Yes, we can do that. In today's
26 dollars if we were to maintain the 150 in today's dollars?

1 MR. MILLER: Q: Yes, please. Yes.
2 Okay, I want to go back to OIC 152 which
3 was the document I referred you to earlier at the end
4 of Chapter 4 of the application. So in subsection
5 1(b) again, you've got three -- sorry, I'm on Customer
6 no credits. Sorry for that.
7 We have the definition of the customer
8 renewal credit in subsection 1(b) of OIC 52 with three
9 conditions on how it's to be paid, correct?
10 MS. MINOGUE: A: That's correct.
11 MR. MILLER: Q: And then the next document is OIC 153
12 which Mr. Ghikas included in Exhibit B-14 so it might
13 be easier to refer to that one.
14 So in OIC 150 -- or sorry. Let's stay with
15 152 for a second. In clause 3(e) -- (e.3) of OIC 152,
16 that sets out the three conditions that must be met
17 before a CRC is paid, correct?
18 MS. MINOGUE: A: I'm sorry, section 3?
19 MR. MILLER: Q: 3(e). So if we go to C-3.
20 MS. MINOGUE: A: C-3, okay, yes.
21 MR. MILLER: Q: Okay. In OIC 153, which is the
22 document which is contained in Mr. Ghikas's document
23 B-14 -- I'll find you a page number in a second.
24 This is on page 19 of Mr. Ghikas's package. So we get
25 a little more guidance with respect to the CRC.
26 16, I'm sorry. Page 16, not 19, I'm sorry.

In particular the basic capital should be determined to be well in excess of the capital management target, correct?

MS. MINOGUE: A: Correct.

MR. MILLER: Q: And that's solvency plus smoothing. That's that target, correct?

MS. MINOGUE: A: That's correct.

MR. MILLER: Q: And then a portion of the excess is to be credited back to customers, so long as it doesn't detract from rate stability and predictability, correct?

MS. MINOGUE: A: That's correct.

MR. MILLER: Q: Now, these conditions seem to be slightly more stringent than the ones contained in OIC 152, correct?

MS. MINOGUE: A: They appear to be.

MR. MILLER: Q: Okay. Let's talk first about the threshold that's to be met before a CRC is paid. The Insurance Corporation is proposing an additional 15 percent MCT above the 150 would meet the requirement to be well in excess. And then we are also -- or you are also saying a further 7 percent MCT should be required to make the credit cost effective to implement, correct?

Proceeding Time 10:12 a.m. T14

MS. MINOGUE: A: That was a consideration in -- the

1 additional seven points was that the customer renewal
2 credit would be at least $25.
3 MR. MILLER: Q: Yes.
4 MS. MINOGUE: A: Mm-hmm.
5 MR. MILLER: Q: Okay. I'm going to put to you that to
6 some extent that's double counting. I'm going to tell
7 you why. Isn't the threshold to be well in excess of
8 the capital management target, so the 150, and that
9 well in excess needs to be sufficiently large so that
10 a CRC can be cost-effective to implement. Tell me why
11 this is not the case, that to be well in excess of 7
12 percent above MCT but not the 15 percent is
13 sufficient, plus an additional 7 percent for
14 administrative efficiency. So isn't the 15 percent
15 sufficiently above the level to be cost-effective to
16 implement?
17 MS. MINOGUE: A: I don't think that the cost efficient
18 is the priority here. It's really more around if you
19 give the CRC and then you've not left enough to absorb
20 normal volatility, then you haven't satisfied what is
21 being asked here. And so you don't -- you want to --
22 if you are giving a CRC you want to do it in such a
23 way that it doesn't cause you to fall below your
24 capital management target. So we suggested a 15 point
25 margin to -- and you have to cross that threshold
26 before you consider the calculation, and that's based

1 on one standard deviation in the investment return.
2 So that, you know, normal probability,
3 that's about 68 percent likelihood, right? That
4 you'll have that kind of -- that much volatility or
5 less. And then the remainder, the 32 percent is
6 likelihood that you'll have more volatility than that.
7 And so really again it's a question for the
8 Commission, for them to find the right balance
9 ultimately.
10 We are proposing that one standard
11 deviation plus this additional amount that makes it so
12 that if you do give a CRC it's at least $25. That's a
13 more meaningful amount to the customer when it shows
14 up on their bill. Granted, some people would love a
15 $5 renewal credit and that's obviously one choice that
16 this model could look like. But we are proposing --
17 it's a $25 at least customer renewal credit, and then
18 with that effectively making it 173, I believe, before
19 a CRC is actually triggered, and we believe that that
20 strikes a good balance in all those considerations.
21 THE CHAIRPERSON: Could I just ask a question here? Once
22 you get to the 173, it triggers a CRC, what would be
23 the amount of a CRC? Would it be the full 23 percent?
24 MS. MINOGUE: A: No. Yeah, so let me back up a little
25 because -- yeah. There is a threshold of 165.
26 THE CHAIRPERSON: Yes.

1 MS. MINOGUE: A: And then, and so that says that, you
2 know, if you -- and then there's the 173. So it's
3 that amount above the 165 that you give back as a
4 customer renewal credit. And so it takes you down to
5 165 and they still have a 15 point margin to absorb
6 normal volatility in investments. So it's not any
7 more than the amount in excess of the 165 that's given
8 back.
9 THE CHAIRPERSON: I'll have questions later. Carry on.
10 COMMISSIONER REVEL: Let me just clarify. That's a
11 minimum return of $25, is that correct?
12 THE CHAIRPERSON: Yeah. Yeah.
13 COMMISSIONER REVEL: So is that based on the
14 psychological impact or is it based on materiality or
15 --
16 MS. MINOGUE: A: Well, you know, historically ICBC has
17 kind of thought of $25 as, you know, an amount that,
18 you know, anything less than that wasn't really
19 administratively cost-effective to give a credit. But
20 it also strikes a balance in terms of it being a
21 meaningful amount to customers. So that's kind of
22 where that came from.
23 MR. MILLER: Q: In your response you indicated that
24 investment volatility was a concern with respect to
25 these items, but isn't that what the smoothing margin
26 is for? What's it got to do with a customer renewal,

1 or a customer renewal credit?
2 **Proceeding Time 10:18 a.m. T15**
3 MS. MINOGUE: A: The rate smoothing margin is not for
4 absorbing volatility in the -- for investments. The
5 rate smoothing margin is for deliberate use of capital
6 of the smooth-through adverse rate volatility. So
7 maybe your -- well, the proposal we have for the
8 capital management plan is to smooth through
9 unfavourable forecast variance, which is not
10 investments. And investments -- the investment
11 returns don't affect rate levels or the actuarial rate
12 indication as much as they do the financial
13 statements. They do on a go-forward basis, for
14 example, if you -- if the investment income
15 expectation going forward changes radically, yeah,
16 that could have an impact on your rates. But that's
17 not part of what we're going to smooth through.
18 What we're proposing here in our rate
19 smoothing is to smooth through what historically has
20 been the single biggest source of rate volatility, and
21 that is the forecast variance.
22 MR. MILLER: Q: But isn't effectively what you're doing
23 is not setting the MCT level at 150, but you're
24 essentially setting it at 165?
25 MS. MINOGUE: A: No, that isn't true. When we set it
26 at 150, we will build to 150 percent and once you --

once we get the 150, we will not build beyond that. So that -- the CRC is meant to be at least valid as Mr. Ghikas pointed out early on in the proceedings here, that, you know, if capital goes above 150, it's really -- it's not planned for. It's from sources of volatility that could be favourable for us. And so in those eventualities, we would give the capital back to the customers as a renewal credit. We are not planning to build capital above 150. That's not part of our proposal in any way.

MR. MILLER: Mr. Chair, I note the time. I have one last point which I believe would provide then a good opportunity for the break after that.

Q: I'm going to put this proposition to you, and we'd like your response. So, OIC 152 specifies that the CRC should not result in the MCT falling below the capital management target. Correct?

MS. MINOGUE: A: Correct.

MR. MILLER: Q: So what is wrong with ICBC, or why hasn't ICBC proposed to give CRC -- sorry, give the CRC back to customers once the -- or down to the CMT levels for four reasons. So, first is ICBC has stated in its actuarial rate indication for the next year, it's neither optimistic or conservative. So, next year's MCT is intended to remain -- or MCT percentage is intended to remain at the current target, correct?

1 MS. MINOGUE: A: What was the question part of your
2 statement?
3 MR. MILLER: Q: Do you want the first statement, or do
4 you want the question?
5 MS. MINOGUE: A: The question.
6 MR. MILLER: Q: Okay. Why hasn't ICBC proposed that
7 the CRC renewal credit give customers back their money
8 down to the capital management target for four
9 reasons? So why don't you give them their money back
10 after you hit the 150? And that's -- the first reason
11 is, ICBC, you have indicated that your rate indication
12 for the next year is neither an optimistic or a
13 conservative estimation. Correct?
14 MS. MINOGUE: A: That's correct. Is there a question
15 on that?
16 MR. MILLER: Q: No, and there's a couple of more
17 factors, and then I'd like your response. And then
18 the second is, OIC 152 specifies that the Commission
19 must not decrease the existing rate if things go well
20 the following year. So, there is a bit of a buffer
21 there.
22 And then even if things go badly next year,
23 for the Insurance Corporation, there is still the
24 provision to allow rates to increase by the band
25 amount, 1.5 percent above the previous rate increase.
26 So, that would have the effect of having

capital build provisions to move the MCT back up to the target.

And then finally, in Mr. Blucher's letter, he noted that the customer's main concern is how much you pay for your insurance.

So wouldn't it be more fair to have the CRC give the customers their money back down to the management target, and let the OIC work until there is a new CRC?

MS. MINOGUE: A: All right. So, in terms of the unbiased estimates, and paying a CRC, the fact of the matter is that you expect them to be neither conservative nor pessimistic. The thing about -- is that you have volatility nevertheless, so you're going to have volatility. So you can't just assume just because it says unbiased that it's going to be zero. It's not. There is volatility.

And so, I'm not sure how that plays into it. In fact, if anything, it underscores why you wouldn't want to give the CRC all the way down to the 150 because then you're -- in the case of adverse volatility, you'll just start dipping into the rate smoothing margin. And then you deplete what you have so you don't have any for the future.

Proceeding Time 10:24 a.m. T16

So the way our proposal works is that it's

1 kind of preserving that rate smoothing margin for a
2 rainy day, and so what you're suggesting is taking the
3 CRC all the way down to the 150. Well, for one thing
4 it ignores what's in IC-2, that, you know, you don't
5 want to be giving a CRC when, you know, you might fall
6 below the 150. So it doesn't account for that. But
7 it also doesn't kind of protect that margin for the
8 rainy day.
9 So I think if we're guided by that
10 principle that that's what that rate smoothing margin
11 is for, it's for smoothing through rainy days, then I
12 think it's easier to get your head wrapped around why
13 we're proposing it the way we're doing it. But again
14 it's a matter of choice and you can set these levels
15 at different levels and it's a matter of how much rate
16 smoothing margin you want to have, and the tradeoff is
17 the impact on the customers.
18 MR. MILLER: This would be a convenient time to take the
19 break, Mr. Chair.
20 THE CHAIRPERSON: I'd like to ask a couple of questions
21 before we take the break. So I recognize in an IC-2
22 there is a CRC that is in there. If the CRC were not
23 in there, and it's a hypothetical question, then you
24 would only be dealing with the rates smoothing margin
25 and that would be shooting for 150, correct?
26 MS. MINOGUE: A: That's correct.

1 THE CHAIRPERSON: So if I get this correctly, and correct
2 me if I'm wrong, so we have a solvency rate of 100.
3 We go to 130 to protect the solvency rate. ICBC is
4 proposing 150 for the rate smoothing, so 20 points for
5 the rate smoothing. Am I correct so far?
6 MS. MINOGUE: A: Yes.
7 THE CHAIRPERSON: And then you're proposing one standard
8 deviation, which is 15 points, plus another 7 to 8
9 percent on top of that, so 23 percent to 173 before a
10 CRC would kick in. And then if I understood you
11 correctly to say that the CRC would only be for that
12 7.3, or that 7 or 8 percent --
13 MS. MINOGUE: A: Mm-hmm.
14 THE CHAIRPERSON: -- down to the 165.
15 MS. MINOGUE: A: Yes.
16 THE CHAIRPERSON: Okay. Thank you. On that note we'll
17 take a break and back here at quarter to eleven
18 please.
19 **(PROCEEDINGS ADJOURNED AT 10:27 A.M.)**
20 **(PROCEEDINGS RESUMED AT 10:50 A.M.)** **T17**
21 THE CHAIRPERSON: Please be seated.
22 Mr. Miller, I believe you were --
23 MR. MILLER: Yes, just one procedural update, Mr. Chair.
24 I have yet to receive the submissions from Ms.
25 Flewelling yet, so they may come in, they may not.
26 It's just an update.

1 THE CHAIRPERSON: Okay.
2 MR. MILLER: We had expected them around 11.
3 THE CHAIRPERSON: Okay, thank you very much.
4 MR. MILLER: Q: Ms. Minogue, just a point of
5 clarification. There was some confusion among staff
6 with regard to your last series of answers with regard
7 to what you were referring to as the "rainy day". Is
8 that rainy day scenario that you were talking about,
9 does that relate to the range between 130 and 150? Or
10 the 150 and 165?
11 MS. MINOGUE: A: Well, I was -- the rainy-day fund is
12 really the margin and I call it -- I called it that
13 because it's that amount that we put away for
14 smoothing through the adverse rate volatility. And
15 that is the purpose of the rate smoothing margin. And
16 any --
17 MR. MILLER: Q: That was loss forecast variance you
18 were talking about there.
19 MS. MINOGUE: A: Right.
20 MR. MILLER: Q: Okay. And what about the investment
21 volatility, though? Where does that fall? Is that in
22 the 150 to 165?
23 MS. MINOGUE: A: The margin of 15 points over the
24 proposed capital management target is to absorb the
25 equivalent of 1 standard deviation of investment
26 return. And I say "equivalent of", because you could

1 have other variation in your financial statements.
2 MR. MILLER: Q: So let's go back to OIC 152. So, I
3 believe the applicable provision is 1(b)(c), the one
4 that says "Any additional margin expressed in
5 percentage points of MCT consistent with relatively
6 stable and predictable university compulsory vehicle
7 insurance rates." That seems to be broad application,
8 not restricted to investment volatility. I mean, I
9 understand your answer, that's how you're interpreting
10 it. But is there some other basis than what's in
11 (b)(c) to give --
12 MS. MINOGUE: A: Yes. So, the capital management plan,
13 not only do we cover, you know, the cost of providing
14 the insurance, but the capital management plan also
15 has provision for building capital. And so that can
16 be an additional pressure on rates, when you're
17 building capital. And so, there is this other
18 provision in here around -- well in excess of the
19 capital management target, and if you were to -- let
20 me just give the scenario. But if you were to give a
21 customer renewal credit, and then -- okay. Give this
22 customer renewal credit and you took it down to 150,
23 you experience some volatility that was in the range
24 of normal volatility, say, a 15 point hit on your MCT,
25 drops you down even further into your rate smoothing
26 margin, down to 135. Then you have to turn around and

1 build capital.
2 So that is not -- that scenario of kind of
3 having to rebuild after immediately giving a customer
4 renewal credit, in our interpretation, wouldn't be
5 consistent with predict -- stable and predictable
6 rates.
7 MR. MILLER: Q: But in the past hasn't the investment
8 volatility always been caught in the margin between
9 the 100 percent and the target, which has been set by
10 this Commission at 130?
11 MS. MINOGUE: A: Right. The solvency target does
12 include a margin for normal volatility in investments.
13 MR. MILLER: Q: Thank you.
14 COMMISSIONER REVEL: I don't want to go too far into it,
15 but could you clarify one thing for me I'm having
16 difficulty with. You said you would capital build up
17 to 150, but that you wouldn't capital build beyond
18 150. If that's the case, how do you get to 165
19 without a capital build, and how do you allocate that?
20 MS. MINOGUE: A: Very good -- that's a point we
21 probably should really emphasize here. The goal is
22 not to get above 150. And the customer renewal credit
23 is only for the circumstance where we inadvertently
24 get above 150. So our intention is not to build
25 capital so strongly that we're intending to turn
26 around to give it back. That just makes no sense, to

1 charge customers more money only to turn around and
2 give it eventually back.
3 COMMISSIONER REVEL: So anything above 150 would go
4 towards targeting that $25 trigger of returning it, is
5 that correct?
6 MS. MINOGUE: A: If -- yeah, if you -- anything -- when
7 capital goes above 150, then we start testing to see
8 if we're -- if we have capital that's well in excess.
9 COMMISSIONER REVEL: And how much would it have to go, in
10 terms of MCT, before it kicked into the $25 return?
11 MS. MINOGUE: A: All the way up to 173, the way we've
12 got it proposed. And so if you -- capital --
13 inadvertently, now. It's not planned for, gets up to
14 173, we would turn around and give a customer renewal
15 credit of $25 on average. That would take MCT down to
16 165, still leaving a buffer above the margin to absorb
17 any volatility. And that's what our proposal is.
18 COMMISSIONER REVEL: You just said something interesting
19 there. You're not planning on going above 150.
20 MS. MINOGUE: A: No.
21 COMMISSIONER REVEL: Thank you.
22 **Proceeding Time 10:57 a.m. T18**
23 MR. MILLER: Q: A couple more questions on MCT and then
24 I'm going to move off the topic. I'm hoping you can
25 confirm these last two matters. The first is that the
26 Insurance Corporation will not request an exclusion of

1 some or all of a year's lost cost forecast variance if
2 the MCT is less than 130 percent, unless an exclusion
3 is necessary due to rates increasing by more than 1.5
4 percent above the previous rate increase, correct?
5 MS. MINOGUE: A: That's correct.
6 MR. MILLER: Q: Could you also confirm that if MCT is
7 above 130 percent, ICBC may suggest some exclusion of
8 forecast lost cost variance, provided the rate changes
9 above the rage change floor, but that's up to the
10 Commission to determine?
11 MS. MINOGUE: A: That's right.
12 MR. MILLER: Q: Thank you. I want to move on now to a
13 new topic and I believe these will mainly be directed
14 towards Ms. Taylor and Mr. Wilson. I want to talk
15 briefly about claims cost management and particularly
16 your telephone claims handling. So I'm going to go
17 through a few matters. I'm going to give page
18 references. I don't think you need to turn there.
19 It's just for the record. You can tell me generally,
20 though, if what I'm saying accords with your
21 understanding.
22 So on page 6-5 of the application ICBC
23 explains that under the new claims hierarchy, claims
24 are no longer handled by the claim centre nearest to
25 the location of the customer, but adjusters will be
26 assigned based on skill and type of claim regardless

of location, correct?

MS. MINOGUE: A: That's correct.

MR. MILLER: Q: Then you go on further to explain on page 6-6 that telephone claims handling was expanded beginning in 2004, and you state that this continues to show a positive impact on claims, and you indicate you're continuing to expand your ability to handle a larger number of unrepresented claims by telephone, correct?

MS. TAYLOR: A: That's correct.

MR. MILLER: Q: Okay. But you do acknowledge on page 6-7 of the application that the claims process can be overwhelming to some individuals.

MS. TAYLOR: A: That is correct.

MR. MILLER: Q: Okay. And then on page 6-8 you indicate that the insurance corporation is working on continuing to build and understanding and accessibility for customers by developing community partnerships and presence, correct?

MS. TAYLOR: A: That is correct.

MR. MILLER: Q: Okay. Now, with respect to telephone handlings or telephone method of dealing with claims, is there an anticipation that increased use of telephone and not dealing face to face with adjusters will result in a decrease in customer satisfaction?

