IN THE MATTER OF

INSURANCE CORPORATION OF BRITISH COLUMBIA

2007 REVENUE REQUIREMENTS APPLICATION

DECISION

January 9, 2008

Before:

L.F. Kelsey, Panel Chair and Commissioner
P.E. Vivian, Commissioner
A.W.K. Anderson, Commissioner

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1.0 INTRODUCTION AND BACKGROUND

1.1 The Application

On March 16, 2007, the Insurance Corporation of British Columbia ("ICBC" or "Corporation") submitted an application ("Exhibit B-1" and "Application") to the British Columbia Utilities Commission ("BCUC" or "Commission") for approval of the 2007 Revenue Requirements for Universal Compulsory Automobile Insurance ("Basic"). In the Application, ICBC applies for a 3.3 percent increase in Basic insurance rates. For all but a few rate classes as detailed in Section 1.5 below, ICBC applies pursuant to section 89 of the Utilities Commission Act ("UCA") for the increase in Basic insurance rates to be implemented on an interim and refundable basis effective May 1, 2007.

ICBC requests, if in the Commission's final Decision respecting the Application for a permanent rate increase the Commission determines that a portion of the interim rate increase be refunded, that any refunds be dealt with in the manner as set out by ICBC in the Application.

In August 2005 ICBC filed its 2006 Revenue Requirements Application with the Commission which included a Basic Insurance Capital Management Plan, which was revised in its January 2006 filing. In the July 2006 Decision ("2006 Decision") (Commission Order No. G-86-06), the Commission determined that the Minimum Capital Test ("MCT") (as defined in the regulations and guidelines of the Office of the Superintendent of Financial Institutions) ratio requirement in Special Direction IC2 of 100 percent is to be considered a minimum. Further, the 2006 Decision directed ICBC in its next revenue requirements application to include evidence of the dynamic capital adequacy testing ("DCAT") indicated range for the capital requirements of the Basic insurance business and the rate indication reflecting a MCT ratio within the DCAT indicated range. Following that direction, ICBC seeks Commission approval of its Basic Insurance Capital Management Plan proposal to achieve capital available of 130 percent of MCT. In addition, with this Application ICBC files plans and other information that responds to directions from the Commission in the July 2006 Decision.

1.2 Historical Proceedings before the Commission

Section 1.2 in the Commission's 2006 Decision provides a historical account of proceedings for the period from the inception of regulation of ICBC in 2003 to the beginning of the proceeding dealt with in that Decision. That information will not be repeated here. The 2006 Decision approved a 6.5 percent increase in Basic insurance rates for all new or renewal policies with an effective date after March 14, 2006. In addition, as noted in Section 1.1, the 2006 Decision determined that the establishment of a 100 percent management target for a MCT ratio for Basic insurance is not adequate and directed ICBC to prepare, and file within 120 days of the date of that Decision, a comprehensive capital management plan for its Optional insurance line of business and for Total Corporation and in its next revenue requirements application, include the following evidence:

1. the DCAT indicated range for Basic Insurance;
2. supporting evidence and rationale in any case where the management capital target MCT ratios is less than DCAT indication, including support for deviation from accepted actuarial practice;
3. the rate indication reflecting a capital management MCT ratio within the DCAT indicated range.

(July 2006 Decision, p. 29)

In the 2006 Decision, the Commission noted the impact of an effective IT operation on the efficiency of ICBC and the depth of data available to address business issues, all of which ultimately affects rates. Therefore, the Commission ordered ICBC to file with the next revenue requirements application, a Benchmarking Plan which encompasses a broader range of metrics along with a timeline which support the long term IT strategic direction of the Corporation. Further, ICBC was directed to prepare and file with the next revenue requirements application, a status report on the completion of the recommendations from the three benchmark reports along with the benefits and cost savings arising from their implementation. The Commission found ICBC's capital spending of $30 million with approximately half allocated for IT spending to be significant and expressed the view that it may have a material impact on the rates especially for multi-year capital projects. The

Commission requested ICBC to provide detail on projects of $500,000 or greater along with an annual capital expenditure plan for review and comment by the Commission prior to these projects being undertaken (2006 Decision, p. 42).

The Commission noted that the Corporation's Capitalization Policy shifts ICBC's capital spending into operating expenses which could have a material impact on rates. ICBC was directed in its next revenue requirements application to show the effect on rates of the employment of a capitalization policy mirroring the practice of British Columbia Hydro and Power Authority ("BC Hydro") since the commencement of the 2005 policy year in all cases (2006 Decision, p. 43).

The Commission directed that ICBC, in its next revenue requirements proceeding to explain why salvage administrative expenses incurred by a private insurer are not paid by ICBC when there is a subrogated claim against ICBC by the private insurer (Exhibit, 2006 Decision, p. 54).

The Commission directed ICBC to file a comprehensive Road Safety action plan, including program objectives, within 90 days of the 2006 Decision and to file progress reports on the implementation of the plan on a quarterly basis thereafter. The filing is to show how these programs will be planned and monitored effectively by ICBC in order to achieve the expected results.

The Commission directed that ICBC report back to the Commission within a period of 90 days from the date of the 2006 Decision with a suggested revised format for the Owner's Certificate that would set out all of the non-insurance costs now included in the Basic Insurance premium including, without limitation, such items as:

- the contributions made to government programs under any memoranda;
- Road Safety and Loss Management programs;
- enhanced law enforcement contributions; and
- Premium Tax amounts.

The Commission directed ICBC to report to the Commission, within 90 days of the 2006 Decision on what operating parameters the Corporation could provide to the Commission to enable timely tracking of the Basic insurance line of business and the MCT status of the Optional insurance line of business, in order for the Commission to be in a position to track the ability of the Corporation to meet or exceed the various MCT targets established from time to time and to anticipate possible changes to rates.

1.3 Applicable Legislation

ICBC is governed by the *Insurance Corporation Act* and the *Insurance (Vehicle) Act* and regulations under it. *The Insurance (Vehicle) Act* came into effect June 1, 2007. Until then the *Insurance (Motor Vehicle) Act* governed ICBC. ICBC is also subject to specific sections of the *Utilities Commission Act*. As a Crown corporation, ICBC is subject to legislation applicable to all Crown corporations, such as the *Budget Transparency and Accountability Act*, the *Financial Information Act*, the *Financial Administration Act*, and the *Freedom of Information and Protection of Privacy Act*. In addition, ICBC has administrative and other duties and obligations under various motor vehicle related acts and regulations, such as the *Motor Vehicle Act*, the *Commercial Transport Act*, the *Motor Vehicle (All Terrain) Act*, and the *Social Service Tax Act*.

In 2003 amendments to the *Insurance Corporation Act* were enacted, which caused ICBC's Basic insurance rates to be regulated by the Commission. In 2004 the Lieutenant Governor in Council issued *Special Direction IC2 to the BC Utilities Commission, BC Regulation 307/2004* ("IC2") which provided direction to the Commission respecting its regulation of ICBC. Among the provisions of IC2 that are relevant to this Application are:

- Section 3(1)(b)(ii) provides that the Commission must set rates for Basic insurance that allow ICBC to achieve, by December 31, 2014, and thereafter maintain, capital available in relation to its Basic insurance business equal to at least 100 percent of MCT.

- Section 3(1)(c) provides that for each year that the Commission fixes Basic insurance rates, the Commission must fix those rates on the basis of accepted actuarial practice so that the rates allow ICBC to collect sufficient revenue to pay certain identified costs and to achieve or maintain the capital required.

- Section 3(1)(e) provides that the Commission must ensure increases or decreases in Basic insurance rates are phased in such a way that those rates remain relatively stable and predictable.

Order in Council ("OIC") No. 735 of October 5, 2005 amended Section 3 of IC2 to add paragraph c.1, which provides that the Commission must, when regulating Basic insurance rates, regulate and fix those rates in a manner that recognizes and accepts actions taken by ICBC in compliance with government directives issued to ICBC.

A government directive of January 24, 2007, with respect to the capital transfer approved by OIC No. 38/07, February 2, 2007, directed ICBC to transfer $100 million of its Optional insurance capital to its Basic insurance business. ICBC has complied with this government directive and the capital transfer is reflected in the financial information in the Application (Exhibit B-1, pp. 2-2, 2-3).

1.4 The Regulatory Process before the Commission

On March 16 and March 19, 2007, ICBC submitted two applications to the BCUC. The March 16, 2007 application (previously identified as "Exhibit B-1" and "Application") was for approval of the 2007 Revenue Requirements for Basic insurance ("RRA"). The March 19, 2007 application was for approval of certain rate design matters ("RDA"), again for Basic insurance. On March 19, 2007, the Commission issued Order No. G-32-07 ordering ICBC to lead a Workshop with respect to the two applications on the morning of Monday, April 23, 2007 and determined that the applications will be reviewed in accordance with a Regulatory Agenda and Timetable to be established following a Pre-hearing Conference to be held in the afternoon of Monday, April 23, 2007.

Following the Pre-hearing Conference the Commission issued Order No. G-48-07 setting down a Regulatory Agenda and Timetable and ordered that the RRA Application would be reviewed in combination with the RDA but each application would have its own separate record of evidence, and the RRA Application would be examined in a Written Hearing process for the non-actuarial matters with two rounds of Intervenor Information Requests ("IR"). Further, Order No. G-48-07 determined that actuarial matters from the RRA Application would be examined with one round of Intervenor IRs and an Oral Public Hearing in accordance with the Regulatory Agenda and Timetable. Actuarial matters were identified as Chapter 4 Actuarial Rate Level Indication Analysis, Chapter 5 Update on ICBC Response to Bodily Injury Claims Costs, Chapter 6.1 Basic Insurance Capital Management Plan - Management Decision, and Chapter 6.2 Basic Insurance Capital Management Plan.

The Oral Public Hearing commenced on Monday July 30, 2007 and concluded in the afternoon of Tuesday, July 31, 2007. Following submissions from ICBC and Intervenors, the Commission Panel determined that ICBC Argument was due September 14, 2007, Intervenor Argument on September 28, 2007 and ICBC Reply Argument on October 9, 2007 (T4:462). The Commission Panel notes that ICBC and Intervenors, in most cases, refer to Argument as Submission when filing material in this Hearing.

1.5 Summary of Commission approvals sought in the Application

In its Application ICBC seeks approvals for the following:

- a 3.3 percent rate increase on a permanent basis for all new or renewal policies with an effective date on and after May 1, 2007 that (i) have premiums determined through the use of the Schedule of Basic Insurance Premiums as filed with the Commission, excluding rate class 800 and rate classes 900 - 906 and excluding policies relating to vehicles located on isolated islands; or (ii) have premiums determined under a Fleet Reporting Policy (together the “Plate Owner Basic and Fleet Reporting Policies”).

- pursuant to section 89 of the *Utilities Commission Act*, for the rate increase of 3.3 percent on an interim basis for all new and renewal Plate Owner Basic and Fleet Reporting Policies with an effective date on and after May 1, 2007. This request by ICBC was approved by Commission Order No. G-31-07 dated March 19, 2007.

- a 3.3 percent rate increase on a permanent basis, effective the first day of the first month that is at least 60 days following the Commission’s final decision respecting the application for an increase in Basic insurance rates, for all new and renewal policies other than the Plate Owner Basic and Fleet Reporting Policies.

- if in the Commission's final decision respecting the application for a permanent rate increase the Commission determines that a portion of the interim rate increase be refunded, that any refunds be dealt with in the manner set out in Appendix A to the Application.

- the Basic insurance Capital Management Plan as set out in Chapter 6.2 of the Application and its proposal to achieve capital available of 130 percent MCT.

(Exhibit B-1, pp. ii-iv)

2.0 CAPITAL BUILD AND MAINTENANCE PROGRAM

2.1 Legislative and Regulatory Background

The capital requirements for ICBC are set forth in IC2 to the Commission, as amended to October 5, 2005.

Section 3(1) of IC2 includes the following provisions:

> "(1) With respect to the exercise of its powers and functions under the Act in relation to the corporation generally, the commission *must* do the following: [emphasis added]
>
> (b) require the corporation to achieve, by December 31, 2014, and to maintain, after that date, capital available equal to at least 110% of MCT, and, for that purpose,
>
> (i) [repealed]
>
> (ii) the commission must set rates for the corporation's universal compulsory automobile insurance business in a way the will allow the corporation to achieve, by December 31, 2014, and to maintain after that date, capital available in relation to its universal compulsory automobile insurance business equal to at least 100% of MCT, and
>
> (c) subject to paragraph (e), for each year for which it fixes insurance rates, fix those rates on the basis of accepted actuarial practice
>
> (e) ensure that increases or decreases in universal compulsory automobile insurance rates are phased in such a way that those rates remain relatively stable and predictable."

Section 4 of IC2 includes the following:

> "(1) With respect to the exercise of its powers and functions under the Act in relation to the corporation's optional automobile insurance business, the commission…
>
> (b) must require the corporation to achieve by December 31, 2010 and to maintain, after that date, capital available in relation to the corporation's optional automobile insurance [Optional Insurance] business equal to at least 200% of MCT."

Section 1 of IC2 defines the terms "capital available" and MCT to have the meaning in the Special Direction, as defined in the regulations and guidelines under the Insurance Companies Act (Canada) and the Guidelines dated July, 2003, issued by the Office of Superintendent of Financial Institutions. The accepted actuarial practice requirements referred to in Section 3(1)(c) of IC2 include the use of DCAT as part of the process of calculating the MCT ratio.

ICBC uses DCAT as a tool to determine adequate levels of capital. DCAT is a process used to analyze and project the trends of a company's capital position given its current circumstances, recent past and business plan under a variety of future adverse scenarios. DCAT provides information about risks that may lead to capital depletion and about the effectiveness of potential corrective actions that might be instituted to respond to those risks (Exhibit B-1, Chapter 6.1, p. 6.2-2).