MS. MINOGUE: A: No, the expectation is that what our

1 customers would want is to have all their needs
2 managed. And the method by which that would best be
3 -- would be to utilize our resources. And that's why
4 most of the interactions with our customer will be by
5 telephone or in e-mail. There is always the
6 opportunity that if a customer needs to have a face-
7 to-face contact, that that would be available to them.
8 MR. MILLER: Q: Thank you. So it's your expectation
9 that your adjusters can build either the same level of
10 rapport or a reasonable level of rapport on the phone
11 with customers as in person, the majority of the time.
12 MS. MINOGUE: A: That is correct. And also building on
13 what our claims system will be able to give us.
14 Having all that information available to the adjuster
15 when the call comes in will also enhance that
16 management with the customer.
17 MR. MILLER: Q: So in the minority of cases dealing
18 with individuals on the phone, do you acknowledge that
19 they may develop an overwhelming or a preconceived
20 negative impression of the Insurance Corporation?
21 MS. MINOGUE: A: I would say that that ability for the
22 customer to not be happy with the services or
23 responding to their needs would be both in a telephone
24 and a face-to-face interaction.
25 **Proceeding Time 11:02 a.m. T19**
26 MR. WILSON: A: I would just like to add that I believe

1 Mr. Taylor's questions are also answered in evidence
2 in Round 1, BCUC 107.5-6.
3 MR. MILLER: Q: Yes, thank you. So is it going to be
4 more difficult for a customer to meet with an adjuster
5 in person under the new claims hierarchy and
6 organization?
7 MS. TAYLOR: A: Well, I think there would be the added
8 step. Where the claim will be routed from the initial
9 telephone when a customer first calls in, it will be
10 assigned to an adjuster, which may or may not be in
11 the community of the customer. If the customer,
12 through the interaction with the adjuster, requires
13 that they would like to have a face-to-face
14 interaction, the file would be reassigned to somebody
15 in that community. So it would be that added step.
16 MR. MILLER: Q: Okay. Let's say I'm an individual that
17 thinks they have a claim with the Insurance
18 Corporation. So I call up on the phone and I deal
19 with the adjuster that you believe is appropriate for
20 my claim. And I'm starting to feel overwhelmed and
21 frustrated and maybe even starting to develop a
22 negative impression. Is the onus on me as the
23 customer to ask for the in-person meeting, or does
24 ICBC have a mechanism where it says, looks like this
25 person may be more difficult, we should probably get
26 them in person. Or is it up to the customer to be

1 reactive and say, "I'm not happy, I want a meeting
2 with the adjuster," or do you guys flag that, "I think
3 we may have a problem here and we need to maybe get a
4 face-to-face with this individual."
5 MR. WILSON: A: I think when you categorize someone as
6 being overwhelmed or wanting a face-to-face meeting,
7 there are several things that can cause concern to a
8 customer, and one of the -- the first things that I
9 think call centres across North America realize is
10 that customers have immediate needs, and until they
11 get answers to that, they're not sure whether they're
12 going to be covered, how they're going to get to work
13 tomorrow, whether they're going to have a vehicle.
14 And those, the intent of dealing with those calls up
15 front over the phone is to meet what most customers
16 are immediately concerned about.
17 Through our call monitoring and our
18 customer satisfaction scores, we reach out to
19 customers and ask them if their needs are met. We ask
20 them if they were unhappy with the process. And our
21 experience with our first contact and with our
22 telephone claims department is that we have
23 exceptional or world class service in terms of
24 customer satisfaction.
25 If customers are facing something more
26 complicated and want a face-to-face meeting, we

1 certainly can accommodate them in that, and usually
2 our adjusters are trained to ask questions and to
3 ensure that customers are feeling at ease.
4 So it's just as important that we answer
5 their questions as they answer ours. So through our
6 adjuster training, I think we have to rely on our
7 adjusters' ability to vet that out, or to identify
8 that customers aren't comfortable, we're not meeting
9 their needs, and in that case we would invite them to
10 do something differently such as go into a claims
11 office.
12 MS. TAYLOR: A: And I would just like to add, so when a
13 customer calls initially into our call centre, the
14 adjuster handling their needs or trying to meet with
15 all their initial needs, their car, their therapy, or
16 any other concern the customer has, the adjuster would
17 flag that to the adjuster that's being assigned to the
18 file. So if it was something such as requires face-
19 to-face or something other than that, when the
20 adjuster reviews the file when it first comes to them,
21 they would be aware of the needs of the customer if
22 that was discussed during that initial telephone
23 interview.
24 MR. MILLER: Q: Okay, so I've heard your explanation
25 for your procedure, but I just want to make sure I get
26 a straight answer to this. So if an adjuster

1 perceives that there is a negative relationship
2 developing with a customer on the phone, are they
3 proactive in inviting, are they instructed to be
4 proactive and invite that customer in for a meeting,
5 or are they being reactive and leaving it to the
6 customer to say, "I need a meeting in person"?
7 MR. WILSON: A: I think what we have been talking about
8 is when an adjuster, the telephone adjuster, I'll call
9 them that in this scenario, has that initial call,
10 whatever was important to the customer would be
11 highlighted and noted by it and flagged for the
12 adjuster being assigned to. If it's highlighted that
13 it's imperative that this customer needs a face-to-
14 face, it would be within the routing of that, to make
15 that available if at all possible. And so I think
16 that's how that initial interaction would be monitored
17 and handled.
18 **Proceeding Time 11:08 a.m. T20**
19 MR. MILLER: Q: I understand the telephone adjuster, as
20 you called it, has a discretion to do so. Is it the
21 policy, though, of the Insurance Corporation to take
22 advantage of those situations and be proactive,
23 regardless of the discretion they have?
24 MS. TAYLOR: A: We would have the ability to ensure
25 that if that was an immediate need of the customer,
26 that it would be noted. So, the assignment would be

1 accordingly.
2 MR. MILLER: Q: Okay. Seems to be difficult to get a
3 straight answer, so I'll move on.
4 MR. WILSON: A: Well, Mr. Taylor [*sic*], I think we're
5 dealing with vagaries and hypotheticals here.
6 Specifically, for someone -- for a customer to have a
7 negative relationship typically it's because there is
8 a dispute. They disagree with the adjuster's position
9 on something. And in addition to coming into a claim
10 centre, the adjuster will talk to their supervisor or
11 their manager and the customer can either speak to the
12 manager, supervisor, or come in and see us. So that
13 has always been ICBC's policy, is that where there is
14 a dispute or a disagreement, that's what managers and
15 supervisors are there for, is to ensure that the
16 customer is heard. And I'm not sure if that's what
17 you mean by negative perception, or if there is
18 something else that I'm missing.
19 MR. MILLER: Q: So, one of the major themes that
20 appears to be going on in increasing severity, as I
21 understand it, is the legal representation rate. And
22 the postulation was, if a customer is unhappy, they
23 have a couple of routes available to them. One, try
24 and work it out with ICBC, and some of them may ask
25 for a meeting or the others may not know they have
26 that option, and may just go run off to see a lawyer.

1 So I'm trying to explore, does ICBC have a policy to
2 try and bring in what they flag as these difficult
3 customers to meet with them and explain all the
4 wonderful things you've been telling us that you're
5 doing? Rather than letting them run off straight to a
6 lawyer and say, "I can't deal with these guys."
7 That's what I'm getting at.
8 So do you have a policy where you're trying
9 to be proactive to avoid the legal representation
10 rate?
11 MS. TAYLOR: A: The policy is always to have, where
12 required, interaction with a customer with either the
13 adjuster or the manager. I think the discussion we've
14 been having about whether that needs to be face to
15 face, or over the telephone, and the process that we
16 have in place is to manage the majority of our
17 interactions with our customers by telephone. If that
18 was a requirement, or a real need for the customer,
19 that would absolutely be accommodated. But as Mr.
20 Wilson has stated, our managers and supervisors are
21 always there to deal with any concerns that the
22 customer has if they are not being met by the
23 adjuster.
24 MR. MILLER: Q: Okay, I'll move on.
25 Now, on the one hand, you've -- the
26 Insurance Corporation has indicated that you're

1 reorganizing your claims handling so it's less
2 regionally based, and more based on the type of claims
3 that matches the particular adjuster, while at the
4 same time trying to develop a greater community
5 presence. So those may appear at first blush to be
6 contradictory, and I'd like you to explain if they are
7 contradictory and, if so -- or if not, why not?
8 MR. WILSON: A: Can you take us to that reference,
9 please?
10 MR. MILLER: Q: Sure. So when we started off with the
11 line of questioning on this, I referred you to page 6-
12 5 of the application. You indicated that we're no --
13 you're no longer going regionally based, but you're
14 going based on adjuster skill and experience, correct?
15 MR. WILSON: A: That's correct.
16 MR. MILLER: Q: Right. And then you explain that -- on
17 page 6-8 that you're also continuing to build
18 understanding and accessibility for customers by
19 developing community partnerships and presence, which
20 I assume is you're focusing to some extent on regional
21 sort of concerns as well. Correct?
22 MR. WILSON: A: Correct. And that --
23 MR. MILLER: Q: So how do we marry these two concepts,
24 was the question. Well, on the one hand, you're going
25 non-regional. On the other hand, you're going -- a
26 more regional focus.

1 MR. WILSON: A: So, on a regional focus, we're working
2 with our health-care providers, and we're working with
3 rental car companies, body shops, to provide more
4 effective, consistent, and efficient service for the
5 customer. That's in their community. Those are our
6 stakeholders or partners that the customer deals with
7 face to face, throughout their claim, and they have a
8 significant influence on their claims experience.
9 **Proceeding Time 11:13 a.m. T21**
10 In terms of reporting your claim and
11 getting your claim managed, that ICBC believes can be
12 done over the phone and by e-mail and can be done more
13 effectively and efficiently on a skill base routing
14 versus location base. So the two aren't necessarily
15 at odds with each other. But the people that work on
16 the person's car or work on the person's body to get
17 them better clearly need to be in the location that
18 they live, and those are the people we deal with on
19 more of a community stakeholder level.
20 MR. MILLER: Q: Thank you. Now, I want to refer to
21 something that Ms. Taylor said earlier on in the
22 proceeding. The reference is the transcript from
23 February 6, 2014. It's page 161 and at line 7 Ms.
24 Flewelling puts to Ms. Taylor, she asks:
25 "Q: Do you agree that having a separate
26 geographic location when dealing with

1 injured claimants directly could result in
2 some delays in responding to the claimants?"
3 And Ms. Taylor answers:
4 "A: I would actually -- I would disagree
5 with that statement. I think --"
6 and I believe the next word is a typo, but
7 "I think disability for our adjusters to be
8 utilized…"
9 I think it should say, "I think it gives the ability
10 for our adjusters to be utilized,"
11 "…more effectively, gives the ability for
12 our adjusters to be more responsive to our
13 customers' needs."
14 Okay? That's the context for the next question.
15 So it gives you the ability to be more
16 responsive, is your view. But if we look at the IR
17 from the Commission at Round 2, 223.1 and I'll let you
18 get that in front of you before I ask any further
19 questions. So 223.1, Round 2. It's the chart on the
20 top of the page that I'm referencing.
21 MR. WILSON: A: Okay, thank you.
22 MR. MILLER: Q: So in the second row it says average
23 days to settle BI only and it's got the years 2006 and
24 through 2012. And the numbers have gone from 401 in
25 2006 to 436 in 2012.
26 So you've referenced in your answer, Ms.

1 Taylor, that there's the ability to be more
2 responsive, but when we look at the numbers it
3 indicates as taking longer, and there may be reasons
4 for it and I'd like you to explain them.
5 MS. TAYLOR: A: So I believe we're talking about the
6 average days to settle for BI.
7 MR. MILLER: Q: Yes.
8 MS. TAYLOR: A: And I think that is also a blend of
9 represented and unrepresented claimants.
10 MR. MILLER: Q: Yes.
11 MS. TAYLOR: A: So I believe the representation rate
12 during those periods, those years 2006 to 2012, would
13 have that effect to that average.
14 MR. MILLER: Q: So if we look at a couple of rows down
15 though, so what do we do with the row that says number
16 of claims involving lawyers, BI only, legal
17 representation? Does that modify your answer you've
18 just given at all about whether or not that's
19 happening with unrepresented versus represented?
20 So again, even on the third column, let's
21 look at average days of representation. It looks like
22 people are getting lawyers quicker as well.
23 **Proceeding Time 11:18 a.m. T22**
24 MS. TAYLOR: A: That's right.
25 MR. MILLER: Q: They're going -- I just want to know if
26 it modifies your previous answer at all, in terms of

1 the column 2 includes. Does that include both
2 represented and unrepresented? And you're attributing
3 the increase largely to the increase in legal
4 representation?
5 MS. TAYLOR: A: Yes. With the average of days to
6 settle with the BI, given the additional represented
7 claims and the time at which the settlements, that
8 would affect that average.
9 MR. MILLER: Q: Negatively affect that average.
10 MS. TAYLOR: A: That's correct.
11 MR. MILLER: Q: Thank you. Now, in this phone claims
12 system, and again I'm this fictional customer, so I've
13 called you up and let's say I have the luck, maybe,
14 when Mr. Wilson was younger, to have to deal with him.
15 And then I call up again and I say, "This is my claim
16 number, this is who I am." Am I going to get Mr.
17 Wilson again, or am I getting someone else?
18 MS. TAYLOR: A: You would not necessarily be getting
19 Mr. Wilson if you had him in an earlier claim.
20 MR. MILLER: Q: Not on an earlier claim. On an earlier
21 call. Same claim.
22 MS. TAYLOR: A: Oh, I'm sorry. Okay.
23 MR. MILLER: Q: Same claim. So I've called up --
24 originally I called up to say, "Jeez, I'm hurt, how
25 can you help me?" Second time around, I've got a
26 little more specific issue, like, "Jeez, I've got this

1 expense, can you guys pay it?" Am I dealing with Mr.
2 Wilson again, or am I dealing with someone else?
3 MS. TAYLOR: A: It would be dependent upon whether you
4 were -- your call was with -- your claim was assigned
5 to the CICIC adjuster, or whether it was assigned to a
6 location in a claim centre. In the CICIC, as we call
7 it, the adjusters are in teams. So they would have
8 several people in a team answering a call that comes
9 to them. So in that scenario you may or may not get
10 Mr. Wilson. If you were assigned to a location
11 outside of CICIC, you would be getting Mr. Wilson.
12 MR. MILLER: Q: Okay. So again I'm this fictional
13 customer that's now called up for the second time and
14 I don't get Mr. Wilson, because I'm in the CICIC, as
15 you call it.
16 MS. TAYLOR: A: Right.
17 MR. MILLER: Q: Am I going to have to explain
18 everything I just went through with Mr. Wilson
19 previously? Or how does the second adjuster know what
20 the previous interaction has been?
21 MS. TAYLOR: A: That would be reflected in the notes of
22 the adjuster. So when an adjuster pulls up the file,
23 all the notes of the previous adjuster would be noted
24 on there. And that would be how they would be able to
25 respond to the customer.
26 I would also like to add that the new

1 claims system has that ability to give you the
2 snapshot of what's happening, or the immediate needs
3 of the customer, and will allow the adjuster to easily
4 respond to the needs of the customer, because all the
5 information would be highlighted there for them.
6 MR. MILLER: Q: So if the second adjuster is new to me,
7 this fictional claimant, the adjuster is going to have
8 to quickly go through the notes, or whatever is on the
9 screen, to try and update himself with the system.
10 Him or her is going to have to update themselves on
11 the file.
12 MS. TAYLOR: A: It would be on a dashboard, and with
13 all the important elements of the customer would be
14 highlighted. So when a customer called in, and the
15 claim number was identified, the adjuster would have
16 that information available to them.
17 MR. MILLER: Q: Do you acknowledge that in some
18 circumstances having to deal with, say, a second or a
19 third adjuster may increase the frustration level for
20 some claimants? Is this something you've put your
21 mind to?
22 MS. TAYLOR: A: It -- that has not been the experience.
23 You know, as we had talked about earlier with CICIC,
24 it's been in existence since 2004. And certainly that
25 has not been the experience. Whether it's in the team
26 environment or if an adjuster has several number of

1 claims, their ability to respond to the customer is --
2 would always have to reflect on what's been in that
3 claim prior to their previous discussions, whether
4 it's with an adjuster or within a team environment.
5 So I think those are -- those are both issues that we
6 would need to always ensure is easily accessible to
7 the adjuster so that they could respond to the
8 customer.
9 MR. WILSON: A: I think, Mr. Taylor [*sic*], I think you
10 do raise a good question, then. And one of your
11 points is, have we put our mind to it. And yes, we
12 have.
13 In the context of phoning up and having the
14 adjuster immediately recognize you and be able to
15 start from where they left off, I think a little bit
16 of context might be helpful. In dealing with 50,000
17 claims a year, the adjuster relies on their notes in
18 any event, even if it weren't in a team environment.
19 The adjuster wants to be able to pull up that phone
20 call or that file that may have happened a week or
21 three months ago, and quickly acquaint themselves with
22 the customer and their issue.
23 **Proceeding Time 11:23 a.m. T23**
24 MR. WILSON: A: And in circumstances where the customer
25 is quite adamant that even in a team environment, I
26 want to deal with Ms. Taylor next time, they can give

them their e-mail, they can give them their hours of work and ensure that they speak to that person. So it's in context where we are trying to do meaningful service on a high volume of claims with the technology we have, and I think that -- have one or two customers been frustrated? Probably, yes. But our customer service scores and our representation rates are better in the team environment than they are without that environment. So I think the trade off in being responsive and making good notes makes up for that. So yes, we've considered it.

MR. MILLER: Q: So that was going to be my point. There is a trade off here. I'm not intending to be critical of your claims management policy, that's not the issue. There's a trade off in what you decided to do, which you see is sufficient for the majority of the cases, but there is the potential for some of the cases to go off the rails because of what we've implemented and the claimant may run off to a lawyer because he or she is not dealing with the same adjuster all the time. It may be a ridiculous reason, but it could be happening out there, right?

MS. TAYLOR: A: Yes, that is true.

MR. MILLER: Q: I want to move on to your centralized claim injury centre or CICIC as it's been called. Maybe you can turn to BCUC Round 2, 201.1. In this IR

1 response the Insurance Corporation has provided a
2 chart showing the legal representation rate, and also
3 the severity on BI exposures posed with payment for
4 claims handled in CICIC versus that handled in the
5 field, correct?
6 MR. WILSON: A: That's correct.
7 MR. MILLER: Q: And the chart only shows results from
8 2009 to 2011 and that's -- and 2012 is not included
9 according to the Insurance Corporation because they do
10 not reflect an accurate comparison to prior years, due
11 to the transitional period of the claims
12 transformation process, and because CICIC was expanded
13 in 2012, correct?
14 MR. WILSON: A: Correct, it would not be an apples to
15 apples comparison because we changed the intake model
16 into 2012.
17 MR. MILLER: Q: And the Insurance Corporation has
18 acknowledged that the 2012 numbers would be higher and
19 you attribute this to impact of the transitional
20 period which may have an unfavourable influence on the
21 representation rate, correct?
22 MR. WILSON: A: That's not how I understand it. I'm
23 just going to take a second to read the --
24 MR. MILLER: Q: Sure. If you look at the third
25 paragraph in the response, or I guess you could call
26 it the third paragraph. "ICBC acknowledges".