Actuarial standards of practice for DCAT include the consideration of adverse scenarios which test the adequacy of a corporation's solvency position. Other plausible adverse scenarios are also tested to assist company management in selecting an appropriate capital management target. Management selects its capital management target at a level to allow time to respond to plausible adverse events in order to prevent its MCT ratio from falling below the statutory minimum MCT ratio (Exhibit B-1, Chapter 6.1, p. 6.2-2).

Eckler Ltd. ("Eckler") was retained by ICBC to conduct an analysis of the capital requirements for ICBC's Basic insurance (Exhibit B-1, p. 2-5). As a supplement to its DCAT analysis, Eckler Ltd. constructed and modeled four plausible less adverse scenarios, which have a greater likelihood of occurrence than the DCAT adverse scenarios. These plausible adverse scenarios were created for the specific purpose of providing ICBC management with guidance in its selection of capital management targets. It was based on this analysis that management selected its management target MCT ratio for the Total Corporation of 150 percent (Exhibit B-1, Chapter 6.1, p. 6.2-2).

The Eckler analysis using the four plausible less adverse scenarios for the Basic insurance business provides guidance to ICBC management in its selection of a management target MCT ratio. The average of the results of the four plausible adverse scenarios suggests a management target for the Basic insurance business of 128 percent, while the adverse inflation scenario alone suggests a management target for the Basic insurance business of 155 percent. ICBC management has selected a capital management target of 130 percent for the Basic insurance business, which takes into account all four of the plausible less severe adverse scenarios. The ICBC Board of Directors has approved 130 percent MCT as the management target for the minimum level of capital for the Basic insurance business (Exhibit B-1, Chapter 6.1, pp. 6.2-2 and 6-2.3).

2.2 Basic Insurance Capital Management Plan and MCT

In its 2006 Decision, the Commission stated "… that the MCT ratio requirements in IC2 of 100 percent, 110 percent and 200 percent for the Basic, Total and Optional lines of business respectively are to be considered minimums, and that ICBC should set capital management MCT ratio targets within the DCAT indicated range and establish capital plans accordingly" and "…that ICBC should, in its next revenue requirements application, include the following evidence:

1. the DCAT indicated range for Basic Insurance;
2. supporting evidence and rationale in any case where the management capital target MCT ratios is less than DCAT indication, including support for deviation from accepted actuarial practice; and
3. the rate indication reflecting a capital management MCT ratio within the DCAT indicated range" (2006 Decision, pp. 29, 30).

ICBC, in the Application, responded to the above directions and stated that "…ICBC management has selected a capital management target of 130% for the Basic insurance business, which provides a slight margin on the average, in order to recognize that the average is based on four data points with a fairly large spread. The selected management target MCT ratio of 130% provides a reasonable buffer to reduce the likelihood of falling below the statutory minimum MCT ratio of 100% for the Basic insurance business" (Exhibit B-1, p. 6.1-4).

In the Application, ICBC also stated that "…the accompanying Basic Insurance Capital Management Plan, revised March 7, 2007, (the "Revised Plan") sets forth ICBC's proposal for the method by which future Basic insurance rates be set in order to achieve capital available of 130% MCT by December 31, 2027" (Exhibit B-1, p. 6.1-4).

Based upon evidence submitted by ICBC in response to undertakings made during the 2007 hearing, it appears that ICBC will achieve its 130 percent management target MCT ratio of 130 percent for Basic insurance by December 31, 2007 (Exhibit B25, Attachment A). This outlook is based on MCT calculations using concurrent changes made to Canadian Generally Accepted Accounting Principles with respect to the accounting and financial statement reporting requirement for financial instruments together with related changes made to the MCT Guidelines issued by the Office of Superintendent of Financial Institutions ("OSFI"). Both these changes were made effective January 1, 2007, and had the combined effect of significantly increasing the determination of the 'capital available' to ICBC under the OSFI Guidelines for MCT calculations.

As a consequence of ICBC's updated expectation that it will achieve its management target 130 percent MCT ratio by the end of 2007, the need disappears, at this time, for the Commission Panel to make a determination with respect to the appropriateness of ICBC's capital build proposal over a 20 year period. However, ICBC should note that the Commission Panel is of the view that the management target MCT ratios for Basic and Optional insurance as well as for Total Corporation should be achieved within the time frames specified in IC2 when the minimum regulatory MCT ratios are to be achieved and maintained. The Commission Panel considers that an MCT ratio of less than the minimum suggested by the DCAT analysis impairs ICBC's ability to mitigate the risks associated with the adverse scenarios contemplated in the DCAT analysis.

The Commission Panel has used the ICBC management MCT target of 130 percent in this section for illustration purposes. The appropriateness of the 130 percent target is discussed at Section 2.4 below.

2.3 The Interpretation of the Definition of MCT in Special Direction IC2

Special Direction IC2 sets forth a number of requirements to be followed by the Commission in the course of its mandate to regulate ICBC's Basic insurance rates. Those requirements include directions with respect to the establishment of rates which allow ICBC to achieve and maintain specified minimum levels of 'capital available' as determined by the application of a MCT ratio calculation.

Section 1 of IC2 defines the terms "capital available" and "MCT" to have the meaning as those terms are defined in:

a) "the regulations and guidelines made under…the Insurance Companies Act (Canada), and

b) the Guidelines for Minimum Capital Test ("MCT") *dated July, 2003* issued by the Office of Superintendent of Financial Institutions" (emphasis added).

IC2 also requires the Commission to "… fix … rates on the basis of accepted actuarial practice …"

Effective January 1, 2007, the OSFI Guidelines for MCT calculations were revised, concurrent with a revision to Section 3855, Financial Instruments, of the CICA Handbook which establishes standards for Canadian Generally Accepted Accounting Principles. The combined effect of applying these changes to ICBC's MCT calculations has been to significantly increase the ratios in comparison to the use of the pre-2007 basis of MCT calculations. Using the 2007 basis for the calculations, ICBC is expecting to achieve an MCT ratio of approximately130 percent as at December 31, 2007, which is coincident with its management target MCT for Basic insurance.

The issue concerning the use of the 2007 calculation basis for MCT is that, as illustrated above, IC2 specifically refers to the July 2003 OSFI Guidelines, raising the question as to whether IC2, without amendment, can be interpreted to permit the application of the new 2007 Guidelines.

The Commission Panel requested the parties in the hearing to address the following four questions in their submissions:

1. Should IC2's reference to the July 2003 MCT guidelines specifically be interpreted as requiring mandatory adherence to the July 2003 MCT guidelines, or as an informational reference at the time IC2 was issued and therefore not meant to be static use of the 2003 MCT guidelines without regard to any changes in the CICA rules?

2. Is the use of the hybrid model to calculate MCT intended by IC2?

3. Is there now an internal inconsistency in IC2 in that it directs the use of the July 2003 MCT guidelines and the setting of rates based on accepted actuarial practice?

4. Should the Commission in the application of IC2 interpret the definition of MCT to be based on the current MCT guidelines issued by OSFI?

ICBC and some of the Intervenors provided responses in their submissions with respect to the four questions. There was a variety of views expressed, with no strong consensus being evident. In its final submission, ICBC stated that it "… intends to pursue a change to Special Direction IC2 to revise the definition of 'MCT' to a definition that provides for MCT to be determined pursuant to the revised 2007 MCT Guideline" (ICBC Submission, p. 13).

Should the sought after change be approved, ICBC's Basic Insurance MCT ratio would be calculated to be 130 percent, its management target, based on the August outlook for December 31, 2007. Accepting the management target MCT ratio of 130 percent for the purpose of this discussion, (see 2.4 below), the Commission Panel has determined that it is not necessary to further address the matter of the interpretation of IC2 at this time, pending a decision with respect to a change to Special Direction IC2.

2.4 ICBC's Selection of a Management Target MCT Ratio of 130 Percent

ICBC was directed in the 2006 Decision to establish a management target Basic MCT ratio in excess of the 100 percent regulatory minimum specified in IC2. ICBC has responded to that direction by setting target MCT ratio of 130 percent, based on additional work undertaken by ICBC's external actuaries, Eckler. In its report Eckler stated:

> "We have constructed additional adverse scenarios that are less adverse in their magnitude than those described in Section 4.3 of this report. These additional scenarios are constructed at probability levels that are generally in the range of 10% to 20% (as compared to the 1% to 5% for the DCAT adverse scenarios)" (Exhibit B-1, Appendix 6.2A, p. 25).

The Commission Panel is not convinced that the use of the additional less adverse scenarios is adequate to provide the necessary degree of risk mitigation to ensure that ICBC's MCT ratio will not fall below the regulatory minimum 100 percent in 2014 and subsequent years. ICBC's evidence in this hearing did not address the management target MCT ratios which would be indicated by the adverse scenarios with a 1 to 5 percent probability used for the DCAT study.

The Commission Panel's concern is in part a reflection on the following comment in the Eckler report:

> "Once the Basic insurance reaches the MCT target of 130%, it will be fairly self-reliant in terms of meeting its capital requirements. Only occasionally will it need to make use of the retained earnings of the Total Corporation for support" (Exhibit B-1, Appendix 6.2A, p. 28).

The Commission Panel is concerned that if ICBC will 'be fairly self-reliant' and will 'only occasionally' need to make use of the retained earnings of the Total Corporation, there seems to be an implicit suggestion that the MCT ratio of the Basic insurance business could otherwise fall below the 100 percent regulatory minimum, contrary to the requirements of IC2.

Mr. Weiland, discussing the effect of the difference between the two sets of scenarios, stated: "…the probabilities that we used there [for the less adverse scenarios] were in the 10 to 20 percent range rather than the 1 to 5 percent range. So they're quite a bit more frequent and less severe", and "… I expect the indicated management target, if you use those, [the more adverse scenarios with a 1 to 5 percent probability] would be quite a bit higher than the 128 percent indication that was shown in my report" (T3:425).

2.4.1 Commission Determination

The Commission Panel considers the prospect of reaching a 130 percent MCT ratio by December 31, 2007 to be an encouraging development toward ICBC achieving a satisfactory financial condition. However, the Commission Panel is of the view that there is a need to further explore the use of the less severe scenarios for the purposes of setting the management target MCT ratio. The Commission considers that this matter should be more fully explored to ensure that ICBC's Basic management target MCT ratio is adequate to achieve and maintain the regulatory minimum of 100 percent by and beyond 2014.

The Commission Panel directs ICBC to provide additional evidence with respect to the adequacy of its choice of a management target MCT ratio of 130 percent as part of its 2008 Revenue Requirements filing, or by June 30, 2008, whichever is earlier.

2.5 Financial Condition of the Basic Insurance Business

The following extract summarizes the comments of the Eckler report with respect to the financial condition of the ICBC Basic insurance business at December 31, 2005.

> "Section 2 of this report sets out the definition of satisfactory financial condition. As noted in Section 4.3, the MCT ratio for the base scenario is under the 100% requirement of IC2 throughout the forecast period. Under two of the adverse scenarios, inflation and misestimation of policy liabilities, the retained earnings are less than $0 for at least part of the forecast period. Therefore, the Basic insurance does not have a satisfactory financial condition at 31 December 2005. Retained earnings would need to increase by at least $241 million during 2006 in order for the financial condition at December 2005 to be satisfactory. IC2 does not require the Basic insurance to have a 100% MCT until 2014" (Exhibit B1-1, Appendix 6.2A, p. 24).

Since December 31, 2005, at least two events occurred which favourably modify what might have otherwise been cause for significant concern with respect to ICBC's financial condition:

1. The government directive of January 24, 2007 which directed ICBC to transfer $100 million of capital available from its Optional insurance business to its Basic insurance business, and

2. ICBC's improved financial position, including (1) above, as evidenced by the August 2007 outlook projecting achievement of a Basic MCT ratio of 130 percent by December 31, 2007.

The Commission notes that ICBC's Basic insurance financial position in recent years has been rather volatile. This volatility reinforces the Commission's view that achieving appropriate financial targets, such as appropriate MCT ratios, is a critical factor in ensuring that ICBC will have the ability to achieve and maintain the satisfactory financial strength necessary to meet its obligation to its policyholders in an orderly fashion and to comply with its regulatory requirements.

2.6 Future Capital Build and Maintenance requirements

ICBC proposes that, after achieving its Basic MCT target of 130 percent, any future capital deficiency would be recovered through the capital build provision in Basic insurance rates at 1/10 of the deficiency per year, provided the Total Corporation MCT ratio is equal to or greater than the target of 150 percent. If the Total Corporation MCT ratio is less than 150 percent 1/5 of the deficiency would be recovered through the capital build provision each year. In the event of a Basic MCT ratio greater than 130 percent it is proposed that 1/10 of the surplus be reflected in the rates each year (Exhibit B1-1, p. 6.2-6).

The Commission Panel notes that the 130 percent management target Basic MCT ratio has been determined by reference to the less adverse scenarios with probabilities in the 10 to 20 percent range. This seems to suggest a likelihood of such a scenario occurring every six or seven years (Exhibit B-1, 6.2A, p. 26).

2.6.1 Commission Determination

The Commission Panel is of the view that it would be important for ICBC to replenish its capital as quickly as possible following such an adverse scenario occurrence. The Commission Panel also recognizes that the severity of such an occurrence and consequential impact on rates can affect the relative stability and predictability of the rates. On balance considering IC2, the Commission considers that the financial strength and stability of the Basic insurance business should be given relatively more weight than maintaining stable and predictable rates. The Commission Panel notes that in the RDA, ICBC proposes, with respect to the implementation of actuarially indicated base rates, a rate cap change of 6 percent in any year in the interest of rate stability. **Subject to the following, the Basic Insurance Capital Management Plan, as set out in Chapter 6.2 of the Application, is approved.**

The Commission Panel determines that ICBC should implement a policy which reflects any deficiency in capital available to meet management target MCT ratios being recovered at the rate of 1/5 per year. This policy would be subject to review in the event of a rate impact from this source alone of greater than 6 percent. The Commission Panel also determines, in the interests of symmetry and fairness that any surplus capital should be built into Basic insurance rates as a negative capital build provision at the rate of 1/5 per year, but subject to a 6 percent cap.