1 MR. WILSON: A: That is correct.
2 MR. MILLER: Q: Okay. Now, in -- I don't think you
3 need to turn there, because it's a fairly small point
4 I'll make, but in BCUC Round 2, 198.2 ICBC agrees that
5 many of the cost savings in the claims transformation
6 process would start materializing in 2015, correct?
7 It's not a trick, that's what your IR says.
8 MR. WILSON: A: I know we certainly said, and I'm
9 sorry, I don't have the reference in front of me, that
10 the cost increases will be stabilizing as we get out
11 to 2016 and so they've been increasing to that point,
12 and more of them are occurring in 2017. That's true.
13 MR. MILLER: Q: Yeah.
14 MR. WILSON: A: Okay.
15 MR. MILLER: Q: And you also indicated in BCUC Round
16 2, 200.3 that the CRC went through a pilot phase
17 before being implemented and after ongoing monitoring
18 for effectiveness it was expanded, correct?
19 MS. TAYLOR: A: That is correct.
20 MR. MILLER: Q: Now was the reason you didn't include
21 the 2012 numbers in the table in IR 201.1 was the
22 legal representation rate and the severity on post-
23 payment namely because the CICIC was expanded in 2012
24 or were there other compelling reasons?
25 **Proceeding Time 11:27 a.m. T24**
26 MR. WILSON: A: The reason for not adding the 2012

1 figures were that in the 2009 to 2011 statistics we
2 had claims which were CICIC qualified, meaning they
3 went through an algorithm, and if they were qualified
4 they were retained at CICIC. We didn't have the staff
5 to handle all those claims. So some that were CICIC
6 qualified went to the field and were handled outside
7 of CICIC. But they met the algorithm and so the table
8 that you see in 2009, '10, '11 compares what I call
9 apples to apples. The same claim handled two
10 different ways.
11 MR. MILLER: Q: So the 2012 numbers in your view are
12 seen by --
13 MR. WILSON: A: What happened in 2012 was any -- we
14 renewed the algorithms, so any claim essentially
15 qualified for CICIC. And so that's where I referenced
16 earlier comparing apples to apples.
17 MR. MILLER: Q: Is the Insurance Corporation monitoring
18 the legal representation rate and severity on BI
19 exposures handled by CICIC during the transition
20 period?
21 MS. TAYLOR: A: Yes.
22 MR. MILLER: Q: Thank you. Do you expect an
23 improvement in the rate of legal representation
24 leading into 2015-2016?
25 MS. TAYLOR: A: Yes, we do, as we had in many of the
26 IRs that indicated that some of the transitional

1 impacts are applicable to the increase in
2 representation. That is one of the factors that we
3 have noted.
4 MR. MILLER: Q: So how are you going to measure -- what
5 measure do you have in place? Or what method? How
6 are you tracking? How are you going to define that
7 there is an improvement?
8 MS. TAYLOR: A: In terms of the representation rate?
9 MR. MILLER: Q: Yes.
10 MS. TAYLOR: A: Would be to monitor the rates that are
11 there, the overall rates, and the rates that are in
12 the non-CICIC environment.
13 MR. MILLER: Q: So will 2013 data be a good comparison
14 for 2014-15, unlike 2012?
15 MS. TAYLOR: A: Yes, I believe so, because we would be
16 -- in 2013 and in 2014 as well we will have
17 transitional impacts due to the training and our
18 adjusters getting used to the new claims system.
19 MR. MILLER: Q: So after the transitional period is
20 over, are there still going to be some CICIC qualified
21 files that are handled in the field rather than in
22 CICIC?
23 MS. TAYLOR: A: Well, I think in the future, and as it
24 is today, the same file going to CICIC is going to the
25 non- CICIC adjusters. So there wouldn't be any such
26 thing as a CICIC qualified file any more. It would

1 just be all files would be equally distributed to the
2 adjusters in both environments.
3 MR. MILLER: Q: Thank you. We're going to move on to
4 the topic of fraud now. So just for context, was it
5 you, Mr. Wilson, that indicated ICBC has no tolerance
6 for fraud? That from a claims handling perspective
7 there is no tolerance for fraud injury appropriation?
8 MR. WILSON: A: I believe that was in reference to Ms.
9 Khan's request to do a survey, and I believe my
10 comment was along the lines of I don't think customers
11 would tolerate fraud, and the same for ICBC.
12 **Proceeding Time 11:33 a.m. T25**
13 MR. MILLER: Q: Okay. You don't have to turn to these
14 IR responses. They're for the record, or for the
15 transcript purpose I should say. In BCPSO 2.6.5, ICBC
16 says the information it obtains for measuring a number
17 of investigations with actionable results does not
18 allow for meaningful quantification of the return on
19 investment of fraud investigation expenditures, okay?
20 And then in BCUC Round 2, 195.3, ICBC says the Special
21 Investigation Units helps manage claim files by
22 conducting investigations that lead to the
23 recommendation of either denial of a claim, or
24 potential criminal charges.
25 And then in IR -- BCUC IR round 2, 195.6.1,
26 ICBC expresses its belief that additional efforts to

1 deal with fraud through the intelligence and cyber
2 unit will reduce claims costs affected by exaggerated
3 or fraudulent claims. Okay?
4 First of all, just a couple of definitions.
5 How do you define an exaggerated claim? Because
6 everyone -- obviously it's like horse trading. They
7 think our horse is probably worth a little more than
8 the fellow is offering to buy it for, but -- so how do
9 you define an exaggerated claim?
10 MR. WILSON: A: An exaggerated claim would not be one
11 where there is simply a disagreement on the value of
12 something. An exaggerated claim is when someone
13 claims something that is greater than the objective
14 evidence. So, an exaggerated claim might be that my
15 entire car got damaged, when really only one door was
16 damaged. And the other is old damage. An exaggerated
17 claim might be that I can no longer work at this job,
18 or the other three jobs that I was working at. When
19 in fact there were not three jobs. So it's not a
20 matter of disagreement on a worth. It's clear
21 misrepresentation.
22 MR. MILLER: Q: But those examples almost sound like
23 fraudulent claims to me. And I was wondering if there
24 is a difference. So, I mean, if I'm claiming
25 something that there is no basis for, and I'm
26 intending to get you to rely on it and give me money

1 for it, isn't that also fraud? Put aside legal
2 definitions, but where do you draw the line, or is
3 there no line? Is there is a cross-over between
4 exaggerated and fraudulent? Do they mean the same
5 thing to you? I'm just trying to understand the
6 definition part.
7 MR. WILSON: A: I don't think there is a clear
8 definition of "exaggerated". It is more of a
9 continuum of -- on the one extent, probably the
10 fraudulent example that I gave you earlier. And on
11 the other continuum, a degree of disability, or a
12 degree of pain, et cetera, loss, that is not borne out
13 either by medical treaters, by witnesses, by
14 observation.
15 MR. MILLER: Q: Okay.
16 MR. WILSON: A: And it's not black and white, such as
17 fraud tends to be more black and white. It's legal
18 misrepresentation.
19 MR. MILLER: Q: Okay. That's -- I was just trying to
20 find out what the terms meant, so that's fine.
21 Now, when -- again you don't need to turn
22 there, but in BCPSO 2.6.7, you provided a table with
23 the number of charges laid against alleged fraudsters
24 between 2008 and 2012. And the table shows that the
25 number of charges laid went down from 94 in 2011 to 25
26 in 2012, even though the number of bodily injury

1 investigations increased from roughly 1,600 to 2,500.
2 So, I'm not going to ask you particularly about the
3 numbers. What I'm going to ask you about is, do you
4 have an explanation about why the number of charges
5 laid dropped, even though the investigations
6 increased? What were you observing going on? Were
7 you being a little more vigilant investigating, or
8 what accounts for the difference in the numbers?
9 MR. WILSON: A: In the charges laid?
10 MR. MILLER: Q: Yes.
11 **Proceeding Time 11:38 a.m. T26**
12 MR. WILSON: A: I believe this -- I will -- I'm going
13 to walk you through this, but I believe our evidence
14 is laid out in round 1, BCUC 195.6.
15 And one of the -- the most significant reason
16 for the drop is identifying the incredible amount of
17 man hours of resources needed to prepare evidence
18 needed to prepare evidence to take to Crown to
19 consider charges. And what we lay out in the
20 reference to BCUC IR is that it was an intentional
21 shift on ICBC to allocate resources to also helping
22 the claims adjusters, the cyber investigation unit and
23 to insure that their peace officer status is used
24 effectively on the right files to deter fraud. So
25 simply put, ensure that you pick the right amount of
26 fraud files where the amount of resources required

1 will pay dividends in terms of deterrence.
2 MR. MILLER: Q: Okay, I want to explore a bit what you
3 mean about actionable results. I believe the
4 information provided indicates that one inclusion in
5 that definition is criminal charges are laid, that you
6 just indicated, correct?
7 MR. WILSON: A: That is correct.
8 MR. MILLER: Q: So what are the others that are
9 involved in actionable results? Would one be a denial
10 of claim?
11 MR. WILSON: A: Denial of a claim is correct, yes.
12 MR. MILLER: Q: What else? Anything else in that?
13 MS. TAYLOR: A: It could be denial of particular heads
14 of damage. So the overall claim isn't denied but your
15 past or future wage loss may be not paid out.
16 MR. MILLER: Q: So over the past few years, I think,
17 by reading some of the decisions that have come out,
18 ICBC has also taken some civil action against some
19 people alleged to be fraudulent, correct?
20 MR. WILSON: A: That is correct.
21 MR. MILLER: Q: So are those numbers included in any
22 that's been given? Because I haven't civil action
23 here. It hasn't been referenced in any of that
24 materials. How does civil action have an effect?
25 MR. WILSON: A: Civil action would not require the
26 amount of work or the level of -- the legal test is

1 lower on civil than on criminal. Civil action would
2 not be included in the number of criminal fraud
3 charges, but it is something that ICBC still pursues,
4 and it does have the benefit of not only deterring a
5 group or a person economically, because of cost
6 consequences, but also the civil actions that Mr.
7 Taylor refers to tend to get a lot of publicity and
8 also act as a deterrent.
9 MR. MILLER: Q: So is civil action an actionable
10 result?
11 MR. WILSON: A: It is an actionable result.
12 MR. MILLER: Q: It is? Thank you. How do you
13 determine whether a fraud investigation has been
14 successful in your opinion? How do you define that?
15 Is it based on getting a conviction or a judgment? Or
16 is there some other measure?
17 MR. WILSON: A: Can you repeat the question, please?
18 MR. MILLER: Q: Sure. What outcomes does the Insurance
19 Corporation consider when it says we've been
20 successful in a fraud investigation. How do you
21 define success in a fraud investigation? I suggested
22 to you there may be a civil judgment, a conviction.
23 Is there anything else involved?
24 MR. WILSON: A: I think the areas that we just covered
25 with Mr. Miller is it can be from one extreme,
26 criminal fraud charges, civil penalties, or it can be

1 a reduction of a claim, reducing certain heads of
2 damage or reducing the extent that was being claimed,
3 or dismissal of a claim. Those would be considered to
4 be successful results.
5 MR. MILLER: Q: So the Insurance Corporation does
6 consider the denial or the retracting of a claim is a
7 result of a fraud investigation as a success?
8 MR. WILSON: A: That is correct.
9 MR. MILLER: Q: Okay. Now, am I correct that the
10 Insurance Corporation doesn't calculate or estimate
11 the cost of fraudulent claims? We'll start with
12 estimate. When you go into a file, do you do an
13 estimation, or it costs what it costs because of the
14 policy that fraud is not going to be tolerated? And I
15 know those are my words. Those are quite strong.
16 MR. WILSON: A: When you say "the cost" do you mean the
17 internal cost?
18 MR. MILLER: Q: The whole cost. So how many resources
19 are we going to devote to this. Do you estimate --
20 resources have accounts, whether internal or external.
21 **Proceeding Time 11:44 a.m. T27**
22 MR. WILSON: A: If we're talking about file by file
23 specifics, yes, an adjuster would consider what
24 resources are necessary and what resources are
25 available, and the extent of the loss or the fraud
26 being resourced.

1 MR. MILLER: Q: But do you actually go through the
2 extent that -- I'll give you an example. I'll make it
3 extreme so maybe it illustrates the point. So I come
4 in and get -- I'm this fictional claimant and I'm
5 trying to get you to pay for a new pair of shoes for
6 me even though I've only injured my shoulder. You
7 might well see that as an exaggeration, so another
8 fraudulent claim, and let's say we put it in that
9 category, okay? Do you say, "Well, okay, I'm not
10 going to pay Mr. Miller's claim and I may well
11 investigate it as a fraudulent claim, and it'll
12 probably cost $1,000 or cost 100,000. Do you go
13 through any -- does the adjuster go through any
14 analysis like that?
15 MR. WILSON: A: In that particular scenario we may not
16 need a special investigation officer or an external
17 resource. One of the things we'd look at is how our
18 special investigation officers can train staff to do
19 the investigation themselves. So to look for areas of
20 discrepancy or exaggeration. In that particular
21 example you probably wouldn't need a resource. The
22 adjuster could manage that.
23 MR. MILLER: Q: Let me try and go about this in a more
24 general way. Do you do any cost/benefit analysis when
25 making a determination to pursue a broad
26 investigation? And within that I mean exaggerating

1 claims as well, and broad term fraud.
2 MS. TAYLOR: A: Yes.
3 MR. MILLER: Q: Okay, so without going into too many
4 details, you track -- so there is a cost/benefit
5 analysis. So do you keep those records to determine
6 at the end of the day whether or not your programs are
7 having any effect on the ultimate rate customers are
8 paying because you claim success or you've got --
9 you're driving down costs for not paying off claims
10 that we would have otherwise had, and you know, rates
11 aren't going up twofold because of it?
12 MS. TAYLOR: A: So in terms of what we capture with
13 what has been described in the IRs Mr. Wilson has just
14 talked about, what I think needs to also be included
15 in the day-to-day dealings of an adjuster, they have
16 been trained, and with these other officers as well,
17 to look at what are red flags on files.
18 So many times that actual calculation or
19 cost/benefit would be, you know, the amount of
20 investigation that would be required to determine the
21 indoor scenario. That the shoes were not required,
22 would not be documented in any such fashion. The
23 adjuster would simply deny payment for the shoes and
24 evaluate the rest of the claim.
25 So to some degree those types of
26 exaggerated claims, we wouldn't have a documented

1 mechanism by which we would be able to say, you know,
2 we should cap the price of those shoes as part of the
3 overall exaggerated and broad cosmetic analysis.
4 But certainly on some of our larger
5 investigations where a great deal of resources are
6 required, that is always something that we attempt to
7 do. The real challenge with some of the benefits
8 would be challenging to know what the outcome is when
9 you have had an impact on perhaps a community, a large
10 group of claimants. So some of those benefits are a
11 little bit more challenging to document.
12 **Proceeding Time 11:49 a.m. T28**
13 Something else that I think is worthwhile
14 sharing with the Commission is, we strive very much to
15 utilize the resources that we have. And Mr. Wilson
16 talked about training our adjusters to look for those
17 flags, or different from training, so that they can
18 deal with some of the exaggerated claims. And to
19 utilize our SIU officers also in a more productive
20 way. So when an adjuster has a need to have an
21 investigator look at a file, what they would do is
22 complete a document which actually goes to one of the
23 managers in our SIU department, at which point they,
24 on their perspective, look at the cost/benefit of
25 further investigating that claim, whether the adjuster
26 can handle it, whether it's a cyber investigation, or

1 whether we need to assign our SIU officer because it's
2 a much more intensive resource.
3 So from that perspective, the priority and
4 prioritization of our resources are maintaining that
5 form. So to the cost/benefit analysis that you're
6 talking about, I would say for some of those benefits
7 difficult and challenging to really come up with a
8 dollar figure. What I would like to convey is our
9 very structured approach to try and maximize the
10 utilization of the resources that we have, and to put
11 it on the appropriate file.
12 MR. MILLER: Q: Okay. So, can you briefly discuss the
13 factors you consider in prioritizing the allocation of
14 resources to fraud investigation? I assume one would
15 be the size of the amount, but equally the fraud being
16 claimed. What other factors go into it? Repeat
17 offenders, would that be another?
18 MR. WILSON: A: That's correct.
19 MR. MILLER: Q: What else?
20 MR. WILSON: A: So, one is to prioritize it to a
21 business area where you can be more efficient. So one
22 example is, we have centralized the handling of all
23 claims where the vehicle theft is reported, and I
24 think in most insurance companies, you realize that
25 there is an element of fraud in those claims. So, we
26 dedicate one resource to working with that team. So

1 by centralizing it, although on an individual basis
2 they may be small dollar losses, the potential for
3 earlier or more consistent identification is improved.
4 So that's budgeting based on efficiency.
5 Budgeting in terms of the way we segment
6 files by complexity, again having a resource working
7 with that area, they tend to know either the community
8 or the issues on those files. And it's a further
9 example of the effect of resourcing. And what we want
10 to do is try and make sure that where we realize there
11 is potential for fraud, and perhaps not on a file by
12 file basis, but on an aggregate basis, it's
13 significant, we have tried to align the staff and SIU
14 officers. And then clearly on some of our large loss
15 claims where the dollars at risk are significant, say
16 for future wage loss or future physical disability,
17 those -- we ensure that we have a number of resources
18 allocated. So -- we also refer in the reference, BCUC
19 195.6, Round 2, also allocating resources to identity
20 theft, vehicle identification.
21 **Proceeding Time 11:53 a.m. T29**
22 MR. MILLER: Q: I suppose there is the situation where
23 ICBC sometimes spends more money on investigating a
24 claim than in hindsight it was probably worth.
25 Correct? And in hindsight it was probably worth,
26 correct? Maybe that occasion? You may spend

1 thousands of dollars investigating a claim, and
2 nothing may result of it? That's a possibility,
3 because the claim is valid.
4 MR. WILSON: A: That's a possibility.
5 MR. MILLER: Q: Okay. Is there any sort of cost
6 control measures internally with respect to the amount
7 being spent on fraud investigation? So, for example,
8 is a limit set at stage 1, you can go to this limit;
9 before you exceed it, you need to get approval to go
10 to stage 2, which may be another limit? Is there any
11 cost control measures there?
12 MR. WILSON: A: I would divide cost control into
13 internal and external. So, external cost control
14 might be where we hire defence counsel to -- or hire
15 legal counsel, pardon me, to pursue civil recovery, or
16 we hire a private investigator, or an independent
17 adjuster. We certainly look at dollar thresholds
18 there.
19 Internally, a manager would typically
20 oversee a file, or look at the progress on the file,
21 and look at how much internal resources we're
22 allocating to that file, and to Mr. Miller's point,
23 ensure that we are being resourceful and not spending
24 a lot of time on a claim that is legitimate.
25 And also at a regional or divisional level,
26 there is a manager in charge of each group of

officers, and then a divisional manager in charge of that unit, that would look year over year at how we're allocating our resources.

MR. MILLER: Mr. Chair, I'm about to move on to a new topic. I believe I have about 40 minutes of cross-examination left and, if it's convenient, maybe we could take the break now.

THE CHAIRPERSON: Yes, I think it would be a convenient place. It's three minutes to 12. So we will -- you have a question? Sorry.

COMMISSIONER REVEL: Yes, I have one question on Mr. Miller's topic. Just to get some clarity in my mind. In the case of fraudulent claims, Mr. Wilson, obviously the degree of fraud may all be fraud, that's the nature of it, but some of it is fairly egregious, and others slightly less so in terms of financial aspects. In the case of the less egregious ones, would you simply downward adjust your offer and say little about it, and then in the more serious ones, would you simply indicate that it doesn't seem reasonable, and deny it? And then in other severe cases, would you actually attempt to prosecute the perpetrator? Would you cover the whole spectrum of that?

MR. WILSON: A: If I understand the question correctly, in terms of a spectrum of exaggeration up to fraud,

1 yes, we would cover the spectrum. Where there is
2 evidence of fraud, or where we may deny part of a
3 claim, but pay part of a claim, we -- as a future
4 deterrence, and a future way to identify those people,
5 we may also -- we can track those people that have
6 exaggerated or committed fraudulent claims, so that
7 the next time we deal with them, we identify that
8 potential earlier.
9 COMMISSIONER REVEL: Would you separate out in your
10 treatment of the theft of property versus fraudulent
11 claims of harm to the body, of bodily injury? Are
12 those treated differently, or the same?
13 MR. WILSON: A: In terms of committing fraud or
14 exaggeration, they would be treated the same. You
15 have claimed for something that you know you're not
16 entitled to. You're -- so whether it's vehicle theft
17 or bodily injury, it's still fraud.
18 COMMISSIONER REVEL: But a car is gone, and a car -- once
19 a car is gone, it's gone. But if the shoulder is
20 injured, the degree of injury is not always apparent.
21 So I was wondering if they were treated differently.
22 MR. WILSON: A: I'm not sure if I understand the
23 question. If you're asking if someone clearly
24 exaggerated or put forward a fraudulent claim, whether
25 it's for a shoulder injury that wasn't injured --
26 COMMISSIONER REVEL: Yes.

1 MR. WILSON: A: -- or a stolen vehicle that wasn't
2 actually stolen, we would treat those the same.
3 COMMISSIONER REVEL: Okay. Thank you very much. I have
4 no -- okay.
5 THE CHAIRPERSON: On that note, we'll adjourn until 1:30.
6 **(PROCEEDINGS ADJOURNED AT 11:59 A.M.)**
7 **(PROCEEDINGS RESUMED AT 1:30 P.M.)** **T1A/2A**
8 THE CHAIRPERSON: All right, be seated.
9 Mr. Ghikas, I have been given to understand
10 that you have an undertaking to speak to.
11 MR. GHIKAS: I do, Mr. Chairman. This is in response to
12 a request by Ms. Khan, on behalf of BCPSO. And the
13 reference is on February 7th, Volume 3 of the
14 transcript, page 311, line 23 to page 313, line 6.
15 And it's with respect to -- her request was to provide
16 a literature review regarding a linkage between long-
17 term unemployment and first-party accident benefit
18 claims.
19 And Mr. Chairman, I am advised that this is
20 Exhibit B-19.
21 THE HEARING OFFICER: Exhibit B-19.
22 **(ANSWER TO BCPSO UNDERTAKING FROM VOLUME 3, PAGE 311,**
23 **LINE 23 TO PAGE 313, LINE 6 MARKED EXHIBIT B-19)**
24 MR. GHIKAS: Thank you.
25 THE CHAIRPERSON: Thank you.
26 MR. MILLER: Mr. Chair, for your information, from a

1 procedural perspective, I am advised that as a result
2 of the undertaking that has just been filed, Ms. Khan
3 will have a couple of follow-up questions for this
4 panel regarding the undertaking. And I understand
5 that the Insurance Corporation does not object to
6 that.
7 Q: Okay, two smaller topics left, panel. The first
8 is on the comprehensive claimant attitude survey,
9 which I understand the Insurance Corporation currently
10 has underway. Is that correct?
11 MR. WILSON: A: Correct.
12 MR. MILLER: Q: And that's a survey of individuals.
13 You are attempting to compare perceptions of
14 individuals who have and who have not had a claim.
15 And those who chose to be -- or not be legally
16 represented. Correct?
17 MR. WILSON: A: That is correct.
18 MR. MILLER: Q: And without needing to turn there, in a
19 response to BCPSO 210.4, you explained that the
20 claimant attitude survey is designed to measure
21 customer attitudes that may influence the decision to
22 get represented. And then you went on to say in a
23 response to BCUC Round 2, 197.1, that you will
24 determine further customer relation strategies based
25 on the results of the comprehensive claimant attitude
26 survey.