3.0 FINANCIAL ALLOCATION

3.1 Background

In the 2006 Decision, the Commission identified certain allocation issues which require further information. These matters originated from evidence and testimony provided during the 2006 Revenue Requirement Application and 2006 oral hearing.

The allocation items addressed in the Application are:

- Premiums Written Allocator
- Salvage Allocator
- Marketing and Broker Services
- Customer Accounting
- Reinsurance
- Reorganizations

Insurance Bureau of Canada ("IBC") states that it "continues to have serious reservations about the allocation process" (IBC Submission, p. 7).

3.2 Premiums Written Allocator

In the 2006 Revenue Requirements regulatory proceeding, a view was expressed that using the dollar amount of premiums in the Premiums Written Allocator "led to a skewing of allocation results." The Commission stated that the issue was "out of scope for this proceeding and may be reviewed in the further detailed study of allocations …" (2006 Decision, p. 52).

This allocator is used in allocating the Insurance Services costs as well as the costs and revenues related to the New Premium Financing Plan and the revenues related to minimum retained premium. The Premium Written Allocator is calculated using:

(i) The dollar value of premiums written for Basic insurance net of the Non-insurance expenses recovered in the Basic insurance premium;

(ii) The dollar value of premiums written for Optional insurance which include third party extension, collision, comprehensive, loss of use, road star and roadside plus;

(iii) The sum of both items (i) and (ii) above are used as the denominator and each item is the numerator for either Basic [Item (i)] or Optional [item (ii)] ratios**.**

(Exhibit B-1, p. 9-2)

ICBC reports that it conducted a sensitivity analysis on the Premiums Written Allocator using the financial allocation Model. Figure 9.1 below shows the historical pattern of the Premium Written Allocator and ICBC observes "[p]eriodic fluctuations may occur but over time the ratio has remained in the range of that originally approved in the January 2005 Decision" (Exhibit B-1, p. 9.3).

Figure 9.1 – Summary of Premiums Written Allocator

	Value of Premiums Written used in Calculation ($000's)					Basic Optional Allocation Ratio			
Year	**Total**	**Basic**	**%Change**	**Optional**	**%Change**	**Basic**	**%Change**	**Optional**	**% Change**
2003	$2,776,514	$1,506,275		$1,270,239		54.25%		45.75%	
2004	$2,913,317	$1,552,300	3.1%	$1,361,017	7.1%	53.28%	-0.97%	46.72%	0.97%
2005	$2,954,308	$1,587,595	2.3%	$1,366,714	0.4%	53.74%	0.46%	46.26%	-0.46%
2006	$3,185,320	$1,733,857	9.2%	$1,451,462	6.2%	54.43%	0.69%	45.57%	-0.69%

(Exhibit B-1, p. 9-3*)*

ICBC recommends that no refinements be made (Exhibit B-1, p. 9.3).

IBC argues that the ICBC submission leaves "many unanswered questions since it only addresses the sensitivity of the allocator to changes in dollar premiums" and "the filing does not examine whether there are other more appropriate allocators" (IBC Submission, p. 7).

IBC raised the question asked by Commission Staff "why cost centers to which premiums written allocator is applied are best represented by the cost of the policies verses the number of basic versus optional policies" (Exhibit B-11-1, BCUC 126.0) and states that ICBC only explained it as "a single, commonly used and understood measure".

ICBC provides a number of arguments for the rationale for using the Premium Written Allocator and summarizes its position by stating "there are also pragmatic advantages of using the Premiums Written Allocator as premium written data is more readily available, easily verifiable and clearly understood" (ICBC Reply, p. 35) and that the Premiums Written Allocator "is based on the approved allocation methodology" (ICBC Reply, p. 36).

3.2.1 Commission Determination

The 2006 Decision of the Commission noted the view of one Intervenor that use of the "Premium Written allocator led to a skewing of allocation result" (2006 Decision, p. 52). ICBC was not directed to undertake a specific study of this allocator for this Application. ICBC has, however responded to the view expressed in the 2005/2006 hearing and has demonstrated through the use of sensitivity analysis on the Premiums Written Allocator that the fluctuations have remained within a reasonable range. The Commission Panel notes that in recent years the allocation between Basic and Optional insurance has remained very stable and accepts that the Premiums written allocator is probably the best allocator at this time. This observation does not however preclude ICBC and/or Intervenors from studying alternative allocation methodologies as have been suggested in this hearing, at a future date.

3.3 Salvage Allocator

In the 2006 Decision, the Commission accepted the allocator applied to the Salvage allocation function, Net Claims Costs - MD as appropriate. However, in recognition of Intervenor concerns with costs on subrogated claims, the Commission directed ICBC as follows: "The Commission Panel determines that continued use of the Net Claims Costs – MD allocator is appropriate as currently employed by ICBC. However, the Commission Panel directs that ICBC, in its next revenue requirements proceeding, explain why salvage administrative expenses incurred by a private insurer are not paid by ICBC when there is a subrogated claim against ICBC by a private insurer" (2006 Decision, p. 54).

ICBC explains "The right to subrogate at law means that an insurer is entitled to step into the shoes of, and be treated as, the insured policyholder who suffered a loss" (Exhibit B-1, p. 9-4) and, "An insured person does not have compensation costs and general expenses related to their vehicle loss; those are costs specific to the insurer. Therefore, as a matter of law, a claim that is brought by a private insurer against ICBC on a subrogation basis cannot include those costs" (Exhibit B-1, p. 9-4).

IBC in its Submission makes reference to the direction given to ICBC by the Commission on this matter but argues that based on ICBC's explanation that administrative expenses incurred by a private insurer are not paid by ICBC when there are subrogated claims "is the precise reason that they should not be paid when incurred by ICBC's Optional side of the business" (IBC Submission, p. 11).

3.3.1 Commission Determination

The direction to ICBC on this matter was quite specific and the Commission Panel is of the view that ICBC has provided and defended a response. The matter raised by IBC should properly be raised at a time when it is within the scope of a hearing.

3.4 Marketing and Broker Services

In the 2005/2006 Hearing, Canadian Direct Insurance ("CDI") questioned the need for any broker advertising at all and was of the view that all advertising for road safety and loss management programs ought to be collected under those specific cost centres rather than under a marketing or broker services rubric. ICBC noted that the costs at play here are not advertising costs for media but relate to the administrative costs involved in managing ICBC's outside advertising agency. ICBC stated that it is willing to consider alternative means to allocate these costs and the Commission encouraged ICBC to do so and report on its progress in the next revenue requirements proceeding (2006 Decision, p. 56).

ICBC states that Marketing and Broker Support Services allocation function includes compensation costs related to the administration of ICBC's external advertising agency contract. These include advertising costs incurred for road safety, auto crime awareness advertising and a small amount of costs to broker activities (Exhibit B-1, p. 9-5).

The current allocation ratio separates advertising management costs for road safety, auto crime amounts from other corporate advertising and broker activities and uses allocators appropriate to each type of cost. ICBC states that it has "re-examined the allocation of road safety and auto crime costs within the Marketing and Broker Support Services department, and has concluded that the costs of this department are allocated appropriately under the principles of cost causality" and recommends that no further means to allocate be considered (Exhibit B-1, p. 9-5).

IBC submits that using the Premium Written Allocator means that in excess of 50 percent of the costs are allocated to Basic and "[t]his cannot be supported given that Basic is mandatory coverage distributed by a monopoly" (IBC Submission, p. 11).

ICBC states that it "re-examined the allocation of costs within the Marketing and Broker Support Services department and concluded that the costs of the department are properly allocated."

3.4.1 Commission Determination

The Commission Panel notes that ICBC was requested, in the 2006 Decision, to consider alternative means to allocate these costs. It was not requested to re-examine the allocation of costs within the Marketing and Broker Support Services department, which it did and reached a conclusion that the costs are properly allocated. While the Commission Panel does not regard this as an issue of significance at this time, the request made in the 2006 Decision remains unanswered and ICBC is directed to address it as requested at the first opportunity.

3.5 Customer Accounting

In the 2006 Decision, the Commission encouraged ICBC to investigage the allocation of the operating costs associated with defaulted premiums by insurance coverage (2006 Decision, p. 57).

ICBC states "To determine the impact of a refinement ICBC is using the New Premium Financing Plan data since the majority of defaulted premiums arise from the premium financing plan. Revising the allocation of operating costs for customer accounting using the new data for defaulted premiums based on original coverage, will not have a material impact on the allocator. In fact, the net impact will be an approximate $8,000 shift in costs to Basic insurance." And ICBC submits that "there are no advantages to introducing an additional layer of calculations where the resulting shifts in costs are not material. It is recommended that no other refinement be made to the allocation of defaulted premiums" (Exhibit B-1, p. 9-7).

IBC argues "where this additional precision is possible with allocators ICBC should be required to make the refinements" (IBC Submission, p. 12).

3.5.1 Commission Determination

While the Commission Panel does not disagree with IBC in theory, the issue of relevance must also be considered. In this case, the impact of implementing this additional layer of complexity is insignificant in relation to total revenues and expenses of the organization and the impact on rates and the Commission Panel is satisfied with the report provided by ICBC.

3.6 Reinsurance

As a result of Intervenor questioning during the 2006 oral hearing, ICBC committed to reviewing the allocation of reinsurance (2006 Revenue Requirement Oral Hearing (T3:533). ICBC takes the position that "costs associated with reinsurance are allocated 100% to Optional insurance…as it is unlikely that any Basic insurance claims costs would surpass the threshold to which reinsurance would apply. Reinsurance costs are driven by Optional insurance and those costs are properly allocated 100% to Optional. There are no specific costs for ICBC's reinsurance that arise from Basic insurance" (Exhibit B-1, p. 9-8). ICBC states it "recently confirmed there have been no reported Basic insurance claims that could possibly impact reinsurance" and ICBC maintains its position that the allocation of total reinsurance costs to Optional insurance continues to be appropriate (Exhibit B-1, p. 9-8).

Intervenors did not comment on ICBC's Submission.

No comment or decision by the Commission Panel is required on this matter.

3.7 Reorganizations

ICBC reports that during 2006 there were reorganizations within various divisions of ICBC. Any necessary changes to the allocators as a result of cost-center functional change are required to be proposed to the Commission. "For the purposes of the 2007 Revenue Requirements Application, none of the allocators were modified for functional changes resulting from reorganization changes" (Exhibit B-1, p. 9-9). ICBC states that it will continue to monitor reorganizations in a manner approved by the Commission and propose changes to allocators where required (Exhibit B-1, p. 9-10).

No comment or decision by the Commission Panel is required on this matter.

4.0 ACTUARIAL RATE LEVEL INDICATION

4.1 Background and Methodology

In March 2007, ICBC completed an analysis of its Policy Year 2007 revenue requirements based on data evaluated as of December 31, 2006. Policy Year 2007 refers to all policies becoming effective between May 1, 2007 and April 30, 2008 ("PY 2007"). The analysis indicates that the current rate level must be increased by 3.3 percent for PY 2007. The indicated rate level change is determined by comparing the required PY 2007 premium to the projected PY 2007 premium at the current rate level (Exhibit B-1, p. 4-1).

Chapter 4 of the Application provides details explaining the derivation of the two components that form the basis of the overall rate level required increase of 3.3 percent, namely, the derivation of the required PY 2007 premium and the derivation of the projected PY 2007 premium at current rate level. Exhibit A.0.1, Summary of the Components of Required Premium Policy Year 2007, make up the 3.3 percent increase to Basic insurance rates requested in this Decision.

4.1.1 Required PY 2007 Premium

The required PY 2007 premium is determined through an analysis of historical loss experience as of December 31, 2006. The components of the required PY 2007 premium are the projected loss and loss adjustment expenses arising from the policies becoming effective between May 1, 2007 and April 30, 2008 together with the expenses associated with those policies and the investment income expected to be earned on those policies.

This section deals with the projected loss and loss adjustment expenses (i.e., Allocated Loss Adjustment Expenses ("ALAE") and Unallocated Loss Adjustment Expenses ("ULAE")) only. The projected loss and loss adjustment expenses for policies becoming effective between May 1, 2007 and April 30, 2008 are as follows:

(Dollars in Thousands)	Projected Loss and ALAE	Kind of Loss 37	Claims Expenses (ULAE)	Total
Plate/Owner Basic				
Third Party	$1,642,709	$1,010	$144,746	$1,788,465
Part 7	138,759	0	15,709	154,468
Manual Basic				
Third Party / Part 7	46,783	100	4,484	51,367
Collision/SP	1,620	0	156	1,776
TOTAL	$1,829,872	$1,110	$165,095	$1,996,077

(Exhibit B-1, Exhibit A.0.2, Columns (4), (5) and (6))

4.2 Projected Loss and ALAE

4.2.1 Ultimate Losses

ICBC uses methods consistent with accepted actuarial practice to develop estimates of ultimate claims costs for historical years. The methods used by ICBC to develop estimates of ultimate claims cost are: Paid Development Method, Incurred Development Method and Bornhuetter-Ferguson Method. The ultimate claims cost estimates are often the average of two or more of these actuarial methods.

The ultimate claim estimates are produced for each of the following coverages:

1	Plate Owner Basic Bodily Injury
2	Plate Owner Basic Property Damage
3	Plate Owner Basic Accident Benefits
4	Plate Owner Basic Death Benefits
5	Manual Basic

(Exhibit B-1, Chapter 4, Exhibit C.0.4)

The ultimate claim estimates are produced by analyzing historical loss development data. ICBC selects paid and incurred loss development factors and these factors are important elements in the indications produced by the three different methods. Generally, ICBC uses a baseline of the average of the last four observed loss development factors.

For coverages other than bodily injury and property damage, ICBC relies on the baseline. However, for bodily injury and property damage, material and significant departures from the baseline are observed in the selection of the paid and incurred loss development factors.

Generally, the selected ultimate losses for all coverages are based on the average of the results of the Incurred Development Method and Paid Development Method (Exhibit B-1, Chapter 4, Exhibit C.1.1.2, Exhibit C.2.1.2, Exhibit C.3.1.1, Exhibit C.3.1.2, Exhibit C.4.1.1 and Exhibit C.5.1.2).