1 Now, in a subsequent IR response, you
2 indicated that that survey -- the results of the
3 survey will be available for the 2014 revenue
4 requirements applications. And for the record, that's
5 IR Number 2 from staff, 199.1.
6 So, my first question is, does the
7 Insurance Corporation already have customer relations
8 strategy ideas in mind? Or are you waiting for the
9 results of the survey to -- or sorry. Do you already
10 have some strategies in mind, and are you waiting for
11 the results of the survey to decide which of the
12 strategies you're going to implement?
13 MR. WILSON: A: I would look -- I would refer to BCUC
14 Round 2, IR Number BCUC 160.1.
15 MR. MILLER: Q: Okay. And what does that say?
16 MR. WILSON: A: And that, Mr. Miller, that outlines our
17 current strategies already in place aiming at reducing
18 or mitigating the accelerating rates of
19 representation.
20 MR. MILLER: Q: So you're going to use the survey to
21 try and fine-tune those strategies? Is that correct?
22 MR. WILSON: A: That is correct. To either modify or
23 to develop new strategies where warranted by the
24 analysis.
25 **Proceeding Time 1:34 p.m. T3A**
26 MR. MILLER: Q: So am I correct in understanding that

1 ICBC believes it has some ability to influence
2 customer or claimant representation?
3 MR. WILSON: A: That is correct.
4 MR. MILLER: Q: But ICBC has also acknowledged that
5 there may be factors outside of its control that it
6 can't control.
7 MR. WILSON: A: That is also correct.
8 MR. MILLER: Q: So what are you hoping to determine
9 from the survey? Is there a key -- key items that you
10 are trying to focus in on, or can you be a little more
11 specific about what the exact goal or hope is that you
12 obtain from the survey?
13 MR. WILSON: A: We are looking at specific attitudes or
14 perceptions of not only customers who choose to get
15 represented or not, but also people who influence
16 them. And this goes to a corporate effort at not only
17 looking at what we can do once they report to us, but
18 what we can control about their perceptions about ICBC
19 or the process. So we're going in really with our
20 eyes wide open. We acknowledge that we do have a
21 little bit to learn here in terms of what are the
22 current perceptions, and how are our processes and
23 policies working.
24 MR. MILLER: Q: Some of the factors which may influence
25 a claimant to get represented may be specific to that
26 individual and not representative of a large segment

of the population you're examining, correct?

MR. WILSON: A: Correct.

MR. MILLER: Q: So you do acknowledge that there are some limitations in the ability of the survey to give you precise information that will address every specific claim, correct?

MR. WILSON: A: Correct.

THE CHAIRPERSON: Can I just ask a follow-up question? When you file the -- you say you're going to file the results of this survey with the 2014 revenue requirements?

MR. WILSON: A: Yes.

THE CHAIRPERSON: Are you also going to file the actual survey, list of questions that were asked?

MR. WILSON: A: We are going to look at the relevant results which cause ICBC to take action. In terms of the questions, I think we answered that in an IR, and --

MS. MINOGUE: A: Yeah, at least in terms of the information requests asking for the survey now, we said that we didn't want to reveal the questions in case they got out there and somebody heard what the questions were and discussed it before having been approached to participate in the survey. So that was what we put in that one IR response why we wouldn't produce the survey now.

1 THE CHAIRPERSON: I wasn't asking if you would produce
2 the survey now. I was saying when --
3 MS. MINOGUE: A: Right, so I'm just kind of clarifying
4 his answer. And in terms of in the future, I guess I
5 can't say at this point. We would want to see if
6 there was some sort of sensitivity around filing that.
7 I certainly don't think there's any problem with
8 filing it confidentially with the Commission. I think
9 that it's more we would want to evaluate whether there
10 was anything sensitive in there. Because it does
11 really try to go after what we're trying to ascertain
12 in terms of what drives people to lawyers for
13 representation, so that's why I caveat that --
14 THE CHAIRPERSON: Might I suggest if you have that
15 concern that you might want to file it on a
16 confidential basis? Because in my experience, the way
17 survey questions are built and constructed can have an
18 influence on the responses that you get to those
19 questions. So it would be instructive to the
20 Commission and to the Panel that would be in panel for
21 that particular hearing to know what those questions
22 were, along with the actual results that you report
23 out. So just an advice anyway.
24 MR. WILSON: Thank you.
25 COMMISSIONER REVEL: Might I add to that too, the sample
26 population selection too, and design.

1 THE CHAIRPERSON: It's very un --
2 MR. MILLER: Mr. Chair, I'm about to move on to
3 performance measures, a new topic.
4 **Proceeding Time 1:39 p.m. T04A**
5 MR. MILLER: Q: Okay, let's turn to page 9-2 of the
6 application, Figure 9.1. Do you have that in front of
7 you? Okay, these are the performance measures which
8 were negotiated in 2004 and modified in 2006.
9 Correct?
10 MS. TAYLOR: A: That is correct, yes.
11 MR. MILLER: Q: And this table is intended to provide a
12 snapshot on one page of the overall performance of the
13 Insurance Corporation in areas of service quality,
14 financial performance, operational efficiency and
15 three directional indicators of interest to
16 interveners, correct?
17 MS. TAYLOR: A: That is correct.
18 MR. MILLER: Q: Now, in response to BCUC IR 224.1, it's
19 Round 2, and again I don't think you need to turn
20 there, but you have indicated that you do not expect
21 to be in a position to file a review of the
22 performance measures until late 2016, and the timing
23 may align with the 2017 revenue requirement
24 application, and the reasons given for that are
25 related to the claims transformation, and the
26 implementation of a new, modern, and flexible

1 administration system at 2015. Is that fair?
2 MS. TAYLOR: A: The timing of the filing would be part
3 of the next panel.
4 MR. MILLER: Q: Okay, we'll save those for panel 2.
5 Now if we look at figure 9.1 again, it's
6 the Insurance Corporation's position, am I correct,
7 that ICBC does not consider that the performance
8 measures should be modified or added to at this time?
9 MR. WILSON: A: Also next panel, Mr. Miller.
10 MR. MILLER: Q: Would questions related to possible
11 changes to the 2006 NSP agreement be also be directed
12 to the second panel?
13 MR. GHIKAS: Is that relating to cost allocation?
14 MR. MILLER: No.
15 MR. GHIKAS: Or the service quality indicators.
16 MR. MILLER: Service quality.
17 MR. GHIKAS: This -- just to be -- hopefully this is a
18 bit of clarification, but so because only the claims
19 folks are on it, they can speak to the metrics with
20 respect to, you know, the performance related -- how
21 the claims related performance indicators are proving
22 out. But in terms of issues that relate to regulatory
23 affairs, as it were, it's really an issue that Ms.
24 Prior should be speaking to on panel 2.
25 MR. MILLER: Thank you.
26 Q: Okay, one potential measure that isn't on the

existing performance measure chart is claims frequency. Is that correct?

MR. LOACH: A: That's correct.

MR. MILLER: Q: And we've heard so far that two of the larger issues with respect to the current rate requirement are both frequency and severity, particularly with respect to BI, correct?

MR. LOACH: A: That's correct. Those are both significant drivers of our current rate indication.

MR. MILLER: Q: So, this may be a panel 2 question, and I prefer to -- and I am willing to move it off to panel 2. But shouldn't frequency, claims frequency or BI frequency, also be listed as a metric? Or do you have a view that it's not worthwhile to collect?

Proceeding Time 1:45 a.m. T5A

MR. LOACH: A: So ultimately with regard to the performance metrics in here, I'm going to put you off to Panel 2, but I do want to clarify that for internal purposes we absolutely track both bodily injury frequency and bodily injury severity as we evaluate the Corporation's performance internally.

MR. MILLER: Q: So you use that internally as a measure, so --

MR. LOACH: A: Yes.

MR. MILLER: Q: Is there a reason you're aware of it shouldn't be available for external consumption as a

1 performance measure, snapshot? Anything you can think
2 of?
3 MR. LOACH: A: I'm going to defer to Panel 2 on that,
4 then I think there's also some information in the
5 response that you may have referred to already.
6 MR. MILLER: Q: Okay. So again you may refer this to
7 Panel 2, but I'm going to ask questions so I don't
8 miss it in the event that's not Panel 2. Mr. Ghikas
9 just handed out B-19, right? Do you guys have a copy
10 of that in front of you?
11 Sorry, I misstated something on the record.
12 It's not B-19, I'm so sorry about that. It's the
13 information response from Round 2, 223.1 that we were
14 dealing with before the lunch break, where I was
15 taking you through average days to settle with respect
16 to 2006 through 2012, and we talked about the
17 difference between represented and unrepresented
18 claimants in that table.
19 So should questions about whether or not
20 these should be added to performance indicators also
21 go off to Panel 2?
22 MR. LOACH: A: Yes, I believe that would be with Panel
23 2.
24 MR. MILLER: Mr. Chair, those complete my questions.
25 Thank you very much, Panel.
26 We can either deal with Ms. Khan or we can

1 jump into your Panel questions right now. Ms. Khan
2 had a couple on the last exhibit filed.
3 THE CHAIRPERSON: Why don't we have Ms. Khan ask her
4 questions and the Panel will ask any questions that
5 they have, if Ms. Khan is ready to do so.
6 **CROSS-EXAMINATION BY MS. KHAN (Continued):**
7 MS. KHAN: Q: Panel, I would just like to take you
8 briefly to your response to BCPSO's Undertaking No. 1
9 which is Exhibit B-15.
10 MR. GHIKAS: This is the one relating to fraud.
11 MS. KHAN: Q: So in this undertaking you're talking
12 about the number of organized fraud investigations
13 that you've conducted since 2011, and it states that
14 in relation to the 10 closed organized fraud
15 investigations that have taken place since 2011, ten
16 body shops received various sanctions, and I believe
17 that's over at the top of page 2 in the material
18 damage bullet.
19 MR. WILSON: A: That is correct.
20 MS. KHAN: Q: Can you describe what those sanctions
21 were?
22 MR. WILSON: A: I don't have that information readily
23 available.
24 MS. KHAN: Q: No, okay. Do you have an idea of what --
25 I'm not -- I'm just looking for a general sense, were
26 they barred from working on ICBC claims for a period

of time, or what types of sanctions would be taken and -- that type of situation.

Proceeding Time 1:50 p.m. T06A

MR. WILSON: A: I can undertake to obtain that information, but I just don't have the details right now, I'm sorry.

Information Request

MS. KHAN: Q: No problem. Thank you. Now, also in the last bullet on the second page of that undertaking, it says that the results of a medical supplier investigation were presented to the claims program for review to develop best practices to address the supplier's conduct. Do you know whether these best practices have been developed? And if so, how is ICBC using these best practices? In other words, are they relating to one particular supplier, or are they being applied more generally in terms of dealing with potential claims fraud?

MR. WILSON: A: They are being applied more generally.

MS. KHAN: Q: Okay. So you have developed best practices that -- they have been developed now.

MR. WILSON: A: Some have been developed, some are being developed.

MS. KHAN: Q: Okay. And are those used -- are those best practices being used for all medical suppliers? Or are they only when you're conducting an actual

1 fraud investigation, or exaggerated -- or assume
2 perhaps an exaggerated claims investigation?
3 MR. WILSON: A: Generally it would be all medical
4 suppliers, or all health care suppliers. Some are
5 specific to certain areas, or industries, but the idea
6 is to be pre-emptive, not to just apply it to cases
7 where we already suspect fraud.
8 MS. KHAN: Q: Okay. Can you give us an example of some
9 of those best practices that you've instituted?
10 MR. WILSON: A: One example is just around
11 accreditation. So, although the fraud may pertain to
12 billings for which you're not qualified, or
13 credentials which you don't have, an overall theme
14 there is to have better governance and tools to ensure
15 that people are accredited prior to us reimbursing or
16 paying for medical services. So that -- there is one
17 example.
18 MS. KHAN: Q: Okay. Do you have any other examples?
19 MR. WILSON: A: Some -- I'm sorry, I don't have it
20 handy. One that comes to mind is relationships
21 between medical providers and their involvement in the
22 claim, or their testimony, their bias. And that goes
23 more to the tools that we will have with our system,
24 to be able -- once it's implemented, to be able to
25 track linkages. So it went more into the design of
26 fraud indicators in our new system.

1 MS. KHAN: Q: Okay. All right. Thank you. Now, I'd
2 like to take you to your response to BCPSO's
3 undertaking number 2, and this is Exhibit B-19. And
4 this undertaking addresses the literature review
5 regarding the link between -- or the potential link
6 between long-term unemployment and accident benefits.
7 So here -- should I wait -- do you have
8 that in front of you?
9 MS. MINOGUE: A: Yes.
10 MR. LOACH: A: We have it.
11 MS. KHAN: Q: Okay. So here you reference several
12 studies that suggest that auto insurance fraud tends
13 to rise during a recession. That's paraphrased.
14 Given that the recession of 2008/2009 was a widely
15 recognized event, did ICBC have a policy in place at
16 that time to increase the number of fraud and
17 exaggerated claims investigations that it was
18 undertaking as a result of the economic downturn?
19 MR. WILSON: A: Can you repeat the question, please?
20 MS. KHAN: Q: Sure. Given that the recession of
21 2008/2009 was a widely recognized event, did ICBC have
22 a policy in place at that time to increase the number
23 of fraud and exaggerated claims investigations that
24 you were undertaking as a result of the economic
25 downturn?
26 **Proceeding Time 1:55 p.m. T7A**

1 MR. WILSON: A: No.
2 MS. KHAN: Q: No. Okay. And do you now? Given the
3 link or the potential link between economic downturns
4 and rises in auto insurance fraud, is this something
5 that you have instituted or will be instituting?
6 MR. WILSON: A: The economic downturn and unemployment
7 is one of several factors we would look at in
8 allocating resources. It's not something that we've
9 dedicated analysis or resources to specifically, but
10 part of our -- just our overall review of allocation
11 of resources and I believe we speak to that in BCUC
12 195.6. But as I believe I stated on Friday, as we get
13 more data rich in terms of analytics, either from this
14 system or from studies as Ms. Khan refers to, we
15 regularly update our allocation of resources and our
16 focus or our dedication to combating fraud. At this
17 current time we haven't allocated there.
18 MS. KHAN: Okay. Thank you, those are my questions on
19 the undertakings.
20 THE CHAIRPERSON: Thank you, Ms. Khan.
21 Commissioner O'Hara, I believe you had some
22 questions.
23 COMMISSIONER O'HARA: Thank you, just a couple of follow-
24 up questions before we let you have a sigh of relief.
25 First going back to the claims matters discussed
26 Friday afternoon, I guess it was late Friday afternoon

1 I felt as if I was lost in the trees. So I just want
2 to still bring up one clarification there, and that
3 came from the cross-examination pursued by Mr. Adair
4 and Mr. Ross. So you don't really have to go -- go to
5 the -- it is the Volume 3 and first there are some
6 exchanges around page 429 and 30.
7 Like Mr. Wilson, you answered to Mr. Adair
8 that we have tried to get through our evidence that
9 ICBC has to balance costs and we have to have costs
10 controlled and cost containment for our 3 million
11 policy holders. And at the same time we can do it at
12 the expense of offering less than an acceptable level
13 of product of service. That sort of framework you've
14 painted the picture of.
15 And then around the 470 page, 471, Mr. Ross
16 I think said to you, Ms. Taylor, that explain -- you
17 had been talking about why the claim costs for the
18 rehabilitation have gone up by 19 percent, and he said
19 it's a result of ICBC focusing on getting injured
20 customers more timely access to treatment so that they
21 can return to their lives and work, and you agreed
22 that that's the exactly -- that's the focus and that's
23 really sort of you have made this conscious decision,
24 corporate decision that making it easier to have
25 access to -- easy access to early treatment.
26 So what I am just trying to clarify then is

1 that putting the time value of money aside, that is
2 your corporate philosophy that still it's like a zero
3 sum game that you now pay more up front, but you
4 expect then to have savings later on that overall the
5 costs will not go up, it's just a different time
6 frame? Or is it that this is a new corporate
7 philosophy that, you know, you feel that to provide
8 acceptable level of service, you have to provide that
9 new type of speedy access to early treatment?
10 **Proceeding Time 2:01 p.m. T08A**
11 MS. TAYLOR: A: I think what we had been discussing was
12 that we are providing those benefits earlier in the
13 process than we had before, with a hope to get our
14 customers back to work and recover earlier. Because
15 we believe the impact would be at the end of the
16 claim, it would be -- the claim would be settled
17 sooner, and at a less cost. So to your point, we're
18 doing this service up front for the benefit of the
19 claim, that ultimately the claims cost would be lower.
20 COMMISSIONER O'HARA: Low.
21 MS. TAYLOR: A: Lower.
22 COMMISSIONER O'HARA: So perhaps then to your item, Ms.
23 Minogue or Mr. Loach, is it -- are we seeing any of
24 that long-term benefit in this application, or is it
25 the nature of this application that we can't -- we
26 just see costs going up, but we are not seeing that

1 benefit?
2 MR. LOACH: A: I think we've addressed that in the
3 application, and in particular there is an Information
4 Request, BCUC 7.1, where we do talk about the trade-
5 off. And there are a number of initiatives that have
6 been put in place that have sort of this customer
7 focus, and that the payoff is that we expect it to
8 assist in the area in particular of representation,
9 where we see cost savings, if we are able to address
10 the claimant's needs, and to offset some of the
11 acceleration that we've seen in the representation
12 rate. And where we've reflected that in the
13 application is as we forecast our bodily injury
14 severity. We have talked about our BI severity has
15 been running at about 6 percent increase per year.
16 And what we have got in the application is,
17 despite the increase and the accelerating
18 representation rate in 2012 and '13, we have continued
19 to assume a 6 percent trend, because we're assuming
20 that we'll be able to offset the additional pressure
21 from increased representation through these
22 initiatives. And so we're giving them credit in our
23 forecast to the extent that we're expecting them to
24 offset the additional costs from that representation.
25 So we are giving them credit as we go
26 forward in the bodily injury side. And my caveat that

1 I would add is, when we look at individual programs,
2 we aren't able to say, "Well, this accident benefits
3 streamlining of the process specifically influenced
4 the trend line by this much, and this other initiative
5 specifically influenced the trend line by this much."
6 We're bringing in a number of initiatives at the same
7 time. And we're making an overall assumption about
8 how in a compound way they're influencing our trend
9 line. But we don't have kind of a one to one
10 correspondence of this initiative, who has had this
11 much effect, and this one has had that much.
12 COMMISSIONER O'HARA: But your position is that you had
13 -- to the best of your ability, you have tried to
14 reflect that.
15 MR. LOACH: A: That's correct.
16 COMMISSIONER O'HARA: Long-term benefit. Thank you.
17 MS. MINOGUE: A: Right. There is a series -- BCUC
18 Round 1, 7.1, 7.2, where we specifically talk about
19 making that assumption, that these new initiatives are
20 able to offset the new pressures due to rep --
21 representation. And in particular, you know, just
22 flowing it through, not knowing if the claims
23 initiatives -- the accelerated rep would mean an 8
24 percent severity trend line and -- but we're holding
25 it to the 6. Assuming that the initiatives will come
26 to fruition and offset some of these costs.

1 COMMISSIONER O'HARA: Okay, thank you. That's helpful.
2 Then shifting the topic and going back to the capital
3 management plan, and the measures and reserves we
4 discussed this morning, first, I'm curious. Are you
5 able to provide -- like, do you have access to any
6 comparisons to reserve levels and various margins used
7 in Manitoba or Saskatchewan by your counterpart
8 corporations there?
9 MS. MINOGUE: A: Do I have comparisons of reserves?
10 COMMISSIONER O'HARA: Yes. Approach to capital
11 management plans.
12 MS. MINOGUE: A: I have some awareness, not really deep
13 knowledge. I do have semi-regular contact with the
14 actuary there, and we do talk about capital management
15 at times.
16 COMMISSIONER O'HARA: Because I think -- because you
17 might have sensed that the panel is still having --
18 struggling with this whole issue, and I think it would
19 be very helpful if there was some kind of a comparison
20 available. But I don't know how much you could
21 provide as an undertaking.
22 **Proceeding Time 2:06 p.m. T9A**
23 MS. MINOGUE: A: So are you referring to what their --
24 COMMISSIONER O'HARA: Ratios for instance.
25 MS. MINOGUE: A: Like their MCT ratio?
26 COMMISSIONER O'HARA: Yeah.