In the 2006 Revenue Requirements Application, ICBC also relied on the Bornhuetter-Ferguson Method in selecting ultimate claim estimates for bodily injury. ICBC believes that the Bornhuetter-Ferguson Method also provides a reliable estimate of the ultimate incurred loss and that it supports the results of the other two methods. ICBC has determined that the inclusion of the results of the Bornhuetter-Ferguson Method, with 25 percent weight, as part of the selected ultimate losses for the 2007 Revenue Requirements Application would change the selected ultimate loss estimates only slightly (Exhibit B-11, BCUC 1.19.3).

There are additional adjustments made in the Application to account for the impact of recent initiatives designed to influence bodily injury claims outcomes (Exhibit B-1, Chapter 4, Exhibit C.0.4, p. 2). ICBC estimates that the indicated rate change would be 0.5 percent higher if these initiatives were not taken into account (Exhibit B-1, p. 2-4).

4.2.2 Ultimate ALAE

ALAE amounts for bodily injury are projected to ultimate values using four methods: Paid-to-Paid Method, Paid ALAE Development Method, Bornhuetter-Ferguson Method and Incremental ALAE to Ultimate Loss Method (Exhibit B-1, Chapter 4, Exhibit C.0.4, p. 1).

ALAE amounts for property damage are projected to ultimate values using two methods: Paid-to-Paid Method and Paid ALAE Development Method. The selected ultimate ALAE is based on an equal weighting of these two methods (Exhibit B-1, Chapter 4, Exhibit C.0.4, p. 4 and Exhibit C.2.1.3).

Ultimate ALAE amounts for accident benefits, death benefits and manual basic are combined with the claim amounts and the ultimate values projected for those coverages include a provision for ALAE (Exhibit B-1, Chapter 4, Exhibit C.0.4, pp. 6-7).

4.2.3 Other Adjustments

There are further adjustments to the ultimate loss and ALAE amounts to reflect:

- Additional Payments Transfer comprised of court order interest, third party costs, and third party disbursements.
- Hit and Run Transfer (Exhibits C.0.1 to C.2.5.1).
- Claims-related costs, such as those for ambulance services, are not included in the claims database.

4.2.4 Trend Analysis

Two trends are used in order to predict the costs related to PY 2007 policies. The two trends are: (1) the anticipated increase in the number of vehicles on the road (exposure trend) predicted using a multiple linear regression model for the number of exposure units and (2) the changes in both the average cost of a claim and the frequency of claims (referred to as loss trends) predicted by reference to economic conditions, weather, loss prevention programs and other forces over time using econometric stepwise regression to analyze historical ultimate claims frequency and claims severity data (Exhibit B-1, Chapter 4, pp. 4-15, 4-16).

4.2.5 Prospective Loss Adjustments

After historical accident year loss amounts are developed to their ultimate values and trended to policy year 2007 levels, prospective loss adjustments are made to deal with changes in cost level that are not captured through the trending process. There are four specific prospective loss adjustments that are made in the analysis:

1. Court Tariff – based on changes in tariff schedule that were effective January 1, 2007.
2. Customer Service Centre – reflecting reduced costs for low risk/low complexity BI claims processed through an improvement of the claims handling model.
3. Enhancements to the Graduated Licensing Program - Basic claim savings of $34.2 million are anticipated from these enhancements in 2007.
4. Changes to the Time Incentive Savings under the Enhanced Graduated Licensing Program - Basic claim savings of $1.9 million are anticipated from these enhancements in 2007.

(Exhibit B-1, pp. 4-16 to 4-19)

4.2.6 Loss Payment Patterns

In order to determine required premium, it is necessary to project the cash flow associated with all policies becoming effective in PY 2007. To do this involves projecting the payout stream associated with the anticipated loss and ALAE (Exhibit B-1, p. 4-19).

ICBC explains that historical payment patterns were analyzed and the selected payment patterns were applied to the corresponding projected loss and ALAE to obtain the projected future payment streams for loss and ALAE on PY 2007 policies (Exhibit B-1, p. 4-19).

4.2.7 Retained Earnings and Capital Provision

The 2007 management target MCT ratio was revised to 130 percent. The Basic Insurance Capital Management Plan includes a capital build provision in PY 2007 of $9.7 million. Also, the Basic Insurance Capital Management Plan includes a capital maintenance provision in PY 2007 of $35.9 million to account for the growth in required capital over time (Exhibit B-1, p. 4-20).

4.3 Kind of Loss – Code 37

Kind of Loss ("KOL") code 37 is used to record the towing charge on a vehicle which does not carry Optional Collision coverage with ICBC but is partially liable in a claim involving another ICBC insured vehicle (Exhibit B-1, Chapter 4, Exhibit A.1.0, p. 3).

4.4 ULAE

ULAE are the internal claims servicing expenses which are not directly assignable to individual claims. In estimating the revenue requirement, the future ULAE costs associated with claims on policies becoming effective in PY 2007 must be projected. ICBC uses a standard actuarial methodology to project the future ULAE costs (Exhibit B-1, Chapter 4, Exhibit C.0.4, p. 8).

The accident year ULAE by coverage are expressed as a percentage of the ultimate loss and ALAE. The percentage for policy year 2007 ULAE expenses is then projected from the historical percentages (Exhibit B-1, Chapter 4, Exhibit C.0.4, p. 8).

4.5 Discounted Cash Flow Method

Required premium revenue is calculated using a discounted cash flow method. Through this method, the premium in revenue requirements is reduced because policyholders are credited with investment income earned on both retained earnings allocated to Basic insurance and on the cash flow related to the insurance policies becoming effective in PY 2007 (Exhibit B-1, p. 4-13).

Investment income is earned on two sources: (1) retained earnings which are assumed to yield an annual rate of return of 5.0 percent, the imbedded yield for ICBC's current portfolio of investments, and (2) policyholder premiums are assumed to be invested in new investment assets, earning a new money rate of 5.13 percent.

4.5.1 PY 2007 Projected Premium at Current Rate Level

The PY 2007 Projected Premiums at Current Rate Level are the Basic insurance premiums ICBC would collect for PY 2007 if the current premium rates were charged. These amounts also reflect the anticipated growth in policies written between the PY 2006 and PY 2007 (Exhibit B-1, p. 4-2).

ICBC projects PY 2007 premium at the current rate level by first adjusting historical premium to the current rate level and then further adjusting the premium to reflect the 2007 anticipated exposure level (i.e., the number of policies that will be written in PY 2007) (Exhibit B-1, p. 4-14).

ICBC actuaries have decreased premium trends, which are used to project historical premium to the PY 2007 level, to 0.0 percent in this Application. The annual estimated premium trend in the prior application was 0.26 percent for bodily injury, 0.47 percent for Part 7, and 0.86 percent for Underinsured Motorist Protection ("UMP"). In addition, the actuaries have utilized one premium trend (0.0%) as an estimate for all Basic insurance coverages on a combined basis compared to past applications, where the trends were analyzed separately. ICBC explains because there was little impact to the PY 2007 rate indication and no statistical basis for estimating trends separately for each coverage, for simplicity the actuaries have utilized one combined premium trend for the current Application. This change in premium trend from the prior application translates to +1.1 percentage points of the PY 2007 indicated rate change (Exhibit B-1, Chapter 4, p. 4-6).

ICBC in an IR Response provides an explanation for the decline in premium trend:

> "To explain the up and down movement in the average premium at current rate level over the last seven years, ICBC's three rating variables of rate class, territory and discount/surcharge levels were analyzed. Differences in vehicle growth between rate

> classes and territories as well as the shift to better discount/surcharge levels appear to be influencing the premium trend" (Exhibit B-11, BCUC 1.10.1).

ICBC notes that its actuaries have identified that a premium trend model that takes into account changes in the mix of customers by rating factor is desirable, and plans to develop a more refined premium trend model for ICBC's next revenue requirements application (Exhibit B-11, BCUC 1.10.1).

4.5.2 Intervenor Submissions

British Columbia Old Age Pensioners' Organization *et al.* ("BCOAPO") comments on various portions of the Application. BCOAPO in its submission states that the Commission Panel should reject ICBC's application because it is based on overly conservative assumptions (BCOAPO Submission, p. 1).

BCOAPO notes that the Corporation seems determined to follow a course of inconsistency from application to application. BCOAPO points out that the application of loss development methods varied between the current and previous application and most notably the Bornhuetter – Ferguson method was not used for bodily injury as it had been previously. Similarly with the individual loss development factor, the Corporation continues to prefer inconsistency. With respect to bodily injury, instead of a consistent selection of 4 years, the selections vary from regression based to six-year averages and they also vary from the selection used in previous applications. BCOAPO submits the effect of the selections chosen versus a more consistent approach like uniformly selecting the 4-year average is almost $57 million, roughly accounting for the entire rate increase (BCOAPO Submission, pp. 6-7).

BCOAPO notes that ICBC has again used an econometric model for forecasting the future values of severities, frequencies and earned exposures in claims trending. However, BCOAPO is concerned because this approach is based on the stepwise regression methodology, rather than the structural model one. BCOAPO claims that this results in models that vary year from year, decreasing the credibility of the model and the confidence the BCOAPO has in it (BCOAPO Submission, p. 7).

In its submission BCOAPO cites an example of conservatism in ICBC's decision to use the interest rate of 5.13 percent for discounting purposes which is based on a number of other assumptions. First, it assumes that the year-end asset mix is the appropriate measure to weigh the return for various investment classes. BCOAPO notes that if the average weighting had been used in lieu of year-end weighting the proportion assigned to equities would have been higher (Exhibit B-7, BCOAPO 1.40.3). BCOAPO points out this would have resulted in a higher discount rate and lower insurance rates (T2:153-154). BCOAPO also observes that the yield curve has also shifted upwards since the time that this analysis was performed (T2:151-152). The rise between May and June 2007 was 52 basis points (Exhibit B-15, BCOAPO 2.39.7). BCOAPO submits if just the effect of this change in basis points was incorporated into ICBC's calculations, the rate requirement would drop by roughly 1 percent (BCOAPO Submission, p. 4).

Lastly, BCOAPO finds the trending of premiums in the Application exceptionally conservative. BCOAPO submits that significant changes have been made from the trending presented in the 2006 Revenue Requirements to the most current Revenue Requirements eliminating the favourable rate impact premium trending once had (BCOAPO Submission, p. 4).

BCOAPO offered no evidence in support of its submissions.

Mr. Duck's comments focus on the discount rate. Mr. Duck submits that the discount rate of 5.13 percent used to determine the 3.3 percent increase is unsupported, flawed and should be replaced with a more transparent, independent and accurate number. Mr. Duck proposes the Commission can adopt a more objective, unbiased estimate, 5.64 percent rate that is based on the Commission's long standing regulation of the rate base rate of return used for utilities regulated by the Commission (Mr. Duck Submission, p. 1).

Mr. Duck offered no evidence supporting his proposition.

4.6 Commission Determination

The Commission Panel considers that the model used by ICBC to determine the projected loss and loss adjustment expenses is adequate and reflects appropriate assumptions. The three methods, Paid Development Method, Incurred Development Method and Bornhuetter-Ferguson Method are appropriate methods for the derivation of ICBC's ultimate losses. The weight applied to the different methods is appropriate for all coverages. Also, Commission Panel considers that the loss development factors selected by ICBC are reasonable and within the range of accepted actuarial practice.

An upward trend in the bodily injury incurred loss development factors was observed in the periods from 12 to 60 months. Additionally, it was observed that the Bodily Injury Initiatives appeared to be influencing the level of incurred losses reported for accident years 2004 and 2005, within the current calendar year. These observations were recognized by selecting the development factor using linear regression over the five years immediately preceding the latest calendar year, for the periods from 12 to 36 months, and from 48 to 60 months.

The Commission Panel accepts that an upward trend in the bodily injury incurred loss development factors has been observed. The Commission Panel accepts that there is a range of selected loss development factors for this analysis. The Commission Panel considers that in this case a departure from the baseline is warranted.

A similar upward trend was observed in the bodily injury paid loss development factors and in the property damage paid and incurred loss development factors. This also led to a departure from the baseline in the selection of the loss development factors. In this case, the loss development factors are based on two or three year average factors compared to the baseline of four years. The Commission Panel considers that in this case a departure from the baseline is also warranted.

The Commission Panel accepts the selected loss development factors and considers that they are appropriate based on the evidence. The Commission Panel is, however, concerned about the increasing bodily injury claim costs. **The Commission Panel directs ICBC to continue to analyze**

the data as it emerges and to gain an understanding of the factors that are causing costs to rise. The Commission Panel directs ICBC to undertake and file, with its next revenue requirement application, additional evidence and analyses with respect to the rising claim costs.

The Commission Panel considers that the methodology used by ICBC to determine the ultimate ALAE amounts, the adjustments to the ultimate loss and ALAE amounts to reflect hit-and-run claims and certain claims-related costs not included in the claims database, and the trend methodology used by ICBC for loss trends and exposure trends are appropriate and reasonable. The Commission Panel considers that the process used by ICBC to test the appropriateness of their trend model is adequate. The Commission Panel considers that the prospective loss adjustments and the provisions for ULAE and KOL 37 losses are appropriate.

The Commission Panel accepts the projected losses and loss adjustment expenses for policies issued in PY 2007 as presented in Exhibit B-1, Exhibit A.0.2, Columns (4), (5) and (6). The Commission Panel has reviewed the analysis of the projected loss and loss adjustment expenses and considers that the ICBC analysis follows accepted actuarial practice and is not overly conservative.