1 MS. MINOGUE: A: I'm not sure they have published MCT
2 ratios, so I could undertake to look into that.
3 COMMISSIONER O'HARA: Could you see what you can do? I
4 know it may be asking too much, but it would be very
5 helpful. Anything you can provide, thank you.
6 **Information Request**
7 MR. GHIKAS: If I can be of assistance, Commissioner
8 O'Hara, there is a series of IRs where there is
9 discussion about this situation in Manitoba and
10 Saskatchewan, and I'm just shuffling paper here but
11 there is -- I know there is some -- there is one at
12 Round 1 BCUC 69.5 where there's some reference there.
13 I'll see if we can find -- and I believe there are
14 some in subsequent -- in a series as well.
15 The information is provided in a lot of
16 those IRs with a proviso that the regulatory framework
17 is actually quite different there, but there is some
18 information about what is done in the way of capital
19 for MPI, for example, and they set their capital
20 requirements on quite a different basis. But there is
21 information. If I can get better pinpoint references
22 I'll let you know.
23 COMMISSIONER O'HARA: Yeah, I certainly accept that there
24 are differences, but regardless I think it would be
25 helpful. So if you could just give us the shortcut to
26 both of these, I --

1 MR. GHIKAS: Yes, absolutely.
2 COMMISSIONER O'HARA: Yeah.
3 MR. GHIKAS: Absolutely.
4 COMMISSIONER O'HARA: Thank you.
5 MR. GHIKAS: I'll let you know once I get a list of the
6 cites.
7 COMMISSIONER O'HARA: Thank you, Mr. Ghikas.
8 THE CHAIRPERSON: Could I also, Mr. Ghikas, just as a
9 follow-up to Ms. O'Hara's question, if it isn't there,
10 if there could be an undertaking to provide that
11 information wherever possible.
12 MR. GHIKAS: We can --
13 THE CHAIRPERSON: If you do not find it in the IRs.
14 MR. GHIKAS: We can -- maybe I should let Ms. Minogue
15 take the undertaking because --
16 THE CHAIRPERSON: Because I believe she took the
17 undertaking subject to the information that you find
18 in --
19 MS. MINOGUE: A: Yeah, and subject to it being
20 available.
21 THE CHAIRPERSON: Yes.
22 MS. MINOGUE: A: So I don't know that they, for
23 example, calculate MCT ratios that are published, and
24 so that would be a consideration.
25 But can I give my usual actuarial caveat
26 here? But they are a different product, right? They

1 have very prescribed benefit levels and we're in a
2 full tort jurisdiction which does have very different
3 kind of volatility in the claims costs, for example.
4 And I'm not exactly sure what their investment
5 portfolio looks like either, and there may be
6 differences due to that. So just with that caveat,
7 they're not going to be comparable --
8 COMMISSIONER O'HARA: You can feel free to put all the
9 disclaimers you want, but we still would like --
10 MS. MINOGUE: A: This way I get it in twice.
11 COMMISSIONER O'HARA: Yeah, exactly. That's perfectly
12 fine, thank you.
13 And then one more question, and again still
14 on the capital reserves. So let's now -- we have your
15 application and let's now assume then that you have
16 been very persuasive, that the Panel will accept the
17 application exactly as it is. So you will get your
18 new MCT 150 percent, okay, and then the world starts
19 unfolding and then, using your word, inadvertently
20 then due to circumstances, then ICBC reads the 165
21 percent. Things still continue to unfold
22 inadvertently and you will get up to 173 percent. And
23 then you triggered that renewal credit customer
24 renewal credit, and the way again your proposal, we
25 have accepted your proposal that you will then give
26 this $25 per customer credit, and you go down to 165

1 percent. That's how you calculate it.
2 I'm asking now then, another undertaking
3 that certainly would help me and maybe my fellow Panel
4 members too, is that in that undertaking could you
5 then outline four or five sort of fairly realistic
6 scenarios, how again the world could unfold that
7 various events bring then the 165 down to 150?
8 MS. MINOGUE: A: Okay.
9 COMMISSIONER O'HARA: And indicate the kind of time frame
10 what it would take?
11 MS. MINOGUE: A: Okay.
12 COMMISSIONER O'HARA: Is that doable?
13 MS. MINOGUE: A: Yes.
14 COMMISSIONER O'HARA: Good. Thank you. That's all.
15 **Information Request**
16 MS. MINOGUE: A: Yeah, I --
17 THE CHAIRPERSON: Commissioner Revel.
18 COMMISSIONER REVEL: Thank you. Dr. Minogue, I think I
19 misheard you this morning and I'd like to clarify it.
20 I'm sure it's part of the record but I won't get the
21 record until this evening and I'd like to get this
22 clarified before you all lose your star status up
23 here. I asked a question regarding the 150 MCT this
24 morning, and as I recall, I asked you how far it would
25 have to go up before it would trigger the $25
26 reimbursement to policy holders.

1 And I understood you to say that it would
2 have to go to 173. Did I mishear? In short then is
3 150 plus one standard deviation, plus a half standard
4 deviation equal to $25?
5 **Proceeding Time 10:02 a.m. T10A**
6 MS. MINOGUE: A: Yeah, it effectively is. Right. So
7 that the 165, the significance of the 165 is how much
8 capital you are going to release to -- in the event
9 that you had capital well in excess. So really, the
10 lowest amount of capital that is considered well in
11 excess is 173. But you reduce it down to the 165, so
12 that it's kind of a --
13 COMMISSIONER REVEL: Why would you release it down to 165
14 rather than the 150? And if indeed you kept it at the
15 165, are you not operationally doing a capital build
16 from 150 to 165? That's partly where I'm struggling a
17 little bit.
18 MS. MINOGUE: A: Yeah. So the capital management
19 target, that's the interesting thing. You can't keep
20 it at 150 no matter how hard you try.
21 COMMISSIONER REVEL: But you could draw it down to that.
22 MS. MINOGUE: A: You could. Mm-hmm. You could. And
23 so how our reading of IC-2 is that if you give a
24 customer a renewal credit, you don't want to do it in
25 a way that results in capital falling below the
26 target. And so for that reason we, in our proposal

1 for customer renewal credit we suggest going --
2 releasing down to 165 so you still have some room, if
3 you will.
4 Because the thing that you want to avoid is
5 if you give a customer a renewal credit and then right
6 after you give it you have some normal volatility, it
7 takes you down below the 150 where you have to turn
8 around then put a build into the rate to get you back
9 up to the 150.
10 So if we think of the 150 target as
11 something you want to kind of -- you know, you are not
12 going to be able to maintain it perfectly because of
13 the normal volatility, but it's, you know, something
14 that you are going to accept some normal variation
15 around, we thought 165 was reasonable.
16 COMMISSIONER REVEL: Well, in relatively simple
17 arithmetic then, what I'm taking from this is that one
18 and a half standard deviations is not $25, it's $75,
19 is that correct? In essence? Do you see where I'm
20 struggling?
21 MS. MINOGUE: A: Yeah. The reason why it's only $25
22 customer renewal credit, though, is because we don't
23 take it all the way down to 150. When we give a
24 customer a renewal credit, it's only the difference
25 between the 173 and the 165.
26 COMMISSIONER REVEL: 165. So what do you term that

money? There must be somewhere in the books that the ledger is kept to show that there is money within the Corporation between 160 and 165. Is that not capital that has been built?

MS. MINOGUE: A: Yes.

COMMISSIONER REVEL: So it is a capital build that has taken place to get it up to 165.

MS. MINOGUE: A: Well, it wasn't intentionally built through the rates. It would be through favourable volatility and so we talked about, you know, you could have asset gains that you -- you know, that were more favourable than you anticipated, or you could have lower claim frequency than you anticipated. Things like that could result in a favourable impact.

So while you could call it "build", it's built but not through rate. It would be built through these other favourable impacts.

COMMISSIONER REVEL: You don't classify it then as capital, is that --

MS. MINOGUE: A: No, we do.

COMMISSIONER REVEL: You do.

MS. MINOGUE: A: It is classified as capital but it's not capital that's built through rate, it's capital that's built through the asset values being favourable, or those other financial things.

COMMISSIONER REVEL: Thanks, that clarification helps

1 quite a bit. And just one kind of ancillary to that
2 one a little bit. If you had a sequence of years
3 where you had substantial quantities of lost cost and
4 so on, effectively you're building up a deferral that
5 has to be paid back. Is that correct?
6 MS. MINOGUE: A: Well, I guess we are thinking of it as
7 setting your rates lower, than costing -- yeah, that
8 differential needs to be cut.
9 COMMISSIONER REVEL: I'm just trying to -- have you got a
10 number of years or a time period upon which you would
11 be in less than favourable situations try to recover
12 those accumulated deferrals? I mean is it fifty
13 years, a hundred years, forever, or three years? I
14 mean in theory you could put it off forever.
15 MS. MINOGUE: A: Yeah. Yeah, you could, although -- so
16 that's where the capital management plan, it gives the
17 Commission some discretion in terms of how much of the
18 forecast variance it can exclude. So that's one
19 element but it -- I can't give a specific number,
20 unless I have a specific scenario, because there is
21 that rate change band that will impact how fast it
22 comes back, how fast you catch up to get rates to
23 cost. And so -- and then also the size of the
24 original rate exclusion.
25 **Proceeding Time 2:17 p.m. T11A**
26 So, but I would -- you know, I would think

1 that most years you would get at least in our current
2 kind of cost environment most situations you would get
3 caught up in two to three years.
4 COMMISSIONER REVEL: Two to three years, okay. I was
5 wondering if it had implications for intergenerational
6 equity and things of that nature. Given that you in
7 theory could push it off into the --
8 MS. MINOGUE: A: No, if you push it off too long, the
9 thing is is that then you -- then you get into a
10 situation of the capital falling below 100, right?
11 That means you're just holding rates below cost for
12 all the, you know, years. And then at some point
13 you're below 100 and potentially --
14 COMMISSIONER REVEL: Oh, so that -- those lost costs then
15 build up and effectively draw your MCT down, and you
16 could in theory fall below 100?
17 MS. MINOGUE: A: Mm-hmm.
18 COMMISSIONER REVEL: I see. Okay. Thank you. Mr.
19 Chairman, I have no further questions.
20 THE CHAIRPERSON: And I have no further questions, given
21 the answers that have been given already.
22 Mr. Ghikas?
23 MR. GHIKAS: Thank you. Thank you, Mr. Chairman.
24 **RE-EXAMINATION BY MR. GHIKAS:**
25 MR. GHIKAS: Q: I have a few issues in re-direct that
26 I'd like to cover. The first one being just exploring

1 this last issue a little bit further, with respect to
2 the MCT, because I think hopefully we can build a
3 little more clarity upon the questions that have come.
4 First of all, one of the terms that I want
5 to make sure is clear, Ms. Minogue, is when you say --
6 when you're referring to capital build, I just -- that
7 has a technical meaning for you, doesn't it?
8 MS. MINOGUE: A: It does.
9 MR. GHIKAS: Q: Okay. Now, when you're referring to a
10 capital build provision, what are you referring to?
11 MS. MINOGUE: A: So, in the capital management plan,
12 what we proposed is that if we're short of the target,
13 that -- and we're not in a rate-smoothing situation
14 where we're smoothing through adverse rate volatility,
15 then we would put a provision in the rates that
16 collects enough money to build toward shoring up the
17 shortfall of the target.
18 So, for example, if you are $100 million
19 short of the target, and you're in the -- you build at
20 a rate of one-tenth, so you would need to collect $10
21 million in the revenue application that year, that
22 would be four- to five-tenths of a point of rates. So
23 that's an explicit addition to the revenue
24 requirement. And then of course when, you know, that
25 provision gets recalculated every application, but
26 once it's not any longer needed, then it comes out and

it's a favourable impact on rates.

So capital build is a temporary, you know, holding rates a little bit high, and we've expressly -- well, we've proposed something that's very limited impact on the customer. And then when we're done building, we take it out.

MR. GHIKAS: Q: So let's just explore that a little bit further. So current -- so when you use the term "capital management target" in the generic sense, what -- what is the -- what is being managed? Like, what is that level signifying to you as an actuary when you are developing a capital management plan?

MS. MINOGUE: A: Well, what we're managing is through the rates. Trying to ensure that our capital levels stay at the target. And to the degree that we don't, or we allow it to fall below, in a rate-smoothing situation, the capital management plan tells us what to do. It gives us -- sets out rules on how to -- what you do in these kind of situations. So it sets out the rule for rate-smoothing, what you can do, and where you have discretion, and when you're short of target, what you need to do to build. So that -- it spells out how you manage your capital to keep at your target levels.

MR. GHIKAS: Q: Okay. Now, you mentioned -- and when we referred to capital build previously, is there a

current -- is there a capital build mechanism in the current existing capital management plan?

MS. MINOGUE: A: Yes, there is. And it's very similar to what we had proposed. What we've proposed is modified to reflect that there is two tiers of -- there is the solvency margin and there is the rate-smoothing margin. But in the current capital management plan, there is also a build provision.

MR. GHIKAS: Q: Okay. So in the current capital management plan, when the capital is below 130 percent, or capital management target, what sort of formula do you use to build capital? What provision -- how do you determine what the magnitude of the capital build provision is when the capital is below?

MS. MINOGUE: A: We build at a rate of one-fifth the shortfall.

MR. GHIKAS: Q: Okay. And as proposed, if the capital is below 130 percent, at what rate is the capital built?

Proceeding Time 2:23 p.m. T12a

MS. MINOGUE: A: So, the capital is built. It's a sum of two things. So it's built at a rate of one-fifth the shortfall to the solvency target, and then you add to it one-tenth the margin between the solvency and the rate smoothing. So you are going to build faster for the solvency and then you will be -- you can be a

1 little bit more slow at building for the rate
2 smoothing margin. That's what we proposed.
3 MR. GHIKAS: Q: Okay, and so under the current existing
4 capital management plan, what happens when the
5 volatility that you were referring to earlier occurs
6 -- well, first of all, has there been occasions
7 previously where the MCT level has been in excess of
8 the capital management target?
9 MS. MINOGUE: A: Yes.
10 MR. GHIKAS: Q: Okay, so under the existing capital
11 management plan, how does the capital management plan
12 deal with a circumstance where there is capital, let's
13 say, at five percentage points above the capital
14 management project?
15 MS. MINOGUE: A: It's released at a rate of one-fifth
16 the amount over.
17 MR. GHIKAS: Q: Okay.
18 MS. MINOGUE: A: There's a provision called a capital
19 release mechanism.
20 MR. GHIKAS: Q: Okay. And is there a similar capital
21 release mechanism in the current proposal?
22 MS. MINOGUE: A: The current proposal in essence
23 replaces the capital release provision with -- well,
24 it is the capital -- it's the rate exclusion. So we
25 release capital only -- and this is our proposal, only
26 when there's unfavourable forecast variance. So we

1 are very deliberate about when we release capital, and
2 we save it for those occasions where we want to smooth
3 through adverse rate volatility. So that replaces the
4 current capital release which just lets it go whenever
5 it's above, and it doesn't have a deliberate
6 mechanism, it just does it -- well, it's deliberate in
7 that if it's over the target it lets it go.
8 Here we are saying, let's keep it as a
9 rainy day fund, so to speak, and use it in a way that
10 better promotes stable and predictable rates per the
11 government directive.
12 MR. GHIKAS: Q: Okay, now under the current existing
13 capital management plan, would there ever be an
14 occasion where you determined the capital build
15 component of the rate based on an amount in excess of
16 the capital management target?
17 MS. MINOGUE: A: I'm sorry, could you repeat that,
18 please?
19 MR. GHIKAS: Q: Sure. Would the capital -- under the
20 current plan, would there ever be a circumstance where
21 the capital build provision was premised on building
22 capital above a level that you set for your capital
23 management target?
24 MS. MINOGUE: A: No.
25 MR. GHIKAS: Q: Okay, and is that the same under the
26 proposal? So the capital management target has

1 changed but would you set your capital provisions such
2 that they would exceed -- be targetting to exceed the
3 capital management target?
4 MS. MINOGUE: A: That's a good point because there is a
5 -- there is an element that IC-2 framework overlays on
6 any provision, be it a rate exclusion or a capital
7 build provision, and that's this cap or this rate
8 change band. So, for example, if you calculate your
9 rate change to cover cost and you have a capital build
10 in it, per the formula that I just described, but the
11 rate floor, the bottom of that band is higher, it's
12 going to force you to build more capital, and so there
13 are situations where you could end up building more
14 than what the formulaic approach would give you.
15 Now, whether it takes you over the target
16 or not, that depends on the circumstances, but it
17 conceivably could happen.
18 MR. GHIKAS: Q: Okay, but otherwise within the range,
19 would you include such a provision?
20 MS. MINOGUE: A: I wouldn't include it per -- well, IC-
21 2 would require us to modify the formulaic provision
22 and include a higher number. So in my opening
23 presentation I talked about how the capital provision,
24 be it rate exclusion or capital build provision, it
25 could be modified when you apply the IC-2 capping
26 requirement.

1 MR. GHIKAS: Q: Okay. Now, given that apart from the
2 provisos that you just indicated, the capital build
3 provisions wouldn't intentionally be targetting
4 something above 150. What would occur that would
5 cause the capital to go above, that such that
6 something like a customer renewal credit could even
7 come into play?
8 track 13
9 **Proceeding Time 2:28 p.m. T13A**
10 MS. MINOGUE: A: Well, we just talked about the rate
11 change floor triggering, you know, higher rate levels
12 than we needed to cover costs, so that you would
13 overcollect. There's a potential for that. But I
14 think the more likely scenarios are like if you have
15 favourable investment gains, that is one potential.
16 If you have lower claims frequency than expected, that
17 could end up favourably impacting capital. Or your
18 claims class perhaps. Our initiatives well exceed our
19 expectations and we're able to bring our costs down.
20 That is also another favourable influence.
21 MR. GHIKAS: Q: Okay. Now, if I can ask you and the
22 panel to turn to Round 1 BCUC 82.5 please. 82.5 BCUC.
23 And one of the things I was hoping that you could help
24 us with is this IR deals with one of the risks of the
25 customer renewal credit, and it indicates that it --
26 it points to the potential for significant unrealized

gains to increase the MCT rate, the MCT level. And then ICBC would be in a position of paying out cash in the form of a CRC before gains are realized. With volatile markets, unrealized gains can easily be reversed in a short time. ICBC would then be in a position of having paid out the CRC without ever having realized the gains that are generating -- that generated the CRC.

So is that one of the concerns that would exist with respect to paying out down to 150 percent?

MS. MINOGUE: A: Yeah, it's one concern definitely. It's not cash in hand, so to speak at that point if it's unrealized.

MR. GHIKAS: Q: Okay, and --

MS. MINOGUE: A: And whether it's realized or unrealized, an impact on MCT again would --

MR. GHIKAS: Q: Okay. So what -- and just for clarity, so what happens if -- let's assume that some of the questions that you were receiving earlier, let's assume that the Commission had decided that customer renewal credit, when paid out, would have to be paid out right down to 150 percent MCT? Do you have a sense of the probability in those circumstances of volatility potentially causing it to go down below 150? I know you hate probabilities, but I was just wondering if you can give us some sense.

1 MS. MINOGUE: A: Well, if we restrict our attention to
2 the investment assets and assume a normal probability
3 distribution, there's probably a 50 percent change
4 it'll fall below.
5 MR. GHIKAS: Q: Okay.
6 MS. MINOGUE: A: In that ball park.
7 MR. GHIKAS: Q: Okay. Now, let's assume the special
8 direction requires that the Commission approve a
9 customer renewal credit. So let's assume that the
10 decision comes out in the fall and the Commission
11 decides to approve a customer renewal credit, and ICBC
12 is going in for another application in the following
13 spring. What happens if the credit is paid out and
14 things change such that you do end up below 150
15 percent MCT? How does that get reflected the next
16 time ICBC comes in for a revenue requirement rate
17 request?
18 MS. MINOGUE: A: So let me --
19 MR. GHIKAS: Q: Well, let me see if I can simplify the
20 question for you. So if the MCT then drops below 150,
21 what do you as the actuary in preparing the rate
22 indication do with that? Do you have to address it
23 through a capital build?
24 MS. MINOGUE: A: Yes, I do.
25 MR. GHIKAS: Q: Okay.
26 MS. MINOGUE: A: That would be the -- according to the

capital management plan that we've filed, that's the proposal. That's what we would do.

MR. GHIKAS: Q: Okay. Thank you. I think that -- well, maybe I'll ask you this. Do you have any views or does ICBC have views with respect to that dynamic of providing a customer renewal credit followed by including a capital build in the rate backup?

MS. MINOGUE: A: I think we've discussed that part of the rationale here of having this higher threshold is to avoid the situation where you have to turn around and put a capital build in the rate, because that isn't consistent with the predictable and stable rates that IC-2 is trying to achieve here.

Proceeding Time 2:34 p.m. T14A

MR. GHIKAS: Q: Okay, I'll move on to my second of three topics and this one is a very quick one but there's a reference and you don't really even need to turn there. This is fairly quick. But in Volume 4, page 538, line 22, there was discussion about the 341 employees and the transformation program. And the Chairman asked the panel, "If I may, just a question of clarification. So you're saying in 2017 there will have been a total of 341 employees laid off within that four-year period." And Mr. Wilson answered, "That is correct."

And I just wanted to turn -- just focus in

on the reference to the layoffs. And in the application, in Chapter 6, paragraph 56, it indicates ICBC intends to realize staffing efficiencies through natural attrition wherever possible. Does that remain the case?

MR. WILSON: A: That is correct.

MR. GHIKAS: Q: Okay, thank you. Now, my final topic is just one point of clarification. I don't have a reference for you, because it just occurred a short while ago. But the question was put to the panel about whether there was an expectation that in the future there would be an improvement in legal representation. And I just wanted to make sure there wasn't a lack of clarity around when there is a discussion of improvement. If you could clarify, are you talking about in the future the legal representation, the percentage, being lower than it is in absolute terms vis-à-vis today? In other words, if you're expecting it to be 48 today, are you expecting the number to be below that? Or when you say "below", are you referring to the trend line being lower? If you could just clarify that for me.

MR. LOACH: A: Generally when we speak about an improvement in legal representation, we would be referring to an improvement in the trend of legal representation. It would be all the more convincing

1 if the actual level were to actually decline, which
2 would be a reversal of the trend. But even a slowing
3 of the trend, where we have now seen an acceleration,
4 a slowing of the trend would also be a relatively
5 favourable change.
6 MR. GHIKAS: Q: Thank you, Mr. Loach.
7 Mr. Chairman, that concludes my re-direct
8 of this panel.
9 THE CHAIRPERSON: I do have one question I want to ask,
10 and I'm sure Mr. Ghikas or Mr. Miller will correct me
11 if I am procedurally wrong.
12 When you -- Ms. Minogue, when you calculate
13 the MCT, 150, when you take the capital into account,
14 do you also take into account as part of that
15 calculation the unrealized capital gains, or losses,
16 in that number?
17 MS. MINOGUE: A: That goes into the calculation.
18 THE CHAIRPERSON: That goes into the calculation. And is
19 that allowed under -- I believe you -- let me
20 backtrack. I seem to recall a reference in here
21 somewhere that ICBC is -- goes by IFRS rules for audit
22 purposes. And is that allowed under that? I can't
23 recall.
24 MS. MINOGUE: A: Mr. Leong is the expert on that, in
25 panel 2.
26 THE CHAIRPERSON: Okay.

1 MS. MINOGUE: A: So I believe that's true, but --
2 THE CHAIRPERSON: So I'll save it for panel 2. Thank
3 you.
4 Mr. Miller?
5 MR. MILLER: Mr. Chair, just after we recommenced this
6 afternoon, I did receive a copy of the submissions
7 from the Automobile Insurance Committee of the
8 Canadian Bar Association. We have had copies made.
9 And I believe Mr. Bemister has copies available for
10 the panel.
11 Ms. Flewelling would like us to mark these
12 as her next exhibit, so it would be Exhibit 7-3.
13 THE HEARING OFFICER: Marked 7-3.
14 **(SUBMISSIONS BY CANADIAN BAR ASSOCIATION - B.C. BRANCH**
15 **AUTOMOBILE INSURANCE COMMITTEE (AIC) RE: ICBC**
16 **UNDERTAKING TO PROVIDE CLAIMS DATA MARKED EXHIBIT 7-3)**
17 MR. MILLER: So the next item for us, Mr. Chair, would be
18 to take the break, because we have to put the next
19 panel up, and there will also be a presentation. So,
20 maybe I'll have Mr. Ghikas address when he may wish to
21 respond to the Automobile Insurance Committee, and
22 what he proposes with regard to timing for the next
23 panel.
24 MR. GHIKAS: Okay, so, Mr. Chairman, probably the most
25 efficient thing to do would be to reorganize -- just
26 have one break instead of two, and reorganize the

1 panels for the presentation. And I can lead the
2 witnesses through their direct evidence, followed
3 directly by Ms. Prior standing up and delivering the
4 presentation while you're seated over here. That
5 would be my thought as to what would be most
6 efficient.
7 Now, in terms of dealing directly with Ms.
8 Flewelling's submission, if we were to take the break,
9 I would be able to speak to it and I would like to
10 speak to it immediately following a break. I haven't
11 had a chance to process it.
12 THE CHAIRPERSON: Yes, and I believe there may be some
13 other interveners who may want to comment on it as
14 well.
15 So, Mr. Miller, do you have a suggestion?
16 MR. MILLER: Yes. I went around the room after receiving
17 this submission and canvassed the interveners that are
18 here, and no one has indicated that they wish to make
19 submissions on this topic.
20 THE CHAIRPERSON: Okay.
21 MR. MILLER: So we have ICBC's original reasons for
22 maintaining confidentiality. We have Ms. Flewelling's
23 response, and then I believe it's appropriate to hear
24 from Mr. Ghikas in reply.
25 THE CHAIRPERSON: I'm just trying to find out what's the
26 most efficient way, because we'd have to take a break

1 anyway for the panel to consider Ms. Flewelling's
2 request.
3 MR. MILLER: So with respect to Ms. Flewelling's request,
4 because panel 1 will be done from this, there will be
5 no follow-up questions. So there actually is no real
6 urgency right now to issue a ruling, because if the
7 matter is judged to be confidential, then it's not
8 distributed. If it isn't confidential, the
9 interveners can only use it in their submissions
10 anyways. They won't be able to ask any more questions
11 on it.
12 THE CHAIRPERSON: Okay. On that note, then, perhaps what
13 we should do is -- I'm just going to do a little
14 clean-up here. And we'll take a break now. And then,
15 Mr. Bemister, how much time do you need to reorganize
16 us?
17 THE HEARING OFFICER: Ten or fifteen minutes.
18 THE CHAIRPERSON: So, three o'clock okay for you? Let's
19 make it five after three, and we can take the main
20 break and then we'll take a very short break after
21 that to put it back together, and finish off the day.
22 **(WITNESS PANEL ASIDE)**
23 **(PROCEEDINGS ADJOURNED AT 2:42 P.M.)**
24 **(PROCEEDINGS RESUMED AT 3:09)** **T15A**
25 THE CHAIRPERSON: Everyone, please be seated.
26 Mr. Ghikas, we're ready?

1 MR. GHIKAS: Yes, thank you. So I understand that I
2 should be speaking in response to Ms. Flewelling's
3 submissions now, and I apologize that I'm speaking to
4 your backs, but this will be relatively brief.
5 So first of all, ICBC has obviously filed
6 the submissions in advance. I won't belabour that. I
7 simply want to make a few points in reply to what my
8 friend Ms. Flewelling has put forward.
9 The crux of my friend's submission is the
10 information is necessary because she says on -- for
11 example on the final page of her submission, if ICBC
12 is maintaining a strategy of making offers that are
13 too low and unreasonable, it will very likely have the
14 effect of forcing a number of injured people to either
15 obtain representation or to proceed to trial.
16 Now, these cases are going to be well down
17 the road already, and a lot -- I would suggest to you
18 that the idea that the final offer is going to drive
19 people to representation immediately prior to the
20 trial is a stretch. But leaving that aside, my
21 submission fundamentally is that if the AIC's real
22 concern is managing claims costs, that AIC should not
23 be pursuing this endeavour at all to begin with. And
24 I say that for two reasons, because the first one
25 being with the substance of the information that they
26 are really seeking here.

1 How can you possibly, I ask, glean from a
2 sample size of 200 claims out of 40,000 claims, a
3 conclusion as to whether or not ICBC is maintaining a
4 strategy of making offers that are too low and
5 unreasonable? It's not a statistically, as we say in
6 ICBC's initial document, statistically significant
7 sample to begin with.
8 And when that's coupled with ICBC being
9 hamstrung in effect by not being able to disclose on a
10 granular basis what plaintiffs are coming into trial
11 asking for, it provides no meaningful information that
12 would allow the Commission to even inform them --
13 inform you about what ICBC's strategy is with the
14 other 40,000 claims. So that is the first point.
15 The second point is that AIC has really
16 wrapped itself, if I can use this, wrapped itself in
17 the flag of transparency on this. And ICBC fully
18 understands and expects that transparency in a
19 regulatory process is going to be appropriate most of
20 the time. But it is widely recognized in the legal
21 system that without prejudice communications are one
22 of the times when transparency is not in the public
23 interest. And I've put before you, I dug out at
24 lunch, because I thought it would be useful, a Supreme
25 Court of Canada case, and this case is called *Sable*
26 *Offshore Energy.*

1 And before I forget it should be marked as
2 the next exhibit which is B-20. Thank you, Mr.
3 Chairman. Thank you, Mr. Miller.
4 THE HEARING OFFICER: Marked Exhibit B-20.
5 **(SUPREME COURT OF CANADA DECISION IN *SABLE OFFSHORE***
6 ***ENERGY INC. ET ALL V. AMERON INTERNATIONAL CORPORATION***
7 ***ET AL,* MARKED EXHIBIT B-20)**
8 MR. GHIKAS: And what I'd like to do is start -- this has
9 a discussion about the importance, from a public
10 interest perspective, of without prejudice
11 communications. And if I can turn you to paragraph
12 13, the whole decision isn't very long but I just want
13 to highlight a few paragraphs. In paragraph 13, Madam
14 Justice Abella for the court is saying that:
15 "Settlement negotiations have long been
16 protected by the common law rule that
17 "without prejudice" communications made in
18 the course of such negotiations are
19 inadmissible…The settlement privilege
20 created by "without prejudice" rule was
21 based on the understanding that parties will
22 be more likely to settle if they have
23 confidence from the outset that their
24 negotiations will not be disclosed."
25 And I want to emphasize "from the outset".
26 **Proceeding Time 3:14 p.m. T16A**

1 If you turn over to paragraph 16, there is
2 a lengthy quote here from former Chief Justice
3 McEachern where he addresses the importance of
4 settlement privilege. And you will see his quotation
5 there indicates
6 ". . .the public interest in the settlement
7 of disputes generally requires "without
8 prejudice" documents or communications
9 created for, or communicated in the course
10 of, settlement negotiations to be
11 privileged. I would classify this as a
12 "blanket, *prima facie*, common law or 'class
13 privilege'", because it arises from
14 settlement negotiations and protects the
15 class of communications exchanged in the
16 course of that worthwhile endeavour.
17 In my judgment this privilege protects
18 documents and communications created for
19 such purposes from both production to other
20 parties to the negotiations, and to
21 strangers, and extends as well to
22 admissibility and whether or not a
23 settlement is reached. This is because, as
24 I have said, a party communicating a
25 proposal related to settlement or responding
26 to one usually has no control over what the

1 other side may do with such documents.
2 Without such protection, the public interest
3 in encouraging settlements will not be
4 served."
5 So we have in the current circumstances
6 documents that are -- sorry, data, some of which is
7 reflected in cases that are still under appeal. So
8 that falls within the traditional ambit of the desire
9 to maintain without prejudice communications. And as
10 Mr. Justice McEachern, Chief Justice McEachern
11 indicated, that applies to strangers to the litigation
12 as well. And we are all strangers to the litigation,
13 except for ICBC.
14 And whether or not a settlement has been
15 reached. Now, I underscore "whether or not a
16 settlement has been reached", because what that
17 implies is that it doesn't matter if cases are done
18 and over with, by virtue of a settlement, but that the
19 privilege remains in place. And that there is a
20 public interest encouraging settlements by allowing
21 people to come into the process with the expectation
22 that their negotiations will not be displayed in a
23 public forum like this one.
24 And there is recognition in paragraph 19
25 that there are circumstances where this is overcome,
26 but the circumstances require the party seeking

1 disclosure to prove -- so there is a shift of the
2 burden of proof -- that a competing public interest
3 outweighs. And if you look at the types of examples
4 where that has in fact been departed from and an
5 exemption given, it's things like fraud and undue
6 influence. And that in my submission provides no
7 support to the AIC's position in the current
8 circumstances. None of those circumstances even come
9 close to this one.
10 Because if you step back and you look at
11 it, Mr. Chairman, the ICBC's business is in dealing
12 with claims and engaging in settlement discussions.
13 That's their whole business. It happens 40,000 times a
14 year. And they have to go into these discussions
15 knowing that when they do that, every future
16 application that comes forward before the Commission,
17 a party isn't asking for the production of these
18 documents, going forward. That the public interest is
19 not served in these circumstances by putting forward
20 non-probative evidence that prejudices the sanctity of
21 without-prejudice communications and circumstances.
22 So my submission is that the position put
23 forward by the AIC should be seen for what it is, and
24 should be rejected. Thank you, subject to any
25 questions.
26 THE CHAIRPERSON: Thank you, Mr. Ghikas.

1 MR. GHIKAS: Thank you. Now, I believe --
2 THE CHAIRPERSON: Just for the record, because we're
3 going to reserve our determination until after the
4 presentation and when -- during the strike for re-
5 setting up, we will deliberate and come back with our
6 decision and go forward.
7 MR. GHIKAS: Thank you, Mr. Chairman. What -- I believe
8 that hands the microphone right back to me. And we
9 are at the point now where I believe the next witness
10 panel, Mr. Hearing Officer, should be affirmed.
11 **ICBC - PANEL 2**
12 **BRENT HALE, Affirmed:**
13 **PHIL LEONG, Affirmed:**
14 **GERI PRIOR, Affirmed:**
15 **ALISON GOULD, Affirmed:**
16 **JOHN DICKINSON, Affirmed:**
17 **JAMES McGINNIS, Affirmed:**
18 **EXAMINATION IN CHIEF BY MR. GHIKAS:**
19 MR. GHIKAS: Q: Mr. McGinnis, if I can start with you,
20 please. You're familiar with your pre-filed direct
21 testimony that was included in Exhibit B-9?
22 MR. McGINNIS: A: Yes, I am.
23 MR. GHIKAS: Q: You are, sir, the director, broker
24 accounts, at ICBC?
25 MR. McGINNIS: A: That is correct.
26 MR. GHIKAS: Q: And in that capacity, you're

1 responsible for the managers and staff who work with
2 brokers, correct?
3 MR. McGINNIS: A: Correct.
4 MR. GHIKAS: Q: Now, in the context of this
5 application, you're responsible for the materials
6 relating to ICBC's insurance distribution network,
7 correct?
8 **Proceeding Time 3:21 p.m. T17A**
9 MR. McGINNIS: A: Correct.
10 MR. GHIKAS: Q: Are there any changes you wish to make
11 to that evidence at this time?
12 MR. McGINNIS: A: No.
13 MR. GHIKAS: Q: Do you then adopt as your evidence in
14 this proceeding your direct testimony and the
15 materials for which you have indicated you're
16 responsible?
17 MR. McGINNIS: A: Yes, I do.
18 MR. GHIKAS: Q: Thank you.
19 Mr. Dickinson, are you familiar with your
20 evidence, your pre-filed direct evidence that has been
21 included in Exhibit B-9?
22 MR. DICKINSON: A: I am.
23 MR. GHIKAS: Q: Thank you. And you're the Director
24 Road Safety?
25 MR. DICKINSON: A: That's correct.
26 MR. GHIKAS: Q: And in that capacity, sir, you are

1 responsible for road safety programs and policy at
2 ICBC, correct?
3 MR. DICKINSON: A: That's correct.
4 MR. GHIKAS: Q: You've indicated in a response to
5 question number 7 of your pre-filed direct testimony
6 that you were responsible for matters involving road
7 safety programs in dealing with the development of
8 this file, correct?
9 MR. DICKINSON: A: Correct.
10 MR. GHIKAS: Q: And you have responsibility then for
11 road safety and insurance and driver's licensing
12 matters, correct?
13 MR. DICKINSON: A: Correct.
14 MR. GHIKAS: Q: Government initiatives in Chapter 8?
15 MR. DICKINSON: A: Yes.
16 MR. GHIKAS: Q: Insurance and driver licensing
17 performance measures in Chapter 9?
18 MR. DICKINSON: A: Yes.
19 MR. GHIKAS: Q: And other insurance and driver
20 licensing matters exclusive of the distribution
21 framework that Mr. McGinnis is speaking to.
22 MR. DICKINSON: A: That's correct.
23 MR. GHIKAS: Q: Okay. And similarly you contributed to
24 IRs on those topics.
25 MR. DICKINSON: A: Yes.
26 MR. GHIKAS: Q: Are there any changes you need to make

1 to that evidence at this time?
2 MR. DICKINSON: A: No.
3 MR. GHIKAS: Q: Do you adopt then, Mr. Dickinson, as
4 your evidence in this proceeding your pre-filed direct
5 testimony and the materials for which you have
6 indicated that you are responsible?
7 MR. DICKINSON: A: I do.
8 MR. GHIKAS: Thank you.
9 Mr. Hale, if we can jump down to you, do
10 you have before you a copy of your pre-filed testimony
11 included in Exhibit B-9?
12 MR. HALE: A: I do.
13 MR. GHIKAS: Q: You are the Director, Compensation
14 Services and Employee Relations for ICBC, correct?
15 MR. HALE: A: That's correct.
16 MR. GHIKAS: Q: And you indicate in your pre-filed
17 testimony that you helped prepare Chapter 7 Operating
18 Expenses, particularly with respect to staffing and
19 compensation, and that's correct?
20 MR. HALE: A: That's correct.
21 MR. GHIKAS: Q: Okay, and presumably the IRs on those
22 subjects as well?
23 MR. HALE: Yes.
24 MR. GHIKAS: Q: Do you have any changes that you need
25 to make to that evidence at this time?
26 MR. HALE: A: No, I don't.

1 MR. GHIKAS: Q: Okay. So then do you adopt as your
2 evidence in this proceeding your pre-filed direct
3 testimony and the portions of the evidence relating to
4 operating expenses and staff and compensation for
5 which you're responsible?
6 MR. HALE: A: I do.
7 MR. GHIKAS: Q: Thank you.
8 Mr. Leong -- oh, Ms. Gould, sorry. You're
9 familiar with your pre-filed direct testimony included
10 in Exhibit B-9?
11 MS. GOULD: A: Yes, I am.
12 MR. GHIKAS: Q: You're the Vice President of
13 Investments, correct?
14 MS. GOULD: A: That's correct.
15 MR. GHIKAS: Q: And in that capacity you were
16 responsible for the preparation of Chapter 5,
17 Investments and the information requests on that --
18 responses to information requests on that subject,
19 correct?
20 MS. GOULD: A: That's correct, yes.
21 MR. GHIKAS: Q: Are there any changes or corrections
22 that you need to make at this time?
23 MS. GOULD: A: Not at this time.
24 MR. GHIKAS: Q: And do you adopt then as your evidence
25 in this proceeding your prefiled direct testimony, the
26 section of the filing and responses to information

1 requests for which you are responsible?
2 MS. GOULD: A: Yes, I do.
3 MR. GHIKAS: Q: Thank you.
4 Mr. Leong, if I can turn to you, do you
5 have before you a copy of your pre-filed direct
6 testimony?
7 MR. LEONG: A: Yes, I do.
8 MR. GHIKAS: Q: And you hold a position of Director of
9 Financial Accounting and Reporting, correct?
10 MR. LEONG: A: That's correct.
11 MR. GHIKAS: Q: You are a chartered accountant?
12 MR. LEONG: A: Yes, I am.
13 MR. GHIKAS: Q: The response to question 7 indicates
14 that you dealt with specific matters in the
15 preparation of specific issues within Chapter 7, and
16 go on to indicate that with the departure of the
17 corporate controller at the end of 2013 you're now
18 responsible for the finance team which prepared and
19 analyzed and presented the operating expenses
20 information in Chapter 7, correct?
21 MR. LEONG: A: Correct.
22 MR. GHIKAS: Q: And also the financial measures in
23 Chapter 9.
24 MR. LEONG: A: Yes.
25 MR. GHIKAS: Q: Now, I understand that there are a
26 couple of changes that need to be made to evidence,

1 and if -- I believe we have handouts. Perhaps we can
2 circulate and pass forward. Sorry, Mr. Chair.
3 **Proceeding Time 3:26 p.m. T18A**
4 Okay, Mr. Leong, if we can just start --
5 we'll just mark these individually, but first of all
6 let's just start with the revised response to 2013,
7 first-round BCUC 115.2, the one with the table at the
8 bottom.
9 MR. LEONG: A: Okay, as you'll see at the bottom of the
10 table, let's start with the second row, which is the
11 annual compensation savings realized. And this is --
12 these were the savings -- these are the savings that
13 were anticipated for the reduction in the FTEs related
14 to the claims transformation. The corrected numbers
15 starting in 2013 is $1.6 million, and 2014 is $4.5
16 million, and in 2015 it's $20.5 million. And in the
17 next row, it's the basic portion of these savings.
18 It's starting in 2013, it's now $1 million. 2014,
19 it's $2.7 million. And 2015, it's $12.3 million.
20 Now, the reason for these changes were that
21 the original numbers included an amount for severance
22 related to these FTEs. And the severance amount is
23 actually the component of the transformation program,
24 and it's funded by optional. I do want to let
25 everyone know that this error is only in the IR
26 responses. The corrected numbers were used in the

filing, in the rate indication.

MR. GHIKAS: Q: Thank you, Mr. Leong.

So if we can have that document marked as Exhibit B-22, please. And if we -- oh, I'm sorry. 21. Thank you.

(DOCUMENT HEADED 2013.1 REVENUE REQUIREMENTS BCUC 115.2 REFERENCE: CLAIMS COST MANAGEMENT…CLAIMS TRANSFORMATION" MARKED EXHIBIT B-21)

MR. GHIKAS: Q: The next document is Round 1, Richard Landale 7.2.

MR. LEONG: A: Yes, it is. And if you go to page 2 of 2, it's essentially the same table. The second row, the annual compensation savings realized. And the corrected number is as in the previous IR, it's 1.6 for 2013, 4.5 million for 2014, and 20.5 million for 2015.

MR. GHIKAS: Q: Thank you. And again, the same reasons?

MR. LEONG: A: Yes, that's correct.

MR. GHIKAS: Q: Thank you. Can we mark this, Mr. Chairman, Exhibit B-22?

THE HEARING OFFICER: Marked B-22.