The Commission Panel considers that the premium trend in this analysis is acceptable, based on the evidence. **The Commission Panel directs ICBC to continue to develop a more refined premium trend model that takes into account changes in the mix of policyholders by rating factor.**

The Commission Panel finds that the 5.0 percent yield for retained earnings and the 5.13 percent new money rate for policyholder supplied funds are reasonable. **The Commission Panel accepts ICBC's forecast investment return for PY 2007.**

5.0 OPERATING EXPENSES

5.1 Introduction

ICBC is a Crown Corporation and as such, must meet the statutory requirements of the *Budget Transparency and Accountability Act* which requires the preparation of a three-year Service Plan (Exhibit B-2, p. 7.1-1). Annual results are rated against the Service Plan as well as the Shareholder's Letter of Expectation between ICBC and the responsible Minister. As part of the Application, ICBC attached both its 2005 Annual Report (Exhibit B-2, Appendix 11A) and its Service Plan (2007-2009) (Exhibit B-2, Appendix 11B). The primary jurisdiction of the Commission vis-à-vis ICBC is in respect of its Basic insurance line of business whereas the Corporation's financial accountability to the Government covers all areas of its operations. Therefore, much of the financial information generated by ICBC is not tied directly to the matters of review before the Commission in this Application.

For the purposes of this Application, operating expenses are defined as "all costs (compensation and other operating costs) to run ICBC's insurance and Non-insurance business with the exception of claims payments, broker commissions, and premium taxes. Operating expenses represent approximately 14% of the total costs of ICBC" (Exhibit B-1, p. 7.1-6).

Operating Expenses were examined for each of the following areas:

- Operations Division
- Insurance, Marketing and Underwriting Division
- Finance Division
- Human Resources and Corporate Law
- Information Services Division
- Corporate Costs

By itself, the Operations Division accounts for about 57 percent of the total expenses and 72 percent of the workforce. There are six categories in the Operations Division:

- Loss Management
- Driver Licensing
- Call Centres
- Regional Claims Operations
- Specialized Claims, and
- Business Support.

ICBC's Operating Expenses

Description	**2003 Actual**	**2004 Actual**	**2005 Actual**	**2006 Forecast**	**2006 Actual**	**2007 Forecast**
Operations	281.6	282.3	$286.0	$295.1	$298.6	$301.8
Insurance	27.8	29.3	30.0	31.6	33.1	35.0
Finance	69.9	69.5	70.2	74.5	73.0	76.1
Human Resources & Corp. Law	13.2	14.1	14.0	15.0	14.0	15.2
Information Services (ISD)	72.3	68.5	70.5	80.9	74.1	74.9
Corporate Costs	31.0	44.0	43.3	40.4	19.2	25.0
Total Operating Expenses	**495.8**	**507.7**	**$514.0**	**$537.5**	**$512.0**	**$528.0**

(Exhibit B-1, Figure 7.1.2, p. 7.1-7; Exhibit B-11-1, BCUC 1-49.2)

Major changes in 2007 forecast operating expenses include compensation related increases ($13.8 million) resulting from increases to employee salaries and staffing levels, and a corporate project fund to achieve objectives set out in a revised corporate strategy ($25 million) (Exhibit B-1, p. 7.1-8).

The largest component of the Operating Expenses is compensation expense, and ICBC states that the primary drivers for the Operations Division operating expenses are claims volume and the complexity of risk associated with each claim (Exhibit B-1, pp. 7.2-2 - 7.2-3; ICBC Submission, pp. 32-33). In total, Operating Expenses will increase approximately 1 percent over the 2006 actual operating costs (Exhibit B-1, p. 7.2-21).

5.2 Intervenors' Submissions

There was little comment on the Operating Expenses and their justification. BCOAPO expressed the view that the operating expenses were overstated, and noted in particular, that in 2006, actual expenses were less than forecast. BCOAPO submits that with accurately estimated (and therefore lower) expenses, rates this year would be lower and that, if the same variation occurs in 2007 as in 2006, rates will be too high.

BCOAPO states that other than Corporate Costs the largest growth component of expenses is in the Finance area, which does not provide critical front line service to the customer and that the staff complement growth for the actuarial service area has been rapid, growing from 11 staff in 2004 to 20 in 2007 (Exhibit B-11-4, BCOAPO 1.1-29.1). BCOAPO submits that this department's size is overly large relative to those in other public insurers where the actuarial staff has similar responsibilities.

Further, BCOAPO submits that, conversely, the staff complement of the Operations Division is shrinking (Exhibit B-1, Chapter 7, Figure 7.2.2) and is concerned that where operating expenses were decreased, that a reduction in service levels would result. Given the rise in bodily injury costs and the growth in claim volumes, BCOAPO states that one might expect there would be some growth in the Operations Division to maintain or increase service levels. BCOAPO suggests the Commission order additional benchmarking by ICBC to demonstrate a need for growth in the actuarial area before it expands further, as well a decreased need for staff in operations before this department is "streamlined" (BCOAPO Submission, pp. 20-21).

BCOAPO also states that corporate costs were overstated by $8.2 million in the 2006 forecast relative to the 2006 actuals (Exhibit B-2-1, Figure 7.7.7) and are rising, mainly due to development projects. BCOAPO suggests further reprioritization for the Corporation in 2007 to defer some corporate projects to contain rate requirements until potential new revenue streams begin to flow, to further increase the stability and predictability of vehicle rates (BCOAPO Submission, p. 21).

Mr. Sykes submits that ICBC discusses the general upward pressures on costs, but does not discuss productivity and other cost saving/reduction measures, and that a critical aspect appears to be increases in compensation to ICBC's employees (Sykes Submission, Section S, para. 102; Section J, para. 1).

None of the Intervenors put forward any evidence in support of their arguments.

5.3 ICBC’s Reply

In response to BCOAPO, while noting the discrepancies between forecast and actual expenses in 2006, ICBC stated that the discrepancies had been addressed and that for 2007, the level of variance between forecast and actual expenditures is not expected to reoccur given the ICBC’s stronger focus on implementing changes to corporate strategy, increasing investments in technology and facilities, and changing employee compensation to retain qualified employees. ICBC states that the 2006 experience was taken into consideration in developing the 2007 forecast resulting in a forecast of $528.0 million, which is lower than the 2006 forecast of $537.5 million.

ICBC disputed BCOAPO’s assertion that there could be decreases in service levels and countered that the decreases were possible because of efficiencies introduced by ICBC in streamlining and redirecting work (ICBC Reply, p. 27; Exhibit B-11-1, BCUC 1.58.1, 1.59.1).

ICBC pointed out that deferring otherwise useful programs or projects would have an adverse effect on business operations and would eliminate the benefits of the projects (or at least postpone them).

In response to Mr. Sykes, ICBC noted that overall, there had been a decrease in the indicated rate level attributable to ICBC’s expenses associated with Basic Insurance (ICBC Reply, p. 28; Exhibit B-1, Figure 4.3, p. 4-10).

5.4 Commission Determination

For each of its Divisions, ICBC has noted and explained significant year-over-year changes. The Commission Panel is of the view that estimating future expenditures is always subject to the unknowns of the coming year and that actuals may vary from the forecasts. Actual expenses significantly lower than forecasted amounts bespeak either a change in circumstances or an error in modeling future expenses. Although significant variances may raise questions whether or not those variances are negative (over forecast) or positive (under forecast), the Commission Panel accepts ICBC's forecast expenditure levels for 2007 and finds that they provide adequate support for the rate increase sought in the Application.

6.0 PERFORMANCE MEASURES

Chapter 8 of the Application provides the 2006 Actual and 2007 Forecast for the Performance Measures as agreed to in the May 2004 Negotiated Settlement Agreement and modified in accordance with the 2006 Decision. The results of the performance statistics since 2004 were summarized in Appendix 8A of the Application and reprinted here for easy reference. With some exceptions the performance statistics are generally favourable to ICBC and no Intervenors addressed the performance statistics in their closing Submissions.

ICBC's Performance Measures are categorized into four general areas: service, financial, efficiency and directional. The purpose of the Performance Measures is to provide a snapshot of ICBC's performance in each of the four general areas and to hold the Corporation accountable for its quality of service and financial performance.

Appendix 8 A – Performance Statistics

	MEASURES	2004 Actual	2005 Actual	2006 Actual	2007 Forecast
Service	Insurance Services Satisfaction	96%	96%	93%	93%
	Driver Services Satisfaction	91%	90%	90%	90%
	Claims Services Satisfaction (BCUC)	80%	78%	80%	80%
	Accident Benefit Only (BCUC)	62%	60%	66%	66%
	New Claims Initiation				
	Percent of calls answered in 210 seconds	62%	66%	77%	n/a
	Percent of calls answered in 120 seconds	52%	57%	70%	n/a
	Percent of calls answered in 100 seconds	n/a	n/a	68%	80%
	Customer Contact Service Level				
	Percent of calls answered in 90 seconds	64%	66%	62%	66%
	Customer Approval Index	59%	61%	61%	61%
	Legal Representation Rate	32%	34%	34%	34%
	Complaints Heard by the Fairness Commissioner	164	160	130	n/a
Financial	Basic Loss Ratio	97.9%*	111.7%*	101.5%	100.1%
	Basic Insurance Expense Ratio:				
	Basic Administrative Cost Ratio	4.2%*	4.0%*	3.6%	3.8%
	Basic Premium Tax Ratio	4.2%	4.4%	4.4%	4.4%
	Basic Commissions Ratio	2.0%	2.0%	2.0%	2.0%
	Basic Insurance Expense Ratio:	10.4%	10.4%	10.0%	10.2%
	Basic Non-insurance Expense Ratio	6.2%	6.3%	5.3%	4.7%
	Investment Return	benchmark + 0.46%	benchmark + 0.47%	benchmark +0.34%	benchmark +0.268%
	Injury Severity				
	Bodily Injury Paid Severity	$ 21,024	$ 24,488	$ 24,955	$26,178
	Below $40,000	n/a	n/a	$ 8,706	n/a
	Above $40,000	n/a	n/a	$136,526	n/a
	Accident Benefit Paid Severity	$ 1,584	$ 1,842	$ 1,700	$ 1,732
Efficiency	Cost Per Policy In Force	$ 309*	$ 354*	$ 292	$ 332
	Claims Efficiency Ratio	20.3%	19.9%*	19.7%	19.0%
Directional	New Driver Comparative Crash Rate	1.25	1.23*	1.19	n/a
	Crash Rate	1,029	1,014*	1,033	n/a
	Injured Person Rate	330	323*	313	n/a

* Restated to conform with presentation used in current year.

(Exhibit B-1, Appendix 8-A)

6.1 Service Measures

The eight service measures indicate a high quality of service provided by ICBC and most service measures are trending to improved results over time. ICBC has implemented a higher target for new claims initiation of 80 percent of calls handled within 100 seconds. The actual results for 2006 Customer Contact Service Level indicated that fewer calls were answered within the 90 second period. This increase is attributed to a transition to the Customer Service desktop technology, staff turnover and the addition of new call types. ICBC projects that the performance for this service measure in 2007 will rebound to the higher performance exhibited in 2005. As of May 5, 2007, ICBC reported that 71 percent of calls were answered within 100 seconds (Exhibit B-11-1, BCUC 1.119). This indicates some improvement from 2006 actual.

ICBC is considering modifications to its survey questions for Accident Benefit Only satisfaction. The Corporation will keep the Commission informed of any proposed changes to the survey questions.

6.2 Financial Performance Measures

There are five broad categories of financial measures with several categories having subgroups. The financial performance of ICBC was reviewed in detail through the hearing process and many of the relevant issues such as bodily-injury claims costs are addressed in detail elsewhere in this Decision.

The Basic Loss Ratio is a measure of the insurance products profitability. After a relatively poor performance in 2005, the Basic Loss Ratio has improved in 2006 and is forecast to improve slightly more in 2007. The 6.5 percent rate increase approved by the Commission effective March 2006 is a major contributor to this improvement.

The Basic Insurance Expense Ratio is a standard measure of the operational efficiency of an organization. ICBC's statistics since 2004 have been relatively stable at about 10 percent. The forecast increase for 2007 is a result of the corporate project fund and higher compensation costs, offset by higher premiums earned (Exhibit B-11, BCUC 1.122).

The Basic Non-Insurance Expense Ratio, which measures the operational efficiency of providing non-insurance services, is forecast to improve in 2007, due to the reduction of the payment to the provincial government for compliance operations, along with a relatively flat operating expense offset by the higher Basic premiums approved by the Commission.

The bodily injury ("BI") paid severity statistics have deteriorated since 2004 with the 2007 forecast for BI paid severity at 4.97 percent over the 2006 actual.

6.3 Efficiency Measures

The two efficiency performance statistics are cost per policy in force and claims efficiency ratio. The cost per policy in force statistics have been somewhat erratic but the 2006 actual cost of $292 per policy is the lowest of the four-year tabulation. A more detailed breakdown of this statistic indicates the impact of deferred premium acquisition costs ("DPAC") on the results (Exhibit B-1, p. 8-18).

The Claims Efficiency Ratio is showing modest improvement over time.

6.4 Directional Measures

ICBC uses the three Directional Measures as high level indicators of the effectiveness of road safety programs. The New Driver Comparative Crash Rate is showing slight improvement. The Overall Crash Rate is relatively constant and the Injured Person Rate is showing modest improvement.

Commission Determination

The Commission Panel notes ICBC's improved quality of service and efficiency reflected in the reported performance measures.

7.0 ROAD SAFETY

7.1 Background

In the 2006 Decision the Commission expressed concern about the lack of progress made by ICBC in responding to expectations in the 2005 Decision for "clear funding tests, targeted programs to produce measurable claims cost reduction outcomes, and periodic or post-project evaluation carried out in a manner appropriate to the program" (2006 Decision, p. 69). That Decision also stated "The Commission Panel has determined that if a program does not have measurable outcome targets, or is not being managed by ICBC to ensure its effectiveness in terms of claims cost savings outcomes, it should not be in [R]oad [S]afety [L]oss [M]anagement. A more appropriate place for the activity and expense might be to parallel the action taken by ICBC with respect to the Autoplan Broker MOU road safety program and consider such programs primarily a marketing activity and expense" (2005 Decision, p. 56). The 2006 Decision directed ICBC to file a comprehensive road safety action plan within 90 days.

On October 11, 2006, ICBC filed a road safety plan with information on strategies, tactics, targets, measurement criteria and program costs related to its enforcement, engineering and education and awareness road safety programs.