(DOCUMENT HEADED "2013.1 RR RL.7.2 REFERENCE: BC GOVERNMENT "REVIEW OF ICBC AUGUST 2012" - 5.2 COMPENSATION PARAGRAPH 28" MARKED EXHIBIT B-22)

MR. GHIKAS: Q: Now --

COMMISSIONER REVEL: May I clarify, Mr. Ghikas, those correct numbers were used in the rate calculations, were they?

MR. LEONG: A: Yes.

MR. GHIKAS: That's correct.

COMMISSIONER REVEL: Thank you.

MR. GHIKAS: Q: The final one, Mr. Leong, is TREAD Round 1, 22.1. Can you walk us through the change on that one, which I believe appears on the second page?

MR. LEONG: A: Yes. On the second page, in the very last sentence, it's the same set of numbers as we had referenced before in the previous two IRs, but specifically only for the 2014 year. The 2.2 is now 4.5 million. And which equates to approximately 2.7 million to the benefit of basic insurance policy holders.

MR. GHIKAS: Q: Thank you.

And that should be marked, Mr. Chairman, Exhibit B-23.

THE HEARING OFFICER: Exhibit B-23.

(DOCUMENT ENTITLED 2013.1 RR TREAD 22.1 REFERENCE: REVIEW OF INSURANCE CORPORATION OF BRITISH COLUMBIA (REVIEW) AUGUST 2012…" MARKED EXHIBIT B-23)

MR. GHIKAS: Q: Now, apart from those three, Mr. Leong, are there any changes that you wish to make at this time?

MR. LEONG: A: No, there is not.

MR. GHIKAS: Q: Okay. So do you -- with those changes, do you then adopt as your evidence in this proceeding your pre-filed direct testimony, the evidence in Chapters 7 and 9, as well as the responses on the topic of operating expenses and those chapters, as -- in this proceeding? Thank you. That was a bit of a mouthful.

Last, but not least, Ms. Prior. Do you have a copy of your pre-filed direct testimony with you?

Proceeding Time 3:32 p.m. T19A

MS. PRIOR: A: I do.

MR. GHIKAS: Q: You do. Walking through that, Ms. Prior, you are the chief financial officer of ICBC?

MS. PRIOR: A: That's correct.

MR. GHIKAS: Q: And you've been the chief financial officer for approximately 13 years, correct?

MS. PRIOR: A: That's correct.

MR. GHIKAS: Q: You are a Chartered Accountant Fellow registered with the Canadian Institute of Chartered Accountants?

MS. PRIOR: A: Yes.

MR. GHIKAS: Q: And you had overall responsibility for the filing and provided policy guidance where required, correct?

MS. PRIOR: A: That's correct.

MR. GHIKAS: Q: The response to question 8 indicates that you'll be speaking primarily to the context for ICBC's application and the policy and objectives behind ICBC's action to control operating expenses. And you also indicate that you have responsibility for speaking to parts of Chapter 10 related to ICBC's revised service plan and the annual report. Is that still correct?

MS. PRIOR: A: That's correct.

MR. GHIKAS: Q: Are there any changes you wish to make to the evidence at this time?

MS. PRIOR: A: No, I have none.

MR. GHIKAS: Q: Do you then, Ms. Prior, adopt as your evidence in this proceeding your direct testimony, the applications and the responses to information requests and the rebuttal evidence filed in this proceeding?

MS. PRIOR: A: I do.

MR. GHIKAS: Q: I understand you have an opening presentation?

MS. PRIOR: A: Yes.

MR. GHIKAS: Q: Would you please proceed with that.

OPENING PRESENTATION BY MS. PRIOR

MS. PRIOR: A: All right. They are worried because I usually project quite loudly, so I'll blast out people's ear drums.

All right. Good afternoon. So I'm happy here to present to you and talk to you about what panel 2 will be covering here today. So as Ms. Minogue talked about in her opening comments, the most significant pressure – and you've heard a lot about that from panel 1 – has been due to the rising cost of bodily injury claims. But at ICBC we've been working really hard to offset where we can, those cost pressures.

The first area is around operating costs, and you're going to hear about the work we've done in that area over the last few years. You've also heard from panel one about the work that the claims folks have been doing around managing the claims costs, but there's also other areas in the business that have also been putting some efforts towards trying to manage the overall costs.

And lastly, the investment income is a huge contributor to how it offsets some of the costs. So when we earn investment income on the policies and premiums that have been -- or policies that have been sold and premiums that are brought in, the investment income actually offsets about 11 percent of the total cost. So it's not insignificant. And Ms. Gould will answer any questions around the investment income aspect.

1 So I just want to go back to the chart to
2 explain out all of the various components of the
3 actual rate changes. So panel 1 covered all of the
4 blue bars on the lost cost forecast variance, the lost
5 cost trend. Some of the other changes, as well as the
6 red bar on the forecast variance exclusion. So those
7 were covered under Panel 1.
8 What Panel 2 is covering are these two
9 other elements in the green: the operating expenses
10 and the investment income. And both of those provide
11 favourable impacts to the overall rates.
12 So let's first talk about investment
13 income. The investments actually contributed a
14 favourable 1.1 percentage point to the overall rates.
15 And this is due to the shift in proportion of premiums
16 allocated to claims cost. So I just want to explain
17 what that actually means.
18 So for every premium dollar we get in, we
19 are paying out -- using that to pay out operating
20 costs and we use it to pay out claims cost. And over
21 the years what has happened is the claims cost portion
22 of that has been growing. So in other words, the
23 operating costs basically get paid within the year.
24 So operating costs generally are an annual basis. On
25 claims costs, however, that proportion of the premium
26 dollar gets held and it's invested because it isn't

1 paid out necessary within one year. As Ms. Taylor and
2 Mr. Wilson talked about, some of these BI, particular
3 BI claims costs, they can be paid out over two, three
4 or multiple years in the future.
5 So if that is the larger proportion of
6 every dollar that comes in, we are able to actually
7 hold onto that and invest it for a longer period of
8 time, and that factor is really what's contributing to
9 that 1.1 percentage point favourable impact on the
10 rates.
11 **Proceeding Time 3:37 p.m. T20A**
12 So the three bullets there basically
13 summarize that. The claims costs are trending at a
14 higher rate or higher proportion than the other costs
15 within our operation. They have a longer investment
16 horizon, and therefore they are earning more
17 investment income. And that, as I said, is a
18 favourable impact.
19 The other note I want to make around
20 investments is what -- this has also benefited the
21 basic rate. And so what's happened in -- I think it
22 was 2010, we actually had a decision from the
23 Commission that laid out the actual formulaic process
24 that we were going to use for two factors: the new
25 money rate, and the market equity -- or the yield,
26 sorry, on the equity.

1 So what we've done here is we've used those
2 formulas that have been agreed upon. So they have
3 been used in the exact same way. What we did do this
4 application is we took the decision in the May 2013
5 BCUC decision on the generic cost of capital, and
6 there were two factors in there. One was a risk-free
7 rate of 3.8 percent and we embedded that and used that
8 in our calculation, and then we also used the market
9 equity risk premium of 6.4 percent that was also laid
10 out in that decision. And those two factors were
11 built into our rate application.
12 So Ms. Gould, as I said, can talk more
13 about those factors, but I just wanted to point those
14 out. And the benefit of that is if we had not made
15 those changes -- and the 6.4 in particular is one that
16 was in the previous decision and said that we needed
17 to use that, and if every decision that came out we
18 would update it. The one on the 3.8, however, is one
19 that we have introduced in this time. It was not
20 explicitly laid out in the previous decision. So this
21 is our introduction of the 3.8 and we're happy to
22 discuss that on the panel. But had we not made those
23 changes, the basic rate change would have been about
24 one percentage point higher.
25 All right. I want to now move to operating
26 costs. So you see in the pie here, the green area is

1 the claims costs. So this was the coverage around
2 Panel 1. It's the majority of the costs of running
3 the business.
4 The blue part is the acquisition cost, and
5 that really is the premium taxes. So for every dollar
6 we bring in a premium, 4.4 percent of that goes back
7 to the provincial government. This is straight off
8 tax.
9 The other portion of that is what we pay
10 out to our brokers on a fee basis. So that accounts
11 for about 5 to 6 percent on basic of our total costs.
12 The offering cost is the rest of the cost
13 base for the organization on basic, and that includes
14 the cost of running the rest of the organization other
15 than claims. And so we're here to talk about those
16 elements today.
17 So there's been an increased focus on the
18 financial strategy, but before I jump into that I want
19 to add a little bit of context to what's been going
20 on, because there was a fair number of IRs that went
21 through all what we were doing around our operating
22 costs, and there was also a government review that,
23 while it is -- the results or the actions are outside
24 of the scope of this, we did answer some of the
25 questions and the IRs just to be fulsome and to be
26 transparent on the process. And while the costs --

1 and I'll take you through some graphs that will show
2 some of the patterns of why we went and increased on
3 some costs or increased some of our full-time
4 equivalence.
5 I think you have to go back a little bit
6 and say how were we running the organization and what
7 was the intention behind that? Because it wasn't
8 simply it just happened. It was actually the
9 organization going through and making a very
10 deliberate decision on some of the things it needed to
11 do to be sustainable in the future. Mr. Adair had
12 made a comment about some of our systems and what we
13 have in place, and today it's rather embarrassing to
14 say some of the things that we are faced with. And
15 back in 2008 we knew we had to adjust all of our
16 systems. We knew that a lot of our processes we had
17 in place were built for ICBC, not for necessarily ease
18 of our customers.
19 So in around 2008, 2007 and '8, we had a
20 real big focus on being more customer focused. And so
21 as opposed to doing everything from what we called an
22 inside out from what benefits ICBC, we started to do
23 research, what we called an outside in. What did our
24 customers look for? What did they expect out of us?
25 And we found that our processes as we mapped them out
26 were actually not the smoothest for our customers, but

they were limited -- we were limited in how we could ease this up without changing the underlying systems and processes.

So let me give you some examples. First of all, we were still backing up on microfiche. It was getting very hard to find any parts for the microfiche that we still had. We had dot matrix printers throughout our province. We had multiple, and we still have today, multiple databases around for our customers. So this means if you happen to go into a driver licence office and you give your new address whatever, and then you come in and do your insurance, the customer gets so frustrated, "Why don't you have my new information? I provided it to you. You're ICBC." Well, these databases don't actually link up and talk. And so we have that issue.

We today cannot accept a postdated cheque. Now, granted not everybody uses postdated cheques, but in this day and age for this business, that's absolutely not acceptable.

Proceeding Time 3:42 p.m. T21A

We still ask our brokers to batch. I don't know any other financial institution that still batches. And when we have our core claims reports, over the last couple of years we have improved them. But we used to have to pull in retired folks because

1 the programming language is not known by anybody else
2 in this organization. So, that's the stage we were
3 at. And while we were trying to get a customer focus,
4 we were very limited on what we could change or flex
5 to do that, with the existing processes and systems in
6 place.
7 And because they are so band-aided, to make
8 things work, and I call that just fixes here, fixes
9 here, let me tell you, it was a very huge undertaking
10 to go and do this. And so we had, through our cost
11 reduction work we started in 2001, and we reduced
12 costs by about 25 percent in the organization. And
13 they have been inflationary right until the point,
14 2007. We had saved up the money to embark on this
15 work, and as this work is going to cost about $400
16 million dollars. So we had nowhere near that in our
17 finances.
18 So when we approached government, and
19 government the same time noticed we had been building
20 up this capital, and this capital was built on the
21 optional side of the business. They came around and
22 they talked about taking some of that money off for
23 general revenue purposes. And we talked to them about
24 -- we have to embark on this huge undertaking of
25 replacing these systems, because the 1974 and 1980
26 systems were not going to last us going forward. We

1 made an agreement with them that we were allowed to
2 retain the $400 million out of the optional capital to
3 do this work, because it did come from policyholder
4 money, and therefore we would not be having rate
5 increases too, because if they took all the money,
6 this work could only be funded through future rate
7 increases.
8 So that is why the work is done under that
9 optional umbrella. So it's very specifically defined
10 under that. We got a Direction on what would be
11 included in that, and what would not. And so that's
12 been very clearly articulated.
13 So, during 2009 and '10, we started up this
14 transformational program. Why is there an impact, and
15 why am I talking about this in the context of how all
16 the numbers look corporately? Well, when we did that,
17 we did bring in special expertise. Companies like
18 ours do not go through transformational programs, or
19 things of this magnitude, very frequently. Matter of
20 fact in our past we'd done very little. So we didn't
21 have the skill sets to bring in. So in the IT area,
22 we created disciplines around information management
23 and data management. We didn't even have that. Data
24 stewards -- they were not job descriptions we even
25 had. So we had to bring in some expertise on that
26 front.

1 But we also brought in expertise, not just
2 to do the actual program work. We also brought in the
3 expertise to think about how does an insurance company
4 run in a more effective way and bringing in more of
5 some of the industry experience. Because what we did
6 not want to do is embark on this whole program and
7 replicate the way we were doing things. That would
8 have been a waste. So we wanted some of that new
9 thinking.
10 And so what we did is, in areas like on the
11 underwriting, we brought in expertise around the
12 commercial business. So we used to treat it all as
13 one bucket. Now we have a personal lines and a
14 commercial lines, which really are very two distinct
15 and approaches to how you manage that part of the
16 business.
17 We brought in expertise around analytics --
18 advanced analytics. How were we going to map this
19 data and collect the new data, in a way that would be
20 useful for us so we could do things, as the panel was
21 asking around things like fraud and being more
22 sophisticated, and how we do the analysis and help out
23 the claims division when they're seeing some of these
24 changes, what's going on.
25 So we are able to do some of that, and
26 we've brought this expertise in. So that's where some

1 of the numbers of staffing went up.
2 In 2011, what happened is the claims BI
3 costs were starting to rise again. And so, even
4 though we brought in some of those new skill sets, we
5 were starting to address our operational costs, to
6 peel back what we could, in a way to help to kind of
7 mitigate where the rising BI costs were coming in. So
8 I've referenced some of the IRs and pages where we've
9 put this in our evidence.
10 We've focused on what we call "vacancy
11 management". And vacancy management, to us, is when a
12 position became open, we used to basically
13 automatically backfill, because that's how we ran the
14 business. We really took a really hard look at all of
15 that, and determined, did it need to be backfilled, or
16 was there a better use for that resource? But a lot
17 of those positions remained empty, and that's how we
18 were able to start bringing the numbers down on our
19 FTEs.
20 And we also, in this 2011, had pulled some
21 of our staff out of the core operations -- or, sorry,
22 in 2010, pulled them out of the core operations, put
23 them on to the transformational program, and in 2011
24 we started to backfill those positions. We didn't do
25 it all in the same year. So you'll see in our numbers
26 the FTEs go down a bit in 2010 and will come back up

in '11.

In 2012, we were starting our work on what's called a functional review. So there is different ways you can organize a company. In the past, what we had organized, and we had been back and forth on this through various times in the organization, and I think you really do it based on what your strategy is and what you're trying to accomplish.

Proceeding Time 3:47 p.m. T22A

So what we had evolved to was that each of the divisions had their own support areas. And when I say "support areas" I mean that they would have their own people that would do some of the communications, the training. They were specialized within the areas of claims or whether that's insurance, and they would have their own analysts within those areas. And what we did is we thought one of the ways you can reorganize and tighten up the company is you bring those support functions together and you centralize them. And that's what is called a shared services model. And we started to do that work in 2012, and then the government review came in.

Now, the advantage to that model is it brings in your staffing a little bit tighter, but it also means that each of the business areas doesn't

1 have quite as much control and flexibility of what
2 they are going to -- because they have to go to a
3 central pot, and that central pot says, "What are the
4 corporate priorities?" So even though you, division,
5 might have some very interesting things you want to do
6 which could all be good, are they as big as priority
7 as what centrally we need to do and what we are going
8 to use the resources for. So just different models of
9 what we did.
10 That functional review work, that shared
11 services model was put on hold, and the actual
12 government review report actually reflects that. The
13 government review started in February and we had
14 about, I think it was between 13 to 15 auditors come
15 in for about four months. So we were servicing them
16 for about four months. So a lot of the work was on
17 hold during that period. We still were continuing
18 with our vacancy management. And when that was
19 wrapped up we went back to, at the end of the 2012,
20 and picked up the functional review again and did some
21 other suggestions that came out of the government
22 review.
23 So overall, our total FTEs were below 2008
24 levels and we had reduced by about 260 positions.
25 Actually more than 260 positions, and when we looked
26 at our 2011 plan, the commitment we had made to

1 government was that we were going to save 50 million
2 from the 2011 plan to the 2013. We actually are about
3 51 million.
4 So I'm going to talk a little bit about the
5 way the government review counted FTEs because it's
6 the same way that it is in the binders and some of the
7 IRs, it's laid out so you can calculate it, but it may
8 not look exactly line for line how I've got it here.
9 But the numbers are all in there.
10 So the increases in FTEs, how the
11 government reviewed when they came in looked at it, is
12 they included the resources that we were using for the
13 transformational program. So they said there, ICBC's
14 FTEs. And we said, "Well, that's why we're up.
15 That's why we've increased because we've had to bring
16 on these resources to do that." They said, "Yeah, but
17 you are still up."
18 They included the employees that we hired
19 to do some of the government initiatives and
20 directives that were given to us, but they excluded
21 all contractors. So ICBC was committed to reduce the
22 FTEs and reported on this same basis in the government
23 review report.
24 So let me just show you how this looks, and
25 I'm using that line because it's before -- it's a
26 before and after the government review process is what

1 that line represents.
2 So this is the base number of employees we
3 have for running the organization. This is the day-
4 to-day running of the organization. You can see back
5 in 2007-'8 we are about 4,934 - 4,947, so that's the
6 reference point the government review was using. You
7 can see when they came in early 2012, they would have
8 had 2011 numbers and we would have looked like we were
9 4,986. So we were about 50 up from that period and
10 that was to do with bringing in some of the expertise
11 we talked about, as well as the business expertise we
12 needed to map out the future state.
13 Now, you can see in 2012 with vacancy
14 management and 2013, our forecasts were considerably
15 down from that 2008 bar. The red bars on top here
16 show how the TP folks have been added on. So these
17 are the resources working on transformation program.
18 We call it TP. But this is the big $400 million
19 project. And you can still see, even in 2013, we have
20 a couple of hundred people on that.
21 And then what we've got here is I've
22 totalled all of them across. So in 4,947, 4,935, that
23 was the 2007-'8, you can see that in 2013. Even
24 adding on the TP resources and even adding on some of
25 the government initiatives where we had to hire on
26 staff, we are at a total projected of 4,938. So we

1 are definitely in line with that level.
2 Included in 2013 are 37 FTEs we had to hire
3 on because we took on the B.C. Services part, and they
4 are fully paid for by government. So we don't pay for
5 them and they are not in our numbers, but just for the
6 count purposes they are in. Because that's the way
7 the government review counted them.
8 So we think we've done a tremendous job in
9 bringing those numbers back down. We would have come
10 down after the transformational program work. We were
11 pushed by this review to bring things down a little
12 bit earlier, so things are a little bit tight right
13 now. I think my colleagues would agree, a little bit
14 tight right now, but we are managing.
15 **Proceeding Time 3:53 p.m. T23A**
16 So just to reconcile, if you looked at the
17 IR 120.1, our 2011 actual FTEs or 5175, if you look at
18 the 2013 we've got bargaining unit management and
19 confidential, and you take off the services card folks
20 that are fully paid for by government, at our 2013 net
21 is 4901, we've come down about 274. And you might
22 say, well, that's a little different than the 260
23 number as mentioned. This is a little more fine-tuned
24 than what we had at the time we were releasing those
25 numbers publicly at 260. There was a lot of
26 reconciliation work done as we were moving people

1 throughout the organization when functionally the work
2 happened.
3 So, on a productivity basis, which is one
4 of the metrics that is in the performance review
5 chapter, you can see that we've come down from 1.544
6 in 2009 to 1.385. That's the number of employees for
7 1,000 policies. And so that's a significant
8 reduction, about 10 percent, that we've been able to
9 achieve over that period of time.
10 So let's just look at the operating
11 expenses and what's happened with those. So again,
12 the blue is the base operating expenses, how we've
13 managed those over a period of time. So they're on
14 two different bases and I'll explain that that
15 actually does make a difference. So CGAAP is 2009 and
16 10, and we've restated IFRS in 2010, which actually
17 didn't change the base numbers. But in '11, '12 and
18 '13 there are some IFRS changes that add on and really
19 are accounting for tiny differences of how you account
20 for things. It's not actual additional money spent,
21 if I could put it that way.
22 So what's happened is the government
23 initiatives have added on costs through the various
24 years, and you know, somewhere between 28 to 34
25 million dollars have been those costs. And then if
26 you look at the actual IFRS implications, I'm going to

1 show them here in the green, those are the unique
2 items. They really have a lot to do with pension.
3 Mr. Leong is our pension expert and can answer any
4 questions on the reason for those changes, but I tend
5 to think of them more as accounting changes, not
6 actual dollar spend changes that will make a
7 difference in our numbers.
8 So again, overall the story is managing
9 costs quite well and how we've brought them down. We
10 can talk more about that on the panel.
11 So we also compare ourselves to industry.
12 I know there were some questions around that. And
13 when we look at this, our expense ratio, is the
14 operating costs of the business, so it excludes all of
15 the claims costs that were talked about in Panel 1,
16 but all the other costs of the business, and we put
17 them over the premiums earned. So that's what an
18 expense ratio is. It's a very key metric. Every
19 insurance company uses it. And a lower number is
20 better because that means for every premium dollar you
21 spend -- you bring in, sorry, you're spending less on
22 your operating costs. The industry ratio has always
23 been around 27 percent and 29 percent. This is the
24 2012 number. The 2013 number is not yet released.
25 ICBC's ratio is 21.1 percent. That
26 includes some work on the TP and that includes --

1 sorry, my mind is blank here. It's TP and it's also
2 got the restructuring costs in for 2012. So we did
3 have some severance costs in there. But we average
4 around 20 percent without those factors; with those
5 factors, about 21 percent. That's significantly,
6 that's 25 percent below what industry does. And on
7 the basic, at the bottom of the slide is the basic,
8 15.7 percent. So our forecast for 2013 is 15.7.
9 So we're running -- a model is very
10 different than other insurance companies. We pay way
11 more out every dollar to claims, our claimants, in
12 getting them well, fixing their vehicles, than most
13 other insurance companies because we are not on the
14 basic business building in a profit element.
15 So the impact on the basic rates, we've had
16 a 1.1 favourable impact from the investment income.
17 We've had a .6 favourable impact from the operating
18 expense savings. And we are always trying to balance
19 what we invest in our business, in the people, in the
20 tools, trying to balance that with how we manage the
21 costs and have good cost management.
22 And so with that, that's my opening
23 presentation.
24 THE CHAIRPERSON: Thank you.
25 MR. GHIKAS: Mr. Chairman, I would open it up to you if
26 you have any clarifying questions you need now.