The Commission in its December 19, 2006 letter to ICBC stated "the filed material did not meet the expectations of the Commission and in its view did not satisfy the direction in the Decision nor address earlier concerns expressed in the January 19, 2005 Decision (Letter No. L-82-06, p. 3). In the same letter, the Commission advised ICBC that it has similar assessment issues with respect to expenditures by ICBC in the area of enhanced law enforcement, recognizing the requirements of IC2 but stating; "the Commission must also be satisfied that Basic Insurance is being made available in a manner that it considers are in all respects adequate, efficient, just and reasonable."

In a letter to the Commission dated February 22, 2007, ICBC submitted a proposal as to further information to be filed with its 2007 Revenue Requirements Application in order to address the requirements identified in Letter No. L-82-06. This proposal was accepted by the Commission in

Letter No. L-13-07 dated March 1, 2007. In summary, ICBC proposed to provide:

- Information with respect to the education and awareness program review process.
- The 2005 annual report from the Ministry of Public Safety and Solicitor General required by the Traffic and Road Safety Law Enforcement Funding Memorandum of Understanding ("MOU").
- The recently completed road improvement program evaluation.

The Application provides information with respect to enforcement programs, the engineering program, ICBC's review of its investment in road safety education and awareness programs and, updated information on the evaluation of the effectiveness of ICBC's overall road safety program.

7.2 Enforcement

ICBC provides funding for enhanced traffic law enforcement through the MOU with the Ministry of Public Safety & Solicitor General entered into in December 2003. ICBC's previous evaluations demonstrated that increased levels of traffic law enforcement produce immediate, short-term crash reduction benefits. The MOU includes the requirement that the Ministry of Public Safety and Solicitor General prepare an Annual Report describing the enhanced enforcement activities and costs. The Annual Report is prepared following the end of a calendar year and is delivered to ICBC in the subsequent calendar year. The 2005 Annual Report delivered to ICBC in 2006 is attached as Appendix 10 to the Application.

The Enhanced Road Safety Enforcement Initiative, 2005 Annual Report (the "Report"), identifies two goals:

- prevent deaths and serious injuries caused by traffic crashes; and
- prevent auto thefts.

Of the five strategies outlined, four deal with traffic law enforcement. One states "Deter and capture auto thieves." The table below identifies Tactics, Outputs and Costs.

Table 3: Strategy 2 – 2005 Operational Tactics, Outputs and Costs

Tactic	Outputs	Costs ($'000s)
IMPACT – Integrated Municipal Provincial Auto Crime Team (1)	• 285 car thieves arrested • 320 vehicles recovered • 7.8% (n=2945) overall decrease in official count of auto theft compared to the average of 2002/2003 • Established Vancouver Island Bait Car program • Established Interior Bait Car program • Increased public awareness through media relations/educational campaign	2,211

Note 1: Costs exclude 30% federal contribution of $947,264.
(Exhibit B-1, Appendix 10A, p. 9)

The objective of this strategy is stated as "reduce rates of auto theft" and this is the mandate of the Integrated Municipal Provincial Auto Crime Team ("IMPACT"). IMPACT's current enforcement priorities include targeted enforcement of dangerous and prolific car thieves, Lower Mainland, Interior, and Vancouver Island Bait Car programs, and media relations (Exhibit B-1, Appendix 10A, p. 9).

The Commission Panel notes the cost of this strategy within the Road Safety Law Enforcement Funding MOU of some $2,211,000. The evidence provided does not include in this amount an apportioned cost of the traffic safety helicopter program which, as a primary mandate, includes operations targeting stolen vehicles (Exhibit B-1, Appendix 10A, p. 8).

In the 2006 Decision the Commission considered definitions within road safety and loss management provided by ICBC to distinguish between various initiatives and determined that those definitions as presented were adequate. That decision accepted auto crime prevention initiatives to prevent vehicle thefts as Auto Crime Prevention, as distinct from Road Safety initiatives that are designed to "promote or improve highway safety".

In the case of the Bait Car program, ICBC acknowledges that the main benefit accrues to Optional insurance by reducing comprehensive claim costs (T2:341; Exhibit B-1, Appendix 2G, p. 1; 2005 Decision, p. 57).

The Commission Panel does acknowledge however, that ICBC is in compliance with both the terms of the current MOU and IC2.

7.3 Engineering

In order to reduce claims costs, ICBC shares the cost of road design improvements at high-risk crash locations with the responsible road authority. ICBC has specific investment criteria for funded projects. Until recently, ICBC required a 3 to 1 return on investment within two years for each project. The new investment criteria starting in 2006 requires a minimum 50 percent internal rate of return. ICBC evaluates road improvement projects after the end of the investment return period. The most recent external evaluation of road improvement project results was completed in December 2006 and is attached as an Appendix to the Application (Exhibit B-1, Appendix 10B).

ICBC submits that a review of representative road improvement projects completed in 2002 and 2003, prepared jointly by ICBC and an external expert, provided an evaluation of the cost-benefit of those improvements and the evaluation concludes that ICBC's investment objectives were achieved. ICBC states that it expects to complete an analysis of road improvement projects implemented in 2002 and 2003 in the third quarter of 2007 (ICBC Submission, p. 41).

IBC argues

> "… improvement programs, an aspect of road safety that should be purely objective, appear to be run so as to engender goodwill and not just reduce crashes. ICBC now requires a 50% internal rate of return rather than a 3 to 1 return on investment, which ICBC argues will enable 'investment in projects that will provide benefits to policyholders over longer periods of time and has increased the number of projects eligible for ICBC investment from those eligible under the previous criteria'. Road improvement projects are assessed after they have been implemented and ICBC has explained that a number of the projects have not met the benefit-cost ratio. It is not

> clear whether what is learned from those projects that do not meet the benefit-cost ratio (less than 2.0 in 2002 and less than 3.0 in 2003) is applied when further projects come forward for consideration.
>
> It is also not yet clear what criteria ICBC uses, at both the evaluation and decision stage, to determine what road improvement projects it should invest in.
>
> If ICBC is to continue in this role it is imperative that its engineering programs as well as its education and awareness programs evidence a proper return on investment" (IBC Submission, p. 20).

During the IR phase of the hearing IBC asked two questions of ICBC (Exhibit B-11-8, IBC 61.1, 61.4) with respect to the selection process and program impact for road improvement projects. ICBC responded with information which the Commission Panel considers to be informative and generally useful. It does fall short of describing how, everything else being equal, competing projects are rationalized and how a final list of projects is approved. A description of this process would improve transparency and serve to address some of IBC's concerns.

The Commission Panel notes that ICBC is reviewing the results of the Road Improvement program evaluation to determine how the road improvement project selection and analysis process can be improved (Exhibit B-15, IBC 2.109.1).

While the Commission Panel is generally satisfied with the road improvement "program", an improved and more transparent process for the selection of a specific project from competing proposals and ever increasing rigor in analysis of results is viewed as an appropriate area for review and development.

Commission Determination

The Commission Panel expects to receive the result of the Road Improvement program evaluation when it has been completed.

7.4 Education and Awareness

ICBC seeks to produce long-term improvements in driving attitudes and behaviours through investment in education and awareness programs. Education and awareness programs are aimed at motorists to assist them in improving their driving habits and applying those habits on a consistent basis, even if enforcement is not present or if they encounter less than optimum road and weather conditions.

The Commission has confirmed that it is seeking the following information about education and awareness programs in addition to that filed by ICBC on October 11, 2006:

- How targets for individual programs are determined and why the target is appropriate.
- How the appropriate level of expenditure on individual programs is determined.
- Interim program evaluations.
- Final program evaluations.

In order to provide the Commission with this additional information, ICBC is initiating a comprehensive review of its investment in education and awareness programs. ICBC provides a description of the comprehensive review in the Application (Exhibit B-1, pp. 10-3, 10.4).

IBC expressed concerns that some programs are not working, and that goodwill is derived by ICBC for its Optional insurance business from the dollars spent by Basic on road safety (IBC Submission, p. 20). IBC also takes issue with ICBC’s statement “such as generating significant positive earned media coverage for ICBC” (Exhibit B-15, IBC 2.103.1.5, Attachment B, p. 3). Further, IBC expresses the concern that many of ICBC's education and awareness programs are branding exercises for ICBC. And, if this is indeed the case, there is a related allocation issue that must be resolved so as to account for the goodwill derived by ICBC for its Optional business from the dollars spent by Basic insurance on road safety (IBC Submission, p. 20).

7.5 ICBC Responses

ICBC responded to the IBC reference to the Zero-Crash Month Post Implementation Review findings that "the targets for individual participation were not achieved and, the project cannot demonstrate short-term, measurable claims reduction" (IBC Submission, p. 19). ICBC states that on review it "decided not to repeat the zero crash month tactic". ICBC also states that "[I]t is often difficult to predict the results of these innovative tactics; however, it is worthwhile to pilot promising new ideas, then determine whether any impact can be measured in the crash data" (ICBC Reply, p. 43).

Commission Determination

The Commission Panel agrees with encouraging some measure of innovation and is of the view that the decision taken by ICBC, given the results of the Zero-Crash Month Post Implementation Review, demonstrates that the concerns of the Commission over accountability for results as expressed in previous decisions, have been heard and acted upon by ICBC with respect to investment in Road Safety initiatives.

The Commission will consider any allocation issue when the comprehensive review of ICBC's investment in education and awareness programs is received.

7.6 Additional Road Safety Program Information

In the Application ICBC filed a report on the overall effectiveness of ICBC's investment in road safety for the years 2001 to 2004. ICBC states that the "overall road safety program evaluation report concludes that the most likely effect of the road safety programs was an annual average reduction in injury claims of 7.9 %" (Exhibit B-1, p. 10-4).

A review of that report leaves the Commission Panel with a concern. The report describes the difficulty and complexity of determining with certainty the actual effect of the Road Safety initiatives as separate from the many other issues which have impacted crash claim counts both positively and negatively with no intervention from ICBC. That said, the report concludes "It is important to note that while statistically-speaking we cannot reject the possibility of no effect, the expected value of the effect is still a 7.9% injury claim count reduction and not zero" and "the estimates of annual effect presented above for the Road Safety Programs should be treated as maximums in terms of their applicability to ICBC activities designed specifically for the purpose of crash risk reduction" (Exhibit B-1, Appendix 10E, p. 7). The average reduction in injury claims of 7.9 percent includes the effect of all "road safety" initiatives including, as an example initiatives in road engineering which have their own cost benefit analysis and recognition. The Commission Panel recognizes that measurement of the overall effectiveness of ICBC's investment in road safety is complex but remains concerned that considerable Basic insurance premium dollars are being spent on initiatives under the Road Safety category of Loss Management. The Commission Panel notes the recommendation made in the Evaluation of the Effectiveness of Education and Awareness Programs; "Develop clearer operational definitions of the targeted problem behaviours" (Exhibit B-1, Appendix 10D, p. 18). While it is recognized that this study was undertaken to determine whether certain concepts could be employed to assess the readiness to change of the BC driver population, the recommendation is consistent with the concern of the Commission Panel that any initiative undertaken in this area have clear and measurable target outcomes.

IBC expresses the concern that "many of ICBC's education and awareness programs are branding exercises for ICBC. ...if this is indeed the case, there is an allocation issue that must be resolved" (IBC Submission, p. 20). While not specifically addressing this concern, the Commission Panel is of the view that ICBC is making very slow progress on a number of directions given to ICBC all to do with the requirement of the Commission to be satisfied that Basic insurance is being made available in a manner that it considers are in all respects adequate, efficient, just and reasonable.

The Directions referred to include:

- In its 2003 Decision the Commission noted that it would like to see additional evidence on ICBC's process to determine the effectiveness of these programs (BCUC Decision November 12, 2004, Section 2.4.4).
- In future filings the Commission Panel will expect to see the use of clear funding tests such as a zero-based budgeting type methodology employed for establishing the budget for RSLM programs. Further, all projects should be targeted to produce measurable

claims cost reduction outcomes, and periodic or post- project evaluation should be carried out in a manner appropriate to the program (2005 Decision p. 56).

- The Commission Panel directs ICBC to file a comprehensive Road Safety action plan, including program objectives, within 90 days of this Decision and to file progress reports on the implementation of the plan on a quarterly basis thereafter. The filing is to show how these programs will be planned and monitored effectively by ICBC in order to achieve the expected results (2006 Decision, p. 70). This matter remains outstanding. ICBC's proposal to address the issues raised by the Commission Panel was accepted by the Commission in Letter No. L-13-07 dated March 1, 2007.

Commission Determination

The 2006 Decision expressed concern about the lack of progress on these matters (2006 Decision, p. 69) and this Commission Panel expresses the same concern. The Commission Panel looks forward to receiving ICBC's comprehensive review of its investment in education and awareness road safety programs. The Commission Panel expects the result of that review will set a course for "clear funding tests, targeted programs to produce measurable claims cost reduction outcomes, and periodic or post-project evaluation carried our in a manner appropriate to the program" as expressed in the 2005 Decision. Further, the expenditures in this area should be justified and address the position of IBC that "the cost of these programs should be assigned to Optional not Basic" (IBC Submission, p. 22), or at least demonstrate an appropriate allocation of these costs between Basic and Optional insurance.

8.0 INFORMATION SERVICES DIVISION

8.1 Background

The 2006 Decision identified the Information Services Division ("ISD") as requiring greater in-depth study, stating:

> "The Commission Panel finds that the ICBC has not established a long range strategic IT [Information Technology] plan for the Corporation which sets the overall direction in terms of infrastructure and resource requirements for IT activities over a three to five year period. An enterprise IT strategic plan has a profound impact on management decisions and rates as it is a key tool to ensure that IT costs and resources are managed effectively and efficiently. The Corporation acknowledges that it is working towards a comprehensive enterprise strategic IT plan focusing on the Business Strategies and where the business is going.
>
> The Commission Panel expects to receive by the next revenue requirements application, the enterprise strategic IT plan and budgets which closely align with the long range needs of the business and will enable the Corporation to achieve economies of scale and appropriate allocation of IT resources" (2006 Decision, p. 37).

The Commission's concern was related to the overall impression that there had been little long term IT planning on a corporate-wide basis. There was no strategic IT plan and the systems and applications employed by ICBC appeared to be predominately legacy systems that had been customized in-house over many years to meet divisional requirements.

ICBC confirmed this perception in this Application:

> "Many of ICBC's core application systems have been in place for 25 years or more. Over time, they have been modified through multiple add-ons and enhancements, resulting in a complex design with a high level of integration across application systems. **Functional changes cannot easily be isolated to a small section of the application system.** As a result, changes need to be made and accounted for in several locations within the application system, which in turn requires changes to be made in several other application systems due to the integration across ICBC's application systems" (Rate Design Application, Exhibit B-1, p. 16.2-3, paragraph 10, emphasis added).

In the Application ICBC states:

> "Changes to Basic Insurance rate design will present a major impact to ICBC's application systems. Multiple systems could be affected, and given the complexity of those systems, months and possibly years of lead time will be required for ICBC to implement the changes successfully" (Exhibit B-1, p. 7.6-11).

And further in the Application ICBC reports that:

> "There are in excess of 600 named systems (business applications), including a large proportion of custom developed, mainframe based, systems in production" (Appendix 7.6A, p. 7.6.A-4).

As noted above, in its 2006 Decision, the Commission requested that ICBC file a long range strategic IT plan for the Corporation together with the associated capital plans and budgets. In response, the Corporation filed as part of this Application, an IT Strategic Plan and the associated IT Capital Expenditure Plan (Exhibit B-1, Appendices 7.6A, 7.6B, respectively).

Moreover, on June 21, 2007, ICBC filed its proposal for revising the Owner's Certificate to disclose Non-Insurance Services costs in response to Commission Letter No. L-82-06, and the Commission's 2006 Decision issued concurrently with Order No. G-86-06. By Letter No. L-82-07, the Commission accepted ICBC's proposal. In accepting the proposal, the Commission noted that the technological constraints arising from ICBC's billing system and related Information Technology infrastructure would be addressed in the upcoming Commission Decision on ICBC's 2007 Revenue Requirements Application.

The Commission Panel notes the concern expressed in the 20-6 Decision and echoes the concern that there is, at this point in time, no comprehensive plan to completely revamp the ICBC IT infrastructure. It may well be that no such plan is required. The Commission Panel has not been presented with evidence for or against, so as to consider this matter. However, when faced with the seeming inability of the Corporation to respond to billing and rate design issues in a timely way, the

Commission Panel is concerned that major work is required. And ICBC recognizes the magnitude of the job ahead:

> "The longer-term rate design changes (2010 and beyond) identified in the Rate Design Application have the potential to impact a hundred or more systems that cross several major operational areas within ICBC" (Exhibit B-1, p. 7.6A-13).

8.2 The ICBC Infrastructure Planning Process

ISD operating expenses are forecast to be $74.9 million for 2007, compared to $74.1 million in 2006 and $70.5 million in 2005 (Exhibit B-1, p. 7.1-7). ICBC notes that information systems and technology are integral to the day-to-day operation of virtually every aspect of ICBC's business (sale of insurance, management of claims, and issuing of driver licenses) and supporting business processes (finance and human resources) and fulfills workplace productivity and communication needs. Most business change involves some degree of IT support (Exhibit B-1, Appendix 7.6A, p. 7.6.A-5). Annually, ICBC processes six million business transactions through its primary computing facility and some 100 million system transactions through its mainframes. Among other workload, ICBC's distributed computing (non-mainframe) environment supports ICBC's implementation of SAP, its corporate data warehouse, call centre systems, intranet, Autoplan Extranet, and shared services for personal computer users (Exhibit B-1, Appendix 7.6A, p. 7.6.A-4).

ISD operates as an internal service provider, providing leadership in IT, technology and systems planning, development and delivery of business systems solutions, and supporting technology infrastructure (hardware, software, and voice and data telecommunications) (Exhibit B-1, p. 7.6-1).

ICBC employs a portfolio management approach to IT planning which is designed to enhance IT governance and technology expenditure planning and prioritization. The corporate IT requirements are grouped into nine "portfolios". The first six of these align with ICBC's business areas:

- insurance
- claims

- licensing
- finance
- HR
- ISD

The remaining three portfolios are comprised of items that support multiple business areas:

- enterprise technology
- enterprise information
- enterprise solutions

ICBC submits that consolidation of shared capabilities into the ‘Enterprise portfolios’ supports ISD’s strategy for common solutions that contribute to economies of scale and efficient use of resources (Exhibit B-1, Appendix 7.6A, pp. 7.6.A-10 – 7.6.A-11).

The operational division portfolios (the first six in the above list) take the initiative in defining what their respective IT requirements are for the future. Business justification and analysis of alternatives is completed by the project sponsor before an expenditure is approved. As stated by ICBC: “Investments in systems (whether an enhancement, replacement or new) are sponsored by the business areas deriving value from the IT investment” (Exhibit B-1, p. 7.6-4).

As an internal service provider, ISD charges back to the originating party the costs associated with any particular division request. ICBC notes: “Although most of ICBC’s technology expenditures are expenses of ISD, business areas throughout ICBC are allocated or “charged back” their costs of the IT services they consume. ICBC does this to ensure appropriate use of IT services and to inform business areas of their IT consumption.” ICBC transfers technology costs where usage is in the control of the individual, such as telephone use and submits that such an approach promotes appropriate use of IT resources because end-users understand what they are being charged for and are in control of their consumption of the service or product (Exhibit B-1, p. 7.6-5).

As noted above, the ‘Enterprise portfolios’ support ISD’s strategy for common solutions that contribute to economies of scale and efficient use of resources. ICBC’s Enterprise Technology Portfolio includes the IT infrastructure components services and through its Technology and Systems Planning process, ISD reviews and assesses the sustainability of technology components, technology trends and identifies (Exhibit B-1, Appendix 7.6A, p. 7.6.A-23). The Enterprise Information portfolio includes enterprise information technologies and services such as the corporate data warehouse, knowledge management and records management that contribute to ICBC’s management decision making ability. ICBC states that the Enterprise Information portfolio covers “…the introduction of new technologies to enhance the corporate data warehouse and to establish a content/document management service in the 2007-2009 timeframe” (Exhibit B-1, Appendix 7.6A, p. 7.6.A-30).

ICBC’s IT Architecture Department works with ISD and with ICBC’s business areas to integrate strategic, tactical, business and project planning (Exhibit B-1, p. 7.6-12). As noted above it is ICBC’s view that consolidation of shared capabilities into the Enterprise portfolios supports ISD’s strategy for common solutions that contribute to economies of scale and efficient use of resources (Exhibit B-1, p. 7.6A-10). This suggests an on-going effort within ICBC to standardize on applications software and to provide for greater interoperational capabilities. For example, ICBC states that “In 2007 Special Counsel anticipates implementation of the Integrated Counsel Evaluation and Management Information System, an enhanced counsel performance management application that will integrate with other ICBC information systems to collect key information about litigated claims” (Exhibit B-1, p. 7.2-17). Also, the IT planning environment responds to overall corporate objectives and the IT Governance Model includes review by senior management of all significant IT projects, with projects over $5 million requiring Board of Director approval (Exhibit B-1, p. 7.6-4).

Within the ISD itself, responsibilities for planning, design and infrastructure appears to be shared:

> **Information Services Planning, Architecture and Administration (comprised of three separate departments) –** “… responsible for aligning IT with the business areas…and oversees recovery, chargeback and transfer of IT costs to the appropriate division”.

Information Services Solutions – "… responsible for designing and building new solutions …".

Information Technology Infrastructure – "… responsible for the design, implementation, optimization, and operation of all technology infrastructure …".

(Exhibit B-1, pp. 7.6-13-7.6-15)

8.3 The IT Strategic Plan

ICBC states that the purpose of this IT Strategic Plan is to describe ICBC's enterprise-wide IT plan, based on ICBC's strategic priorities over a rolling three year timeframe, which is aligned with the planning horizon of ICBC's Service Plan 2007-2009 (Appendix 11B). The IT Strategic Plan defines IT expenditure priorities and expectations for a three year timeframe and guides allocation of IT resources. The IT Strategic Plan was developed and will be maintained based on business direction (strategies and priorities), technology trends, best practices for management of IT, and the need to maintain the technology and systems already in place (Exhibit B-1, p. 7.6A-2).

The Strategic Plan was current to February 2007 when filed with the Application. ICBC states that the technology aspects of the plan have a more certain three year outlook than the systems aspects of the plan. ICBC will continue to develop the plan throughout 2007 (Exhibit B1, p. 7.6A-2).

Intervenors did not comment on the IT Strategic Plan.

Commission Determination

Further to the direction of the Commission in the July 2006 Decision, the Commission acknowledges the filing of the IT Strategic Plan. The Commission Panel notes that ICBC will continue to develop the plan throughout 2007.

The Commission Panel has reviewed the filing and considers it to be a good start on a strategic plan for this critical area of ICBC operations. While comprehensive, the Strategic Plan covers only a short time horizon of several years. ICBC is embarking on a number of initiatives in rate design which have systems implications well beyond the current planning horizon which ICBC describe as "having the potential to impact a hundred or more systems that cross several major operational areas within ICBC" (Exhibit B-1, p. 7.6.A-13) and "[t]he costs for systems transformation related to the Insurance Servicing Direction beyond 2007 are anticipated to be large and will take place over a number of years" (Exhibit B-1, pp.7.6.A-14-15).

The Commission Panel expects, with future revenue requirement filings, to receive updates to the IT Strategic Plan and the plan should be of a more long term view, incorporating anticipated or known changes to business requirements, technology evolution and opportunities for improvements and efficiencies within the business.

In evaluating the "Challenges and Risks" that may adversely impact the achievement of the IT Strategic Plan, ICBC isolates the risk of "legislative and regulatory requirements" (Exhibit B-1, p. 7.6A-38). There is no visible attempt to dimension and cost the possible complications in these areas nor is there any evidence of incorporating the possible requirements into the Strategic Plan.

While the IT Strategic Plan as filed provides some direction and insight as to where the Corporation intends to update and improve its IT performance in response to overall corporate goals and business changes, it does not provide a basis for a comprehensive long-term view of the suitability of the IT infrastructure at ICBC.

The Commission Panel has concerns that this pivotal area of ICBC's operations is not currently meeting the problems and challenges that have been identified and the Commission Panel has not seen evidence that demonstrates a longer term strategic plan with associated cost estimates, which could impact rates and which is in alignment with ICBC strategic business needs.

8.4 The IT Capital Expenditure Plan (including threshold reporting limit)

8.4.1 Background to the IT Capital Expenditure Plan

In the 2006 Decision the Commission requested ICBC to provide detail on projects of $500,000 or greater along with an annual capital expenditure plan for review and comment by the Commission prior to these projects being undertaken (2006 Decision, p. 42).

In October 2006, ICBC submitted its overall approach to reporting IT capital spending to the Commission and as per the Commission's request, outlining two components: individual project filings and annual IT capital expenditure plans. Following review of the October 2006 submission by ICBC, the Commission issued Letter No. L-82-06 on December 19, 2006. While generally in support of the IT Capital Spending filing framework, the Commission identified three items for discussion in this Application. The Commission noted that the timeframe of the IT capital plan was unclear and would like it to "look out several years at a minimum (perhaps 3-5 years) and would be in the nature of an annual rolling forecast." The Letter No. L-82-06 also noted that with respect to reviewing individual IT projects it still believes that a 'trigger' amount of $500,000 is reasonable but in a future proceeding will be open to arguments that would place the trigger at a higher level. The Commission closed the Letter with the following, "The Commission is of the view that the review process for IT Capital Expenditures should be re-examined in the context of the 2007 Revenue Requirement application" (Letter No. L-82-06, p. 2).

The IT Capital expenditure Plan addresses these three items.

The IT Capital Expenditure Plan is attached to the Application as Appendix 7.6B. The "division-driven" planning model adopted by ICBC is discussed earlier in this decision and the capital planning that follows upon the infrastructure planning process reflects the divisional approach. A filing of the review process for IT Capital Expenditures was requested by the Commission in its letter of December 19, 2006 (L-82-06).

Total IT Capital Expenditures are forecast as follows:

- 2007 $6.4 million
- 2008 $8.4 million (not including Insurance and Claims updates)
- 2009 $12.8 million.

In 2006, forecast expenditures were estimated at $15.0 million and actuals came in at only $6.5 million; the main component giving rise to the discrepancy was a decision to extend the life of the primary UNIX server (F15K) (Exhibit B-1, p. 7.6B-8).

Commission Determination

The capitalization and amortization practices outlined appear reasonable and suitable to the Corporation's operations (Exhibit B-1, p. 7.6B-3).

For reporting and internal management purposes, capital expenditures are divided into two main categories: capital renewal projects and business change projects. A rolling five-year forecast is presented (two years of actuals and a three-year rolling forecast). The description of the various projects is adequate for Commission purposes and provides a model that can be employed going forward.

8.4.2 Proposal for Review of Individual Capital Projects

Much of the interplay between the Corporation and the Commission has dealt with the appropriate reporting threshold for IT capital expenditures that ought to be adopted. The Commission established in its letter of December 19, 2006 (L-82-06), the $500K threshold limit for notification to the Commission. The letter indicated that the Commission was "open to arguments that would place the trigger at a higher level." The reporting regime initiated by the letter appears to be working well and several IT capital Proposals have been submitted to the Commission.

8.4.2.1 Commission Determination

The Application puts forward a proposal for defining the threshold that would differentiate as between "new projects that involve a business change, and capital renewal projects" (Exhibit B-1, p. 7.6 B-4). While the Commission Panel agrees with the ICBC submission that strict renewal of existing assets does not normally carry with it any unusual risk, the fact that assets are simply being replaced, does reinforce the perception that the *status quo*, business-as-usual approach is being followed. Every purchase (renewal or business change) ought to be tested against the IT Strategic Plan, the goal of standardization of systems, and the overarching corporate mission and goals. Additionally, such a distinction would require the Corporation (and its system architecture planners) to make a decision in every case as to whether a proposed purchase was strictly renewal or involved a business change. This decision would be a subjective one and open to debate. It would unnecessarily complicate the high level reporting that the Commission is seeking.