1 Otherwise I think the panel is available for cross-
2 examination, which I guess would require a brief
3 shuffle.
4 THE CHAIRPERSON: Yes, I think we need a brief shuffle,
5 so -- oh, do you have a question?
6 COMMISSIONER REVEL: I have two or three questions, Ms.
7 Prior. Your base employees move from 4,947 down to
8 4,734. That's a full-time equivalent reduction on its
9 base employees. Can you give us an idea if you had
10 any increase in contract employees during that time
11 that might offset that at all?
12 MS. PRIOR: A: I would say not in our base operations.
13 Certainly we did use contractors in --
14 COMMISSIONER REVEL: No, but you haven't shifted in terms
15 of the everyday operation. You haven't --
16 MS. PRIOR: A: Not -- if we look at the end point, in
17 the middle we might have used a bit of contractors to
18 supplement, so when we would pull people to do TP, at
19 points we'd bring contractors in temporarily till we
20 could hire up.
21 COMMISSIONER REVEL: Yes.
22 MS. PRIOR: A: But if you look at kind of the end
23 points there, no, we haven't increased contractors to
24 do our base work.
25 **Proceeding Time 3:58 p.m. T24A**
26 COMMISSIONER REVEL: Sorry, you're not using that in lieu

of FTEs.

MS. PRIOR: A: No, they're mainly on project --

COMMISSIONER REVEL: And the last question relates to your last -- of the slide on page 13. You talked about the industry comparison on expense ratios.

MS. PRIOR: A: Yes.

COMMISSIONER REVEL: Industry was 28.2 and you're 21.1. Is your -- is that 21.1 -- I missed it. Is that based on your basic insurance, or is that across the whole corporation?

MS. PRIOR: A: That's a corporate. That's the corporate number. The basic number down below is 2013, about 15.7.

COMMISSIONER REVEL: Yes. Thank you very much. That's it.

MS. PRIOR: A: You're welcome.

THE CHAIRPERSON: If there are no other questions, then we will adjourn so we can -- whatever time it takes to switch it back over. Five minutes? Five minutes.

(PROCEEDINGS ADJOURNED AT 3:59 P.M.)

(PROCEEDINGS RESUMED AT 4:07 P.M.) **T25A**

THE CHAIRPERSON: Please be seated.

I understand there is filing to be done, Mr. Ghikas.

MR. GHIKAS: There is, Mr. Chairman. This is a response to an undertaking by Mr. Miller. And it is referenced

at Volume 4, page 645, lines 18 to 24. The question, "Provide an update to the medical rehab frequency and severity for the 2013 year-end." And that, as the next exhibit, I believe is B-24.

THE HEARING OFFICER: Marked B-24.

(ANSWER TO BCUC UNDERTAKING FROM VOLUME 4, PAGE 645, LINES 18 TO 24 MARKED EXHIBIT B-24)

MR. GHIKAS: And that's it for me. I believe it's over to Mr. Landale, or to yourself. I leave it to you.

THE CHAIRPERSON: Thank you. So, panel, and ladies and gentlemen, Mr. Landale is going to go first. And what we'll do is, I believe he has about half an hour or so. We'll try and get him finished this evening, so that way he is completed, and then we will adjourn after that. So we may go past -- a little bit past 4:30. But hopefully not too much, unless, Mr. Miller, you have something else to --

MR. MILLER: You had just indicated earlier, Mr. Chairman, that you may rule after you had come back.

THE CHAIRPERSON: Oh, yes. Thank you. Thank you for reminding me of that.

So, with regard to the AIC request and the ruling on that, and the arguments for and against, we will postpone our ruling until tomorrow morning, at which time we will make our decision known.

MR. MILLER: Thank you, Mr. Chairman.

1 THE CHAIRPERSON: Thank you, Mr. Ghikas.
2 All right, Mr. Landale. You're up.
3 MR. LANDALE: Good afternoon.
4 THE CHAIRPERSON: Good afternoon.
5 **CROSS-EXAMINATION BY MR. LANDALE:**
6 MR. LANDALE: Q: I only have five questions. For the
7 panel, I've put a book together and submitted as IR 1
8 all the way through. So I don't know whether you
9 actually have a copy of what I put together. It was
10 February the 3rd. I can see, Mr. Leong, you've got it.
11 Thank you very much. That's what I'm using as my
12 script.
13 So turning to page that has question 2.6.
14 The illustrations mentioned to a greater extent are
15 illustrations of MCT and solvency. Capital build to
16 rate change. The MCT solvency starting at 130
17 percent. Will ICBC please state for the record what
18 are the solvency figures in respect to the current
19 application, and December the 31st, 2013. Please
20 provide it in a table.
21 MR. LEONG: A: If I could understand it, I believe you
22 are asking what the submitted 2013 year-end MCT
23 figures are?
24 MR. LANDALE: Q: Correct.
25 MR. LEONG: A: ICBC's 2013 year financial information
26 is currently being audited right now, and as MCT is a

calculation derived from financial information, the numbers are still subject to change. As well, financial information of ICBC is not considered official financial record until approved by the board, which will happen in early March. And until then, we cannot release any of the 2013 year-end financial information.

MR. LANDALE: Q: I followed up in my question, because I somewhat anticipated what you were going to say. We may not be able to address MCT and solvency by May the 1st. You've corrected that to some time in March. But the answers to this question will have a major relevance on ICBC's 2014 revenue requirement application. Is that true or not?

MR. LEONG: A: I expect that, yes, the final December, 2013 MCT number will be a consideration, obviously, in terms of our next filing.

MR. LANDALE: Q: Is that a yes?

THE CHAIRPERSON: You indicated that this information would be available at the beginning of March. Is that correct?

MR. LEONG: A: Yes, I believe the board meeting is March 6th.

THE CHAIRPERSON: March 6th.

MR. LEONG: A: And, if approved, then I suspect that we can file financial information confidentially with the

1 Commission.
2 THE CHAIRPERSON: Could you do that, please?
3 MR. LEONG: A: Yes.
4 THE CHAIRPERSON: Take that as an undertaking?
5 MR. LEONG: A: Specifically, the MCT number?
6 **Proceeding Time 4:12 p.m. T26A**
7 THE CHAIRPERSON: Mr. Leong, please put a placeholder on
8 that and we will wait until we hear more of the
9 testimony and then we'll make a decision as to whether
10 we would like you to undertake that undertaking and
11 what we would like you to provide. So definitely the
12 MCT but there may be some other elements of the
13 financial statements and/or reports from ICBC should
14 be issued on -- or shortly after the board has
15 approved it.
16 In a confidential basis. We do understand
17 that.
18 MR. LEONG: A: Mm-hmm.
19 THE CHAIRPERSON: Is that --
20 MR. LEONG: A: Yes, that's possible.
21 **Information Request**
22 MR. LANDALE: Thank you very much, Mr. Chairman.
23 Q: Question 4a is what I've described. Figure 5.5
24 shows the CPI of 1.74 percent. In fact, the federal
25 government has said the CPI is .09. Do you agree with
26 that?

MS. GOULD: A: I can answer this question. As of December 31st, I believe, the headline CPI was 1.2 percent.

MR. LANDALE: Q: I'm sorry, I can tell you it's .9 because that's what my cheque went up by. That's a fact. Can you reconcile the difference?

MS. GOULD: A: In terms of the table on Figure 5.5, is that what you're asking me to reconcile?

MR. LANDALE: Q: I'm asking you to reconcile the difference of what I think you've forecast in Figure 5.5 of 1.74 when in fact the actual CPI is .9 and I'm assuming there is a reconciliation difference that may have an impact on this application.

MS. GOULD: A: No, the CPI numbers that are provided in Figure 5.5 are from a multi-dealer survey that is utilized when we calculate what is called the new money rate. And the new money rate is the rate that we assume policies will be -- premiums from our policies will be invested.

The CPI component of that formula relates to a very small piece of our new money rate formula. If we go to Figure 5.6 we see that the formula there is broken into three components, a component that weighted 72 percent, and that really relates to our fixed income holdings; a component that is weighted 22 percent, and that relates to our equity holdings or

1 ties to our equity allocation within our portfolio;
2 and then 6 percent, which is our targeted return on
3 our real estate assets.
4 Now, that third component, that 6 percent,
5 utilizes these inflation forecasts from the multi-
6 dealer survey to calculate or to come up with an
7 assumed return on our real estate holdings within our
8 investment portfolio.
9 So this methodology, this formula has been
10 approved by the Commission to calculate or to come up
11 with an assumed return on our premiums that are coming
12 in for the policy year 2013.
13 MR. LANDALE: Q: Now, just to finalize my last question
14 and this is more just for me. And I've said is there
15 any ripple-down effects on the PY rate indication
16 because of the CPI difference?
17 MS. GOULD: A: Could you please repeat that?
18 MR. LANDALE: Q: Sure. The last part of my question is
19 "and any ripple-down effects on the PY 2013 rate
20 indication?" Basically I'm asking is the CPI is .9
21 percent. As you drill down, taking into account your
22 investment approved formula, does that CPI in that
23 formula have a calculation that could affect the PY
24 2013 rate indication?
25 MS. GOULD: A: No. No.
26 MR. LANDALE: Q: Thank you. Thank you. Jumping to

1 4.7(b), that's a question at the very bottom of that
2 particular page. I accept that the CPI basket is
3 different from the ICBC basket. I really would like
4 to say something strongly here, but the oral hearing
5 protocols restrain me.
6 What I'm trying to say is, as a senior, the
7 basket is the basket, and for me, that's this wallet.
8 I still -- and I take a lot of respect. The CPI is
9 what Mr. and Mrs. Average live on, and I cannot
10 understand why you do not have it embedded into your
11 calculations.
12 MS. PRIOR: A: I think, Mr. Landale, just to reiterate
13 what Ms. Gould said, though, is that for simplicity
14 sake, the whole calculation around things like the new
15 money rate or the return on equity went through an
16 oral hearing and so the decision that was made was to
17 be consist from year to year, or from application to
18 application so we weren't having to debate what would
19 that calculation be.
20 So what was landed on by the Commission was
21 there would be a formula we would apply, and we have
22 complied with that formula.
23 **Proceeding Time 4:19 p.m. T27A**
24 MR. LANDALE: Q: Okay. Does that refer to that earlier
25 decision by the Commission this year? What you're
26 talking about relates to that decision? In May was

1 it?
2 MS. PRIOR: A: No, it wasn't. Sorry, it was a
3 different decision. We, ICBC was in a hearing and the
4 formula was discussed at that hearing and I think the
5 decision came out in 2010. The one that I referred to
6 is one that's more recent, 2013, and it again dictates
7 which numbers to place into that formula.
8 MR. LANDALE: Q: Appreciate the clarity, thank you.
9 I've only got two questions to go. Last, just next
10 one is 7.5. I do believe this response is incorrect.
11 One only has to review ICBC's responses to my
12 questions of 7.1 and 7.2 to realize compensations are
13 rising and out of control. What controls do you have
14 in your rising compensations? What is the measures
15 that you control that by? CPI is one example.
16 MR. HALE: A: There's a number of different measures
17 that ICBC has undertaken in recent years to ensure
18 compensation controls, the first of which is that
19 there have been no base wage increases for fiscal
20 years 2013 and nor will there be for 2014. 2015 is
21 unknown at this point in time. There have been a
22 number of controls put in place as of January 1st, 2014
23 with respect to compensation arising out of the
24 government review and secondarily arising out of the
25 Crown corporation executive compensation policy that
26 went into effect in August of 2012.

1 MR. LEONG: A: And I'd just like to add onto Mr. Hale's
2 comments in terms of compensation increases. If I can
3 reference the Commission to Figure 7.4, page 7-14 in
4 the application, there is a table of compensation by
5 employee group.
6 And further to Ms. Prior's earlier
7 presentation, if you exclude the TP compensation, the
8 staff in the TP, this is the base compensation and you
9 can see that the 2013 forecast compensation is only $2
10 million higher than the 2009. So compensation has
11 been quite flat.
12 MR. LANDALE: Q: But that lower number is just -- could
13 even be a reflection of reduced FTEs, couldn't it?
14 MR. LEONG: A: That's correct. So as Ms. Prior's
15 presentation showed that we've reduced the FTEs over a
16 few hundred, about 274 in the presentation, we have to
17 understand as well that there are annual salary
18 increases, especially when it comes to the collective
19 bargaining agreement that we have, our bargaining unit
20 folks, and that is an offsetting to the reduction in
21 the FTEs.
22 MR. LANDALE: Q: Thank you. The next part of that
23 question is the fact some downsizing as discussed in
24 TREAD 22.1 has taken place. Nothing was discussed
25 regarding bonuses and incentives. Why is that?
26 MR. HALE: A: Are you specifically referring to TREAD

22.1?

MR. LANDALE: Q: Yeah. Within the whole range of talking about compensation. But this particular question is to bonuses and incentives.

Carry on --

Proceeding Time 4:24 p.m. T28A

MR. HALE: Just wait.

MR. LANDALE: Q: I'll just -- to give a little more context to the question. And since reading TREAD 21.12, the very last table -- no, I'll wait for that part. Sorry.

MR. GHIKAS: Just for clarity, Mr. Chairman, perhaps Mr. Landale can repeat the IR reference, because I believe he gave a couple of different ones there.

MR. LANDALE: Q: The original IR is -- I've got my R-R-Rs all mixed up. 2301 -- 2013.1, RR, RL, 7.3-4. And I'm on page 2 of that. Am I? No, I'm not on -- oh, golly, I got mixed up. Scratch that.

It's 2013.1, RR, RL, 7.5. I'm so sorry.

MR. HALE: A: So we have that. I'm just wondering if you're referring to a specific IR in the box below.

MR. LANDALE: Q: Yes. In your response to my IR, you refer to, in the very last sentence of the first paragraph, "Please see the response in Information Request 2013.1 RR TREAD 22.1."

MR. HALE: A: Thank you.

1 MR. LANDALE: Q: That's where I got it from.
2 MR. HALE: A: Thank you.
3 MR. LANDALE: Q: Thanks.
4 MS. PRIOR: A: I'm sorry, could you specify the
5 question?
6 MR. LANDALE: Q: Yes, really, that whole question, I'm
7 going to be dealing with is, there is no discussion
8 about bonuses and incentives. In ICBC's responses.
9 MR. HALE: A: I apologize, I'm just trying to get the
10 right IR. The IR that you're referencing at TREAD
11 22.1 refers to major flaws in ICBC's budgeting
12 processes. I'm not sure that that's the correct
13 reference.
14 MR. LANDALE: Q: Oh.
15 MR. HALE: A: It doesn't reference --
16 MR. LANDALE: Q: Well, by-pass the question --
17 MR. HALE: A: 21.2 references the statement of
18 executive compensation. And in respect to your last
19 statement regarding Mr. Horton --
20 MR. LANDALE: Q: Yes?
21 MR. HALE: A: Is that --
22 MR. LANDALE: Q: Well, as I was reading the table that
23 was given to TREAD. It showed that Mr. Horton got
24 paid --
25 MR. HALE: A: Yes.
26 MR. LANDALE: Q: -- 38,728.

1 MR. HALE: A: Okay, yes.
2 MR. LANDALE: Q: With the caption of parking. And I --
3 wow.
4 MR. HALE: A: Yes. I know how that -- okay. So that
5 is reference TREAD 21.1.2.
6 MR. LANDALE: Q: Yes.
7 MR. HALE: A: And in regards to the last table, if you
8 refer to item K, in the last column, you will see the
9 figure that you're referencing is $38,728. If you go
10 down to the K note of reference, below the table, it
11 references that that dollar value is a summary of
12 salary continuance and corporate paid parking. And so
13 what I did was went back to that figure and it
14 probably should have been segregated out more clearly.
15 The paid parking portion of that figure was only
16 $692.41.
17 MR. LANDALE: Q: Okay.
18 MR. HALE: A: And the salary continuance portion was
19 $38,035.37. So that was a bit confusing. But the
20 parking was only under $1,000. I would have great
21 concern if parking --
22 MR. LANDALE: Q: Good of you to explain it. Thank you.
23 MR. HALE: A: -- was $38,000.
24 MR. LANDALE: Q: Me too.
25 MR. HALE: A: Yeah.
26 MR. LANDALE: Q: I thought they were working for

1 Imperial Parking.
2 MR. HALE: A: Yeah, that was a bit confusing. So, I
3 apologize for that.
4 **Proceeding Time 4:28 p.m. T29A**
5 MR. LANDALE: Q: My last question, and we will get it
6 done very quickly. It's my IR 2, 2.10 and then I have
7 a caption in your response and it's all to deal with,
8 where does ICBC think I came up with the manager times
9 8 from the application? And if you go back one page,
10 you'll see that I have an exhibit RJL, Exhibit 08 and
11 in the bottom of the little table, you can see I've
12 tot a solid black line that says, "Exec/manager times
13 8". That number that I used in that table came from
14 your application, and the inference I take from it is,
15 is that the executives only supervise eight people.
16 That's the inference I take. And then within those
17 eight people obviously there's lower level managers,
18 section leaders, whatever you wish to call them.
19 MR. LEONG: A: Okay. When we looked at your graph in
20 the IR and specifically related to those two line
21 items in your graph where you had -- and I'm going
22 back to the original question with the graph. We
23 believe that your managers divided by 1,000 policies
24 and the numbers being 2009, it says 1.9, 1.9 for 2010,
25 1.8 for 2011 and 1.8 for 2012, and 1.9 for 2013, we
26 believe that that is -- you got that from Figure 7.8

which our span of control table.

MR. LANDALE: Q: That is correct. I put that in my footnote on that page.

MR. LEONG: A: So the span of control is a ratio of 1 manager to nine staff, but what you've done is you've converted that ratio into a number, a 1.9 and then subsequently in the next row, you've taken that 1.9 for example in 2009 and divide it by eight to get to the 0.24.

MR. LANDALE: Q: That seems a reasonable thing to me.

MR. LEONG: A: I guess where we think it's incorrect is that you've taken a ratio and converted it into a number.

MR. LANDALE: Q: Okay. Then let's just correct me.

MS. PRIOR: A: Okay, so I think what we are saying is, when we have a ratio span of control what that means is there is a manager in place, they are looking after eight to nine people. So this 1 to 9, that means a manager, they have nine staff reporting to them. If it's 1 to 8, it means they have eight staff reporting to them. You've taken that ratio and made it 1.8 and used it in a calculation, or 1.9 and it's not a number, it's a ratio.

MR. LANDALE: Q: My premise is wrong.

MS. PRIOR: A: Does that clarify it?

MR. LANDALE: Q: Okay, so I will end on a wrong note.

MS. PRIOR: A: It's okay.

MR. LANDALE: Q: Thank you so much for -- all of you. I'd like to thank panel 1 and I'd like to thank panel 2. I'd like thank the Commission and all the intervenors for putting up with me. Thank you.

THE CHAIRPERSON: Thank you, Mr. Landale.

Mr. Miller, if there's nothing else?

MR. MILLER: I'm not aware of anything further, Mr. Chair.

THE CHAIRPERSON: So given that there's nothing else for this evening, I'd like to thank panel 2 for being here and we're back on deck at 9 o'clock tomorrow morning.

(PROCEEDINGS ADJOURNED AT 4:32 P.M.)