The Commission Panel rejects for reporting purposes, the proposal to differentiate as between business change projects and renewal projects.

ICBC also proposes to further refine the threshold test by relating the threshold trigger amount to the dollar value of Basic insurance premiums written during the previous fiscal year and the annual amortization costs of 0.1 percent of the dollar value of the Basic insurance premiums. The Commission Panel sees no direct nexus between proposed IT expenditures and the premiums written other than in respect to materiality which is the argument presented by ICBC. Again, the Commission Panel is of the view that such a threshold definition will unnecessarily complicate the IT capital reporting that the Commission seeks.

The Commission rejects the ICBC proposal to base the reporting threshold on the Basic insurance premium revenues and the amortization assumptions presented in the Application.

The Commission, in its letter of December 19, 2006, supported the ICBC suggestion for "a two stage filing process that would encompass individual project filings supported by an annual IT capital plan." The Commission Panel believes the established system is working well. However, in an effort to reduce the regulatory burden on ICBC, the Commission Panel is open to raising the reporting threshold of individual IT capital projects to $1 million. The Commission Panel accepts the proposed five year time horizon for the IT capital plan, being "two years of actual expenditures and a rolling three year forecast (Exhibit B-1, p. 7.6 B-13-14).

The Commission Panel directs ICBC to continue the existing reporting regime consisting of a comprehensive annual IT capital plan filing that would identify the total IT capital expenditures (actuals and forecast). In addition, those individual projects that exceed a capital expenditure of $1 million are to be reported, with explanatory detail and project justification, in a timely way for Commission comments, once internal corporate approvals have been achieved, but before implementation.

It is open to ICBC to suggest changes to the IT capital reporting process as experience is gained with the format and detail presented. Looking to the future, it may be that as new regulatory regimes for ICBC are considered, the need for continued IT capital reporting can be consolidated with other capital reporting processes established.

8.4.3 The IT Capital Plan

In the Application, ICBC provided detail on actual and forecast IT capital expenditures for years 2005 through 2009. The tables below show this detail first by program and then by asset type.

Total IT Capital Expenditures

		($ millions)					
Line No.	Description	2005 Actuals	2006 Forecast	2006 Actuals	2007 Forecast	2008 Forecast	2009 Forecast
1	IT Capital for Renewal Programs	5.8	9.0	3.6	3.8	6.2	11.1
2	IT Capital for Business Change	3.9	6.0	2.9	2.6	2.2	1.7
3	**Total IT Capital Expenditures**	**$9.7**	**$15.0**	**$6.5**	**$6.4**	**$8.4**	**$12.8**

(Exhibit B-1, p. 7.6 B-8, Figure 7.6.B.1

ISD's Capital Expenditures by Asset Type

Line No.	Description	2005 Actuals	2006 Forecast	2006 Actuals	2007 Forecast	2008 Forecast	2009 Forecast
		($ millions)					
1	Computer Equipment	5.5	5.0	3.2	4.4	5.9	5.0
2	Computer Software	2.2	1.7	1.4	2.0	2.0	1.4
3	Telephone Hardware		1.1	1.1			6.0
4	Telephone Software						
5	Software Infrastructure	1.0					
6	Asset Under Construction	1.0		0.8			
7	Unallocated		7.2			0.5	0.5
8	**Total IT Capital Expenditures**	**$9.7**	**$15.0**	**$6.5**	**$6.4**	**$8.4**	**$12.9**

(Exhibit B-1, p. 7.6 B-9, Figure 7.6.B.2)

8.4.4 Intervenor Comments

Intervenors did not comment on this section of the Application.

8.4.3.1 Commission Determination

The Commission Panel is of the view that the IT Capital Plan as proposed by ICBC, coupled with the Commission Panel's definition of a new, higher reporting threshold satisfies the Commission's request for information with respect to 2007 IT capital expenditures and provides the Commission with an opportunity to seek any additional information it may require.

The Commission Panel is generally satisfied with the progress made to date by ICBC on the IT Capital Plan and Budget, the corporate governance thereof, and directs ICBC to file an annual IT Capital Plan consistent with the conclusions and reporting details set out in this Section.

8.5 Benchmarking Comparisons

8.5.1 Background to IT Benchmarking

In the 2006 Decision the Commission identified IT benchmarking as an area in which the Commission requests further information:

> "The Commission Panel notes the impact of an effective IT operation on the efficiency of the organization and the depth of data available to address business issues, all of which ultimately affects rates. Therefore, the Commission orders ICBC to file with the next revenue requirements application, a Benchmarking Plan which encompasses a broader range of metrics along with a timeline that supports the long term IT strategic direction of the Corporation. Further, ICBC is directed to prepare and file with the next revenue requirements application, a status report on the completion of the recommendations from the three benchmark reports along with the benefits and cost savings arising from their implementation" (2006 Decision, p. 39).

In the Application ICBC responds to this direction by providing an IT Benchmarking Plan and a report on the completion of the recommendations from the three previous benchmark reports along with the benefits and cost savings arising from their implementation.

8.5.2 Proposed IT Benchmarking Plan

ICBC defines benchmarking as the comparative analysis of an organization using a collection of measures to provide an objective assessment of current operations. Benchmarking results provide ICBC with focus to investigate the reasons for differences in ICBC's benchmark measures relative to other comparable organizations. ICBC believes that benchmarking is a valuable tool to compare the level of investment in its IT function (Exhibit B-1, p. 7.6.C-1). In previous IT benchmarking studies, IT has been benchmarked with organizations of similar size and complexity, primarily U.S. based financial institutions, manufacturers and governments.

Going forward, ICBC proposes an annual benchmarking, using insurance industry measures and to compare investment in its IT support area to those of Canadian and U.S. based insurance companies. ICBC proposes to have the benchmark analysis conducted by the Ward Group, an insurance industry consulting firm and a leading provider of industry benchmarking and best practice services. The Ward Group's annual benchmarking program is the leading insurance industry benchmarking service in the U.S. and Canada (Exhibit B-1, p. 7.6.C-2). ICBC proposes a broader range of benchmarking measures at the aggregate level which ICBC believes will provide business value in allowing ICBC to evaluate the effectiveness of its IT expenditures.

ICBC states it "will employ Canadian and US Auto insurance benchmark measures that will examine IT costs and staffing levels using common insurance industry measures. This will provide 'a Benchmarking Plan which encompasses a broader range of metrics' as ordered by the Commission in its July 2006 decision" (Exhibit B-1, p. 7.6.C-3) and shows the proposed metrics in a letter from The Ward Group enclosed in the Application as Appendix 7.6C.1 – Ward Letter.

Intervenors did not comment on the proposal.

8.5.2.1 Commission Determination

The proposed benchmarking plan appears to meet the requirements of the 2006 Decision and the Commission Panel accepts the benchmarking plan as proposed.

The Commission Panel accepts the report on the status of the recommendations found in the three benchmark reports, as requested in the 2006 Decision.

9.0 OTHER MATTERS

9.1 VANOC Sponsorship

In its Submission, ICBC explains its two VANOC sponsorship initiatives, the 2010 Olympics licence plate program and funding the cost of Basic insurance for the VANOC fleet of vehicles.

9.1.1 2010 Licence Plate Program

OIC 196 dated April 11 2007 amended the Schedule to the Commercial Transport Fees Regulation and the Schedule to the Motor Vehicle Fees Regulation to include fees for the issuance and renewal of Olympic number plates. In response to several IRs, ICBC explains the administrative and financial arrangements of this program and its obligations to VANOC (Exhibit B-11, BCUC 1.140.4, 1.140.5; Exhibit B-15, BCUC 2.177.1, 2.178.2).

9.1.1.1 Commission Determination

The Commission Panel is satisfied with the arrangements as described with respect to the administration and funding of the 2010 Olympics licence plate program. To eliminate any confusion about the possible impact of this program on Basic insurance, **ICBC is directed, in future revenue requirements applications during the operation of this program, to report the financial activity for this program as a discrete category.**

9.1.2 Basic Insurance for the VANOC Fleet of Vehicles

ICBC's sponsorship of VANOC also includes the funding of the cost of Basic insurance for the VANOC fleet of vehicles by the Optional insurance line of business. ICBC explains, "ICBC's Optional insurance business is paying the full cost of VANOC's Basic insurance premium. The VANOC fleet is being treated the same as other vehicles carrying Basic insurance coverage. There is no foregone premium and there is no premium cost paid for by Basic policyholders" (ICBC Submission, p. 42).

9.1.2.1 Commission Determination

The Commission Panel is satisfied with the arrangements as described with respect to the funding of Basic Insurance for the VANOC fleet of vehicles. To eliminate any confusion going forward about the possible impact of this program on Basic insurance, **ICBC is directed, in future revenue requirements applications during the operation of this program, to report, as a line item, total premium paid by Optional insurance in support of this program as a discrete category.**

9.2 Future Regulatory Process

In information requests Mr. Duck asked if ICBC has considered if there is a better, more cost effective regulatory regime to replace the present process and asked ICBC to comment on the pros and cons of another possible process. In response ICBC stated it has considered the possibility of a regulatory regime other than regular revenue requirement applications, and is open to discussion of alternative approaches to establishing rates for Basic insurance; ICBC also provided pros and cons of the possible alternative identified. This subject was pursued by Mr. Duck in cross-examination when the Chairperson noted that the future regulatory regime is not a part of this decision making process (ICBC Submission, p. 42).

Several Intervenors, in making submissions, commented on the process for the review of ICBC’s revenue requirements. While the Commission Panel agrees this matter must be addressed at some point, the future regulatory process was not within the scope of this hearing and will not be discussed further here.

10.0 THE RATE DECISION

In the Application ICBC seeks a 3.3 percent increase in Basic insurance rates.

In 2003 amendments to the *Insurance Corporation Act* were enacted, which caused ICBC's Basic insurance rates to be regulated by the Commission. In 2004 the Lieutenant Governor in Council issued IC2, which provided direction to the Commission respecting its regulation of ICBC. Among the provisions of IC2 that are relevant to this Application are:

- Section 3(1)(b)(ii) provides that the Commission must set rates for Basic insurance that allow ICBC to achieve, by December 31, 2014, and thereafter maintain, capital available in relation to its Basic insurance business equal to at least 100 percent of MCT.
- Section 3(1)(c) provides that for each year that the Commission fixes Basic insurance rates, the Commission must fix those rates on the basis of accepted actuarial practice so that the rates allow ICBC to collect sufficient revenue to pay certain identified costs and to achieve or maintain the capital required.
- Section 3(1)(e) provides that the Commission must ensure increases or decreases in Basic insurance rates are phased in such a way that those rates remain relatively stable and predictable.

In reaching the determinations and directions in this decision, the Commission Panel has considered all relevant materials comprising the record of this proceeding, including the evidence of ICBC, Intervenors and Interested Parties and the Argument and Reply provided by each Party. References in this decision to specific parts of the record are intended to assist the reader in understanding the Commission Panel's reasoning relating to a particular matter and should not be taken as an indication that the Commission Panel did not consider all relevant portions of the record with respect to that matter. All the elements of cost which the Commission Panel must consider in setting rates for Basic insurance and which were a part of the Application have been addressed and are dealt with in their respective place in this Decision. In the aggregate, the approval of these components supports the applied for increase to Basic insurance rates.

The Commission Panel approves as permanent the 3.3 percent interim refundable rate increase effective May 1, 2007, granted pursuant to Order No. G-31-07. In addition, the Commission Panel approves for policies not included in Order No. G-31-07 a 3.3 percent increase on a permanent basis, effective the first day of the first month that is at least 60 days following this Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 9th day of January 2008.

Original signed by:

L.F. KELSEY
PANEL CHAIR AND COMMISSIONER

Original signed by:

P.E. VIVIAN
COMMISSIONER

Original signed by:

A.W.K. ANDERSON
COMMISSIONER

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-3-08

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IN THE MATTER OF

the Utilities Commission Act, R.S.B.C. 1996, Chapter 473, as amended

and

the Insurance Corporation Act, R.S.B.C. 1996, Chapter 228, as amended

and

An Application by Insurance Corporation of British Columbia
for approval of the 2007 Revenue Requirements for Universal Compulsory Automobile Insurance

and

A Filing of Information Relating to Matters Referenced in the British Columbia Utilities Commission Decision dated July 13, 2006

BEFORE: L.F. Kelsey, Panel Chair and Commissioner January 9, 2008
A.W.K. Anderson, Commissioner
P.E. Vivian, Commissioner

O R D E R

WHEREAS:

A. On March 16, 2007 the Insurance Corporation of British Columbia ("ICBC") submitted an application to the British Columbia Utilities Commission ("Commission") for approval of the 2007 Revenue Requirements for Universal Compulsory Automobile Insurance ("Basic Insurance") including a filing of Information relating to matters referenced in the Commission's Decision of July 13, 2006 (the "Revenue Requirements Application" or "RRA"); and

B. ICBC requests for approval a 3.3 percent rate increase on a permanent basis for all new or renewal policies with an effective date on and after May 1, 2007 that (i) have premiums determined through the use of the Schedule of Basic Insurance Premiums as filed with the Commission, excluding rate class 800 and rate classes 900 – 906 and excluding policies relating to vehicles located on isolated islands; or (ii) have premiums determined under a Fleet Reporting Policy (together the "Plate Owner Basic and Fleet Reporting Policies"); and

C. ICBC applied for a rate increase of 3.3 percent on an interim basis for all new and renewal Plate Owner Basic and Fleet Reporting Policies with an effective date on and after May 1, 2007. By Order No. G-31-07, the Commission approved on an interim basis the rate increase of 3.3 percent for all new and renewal policies with an effective date on or after May 1, 2007 for Plate Owner Basic and Fleet Reporting Policies. The interim increase is subject to refund with interest; and

D. ICBC requests for approval a 3.3 percent rate increase on a permanent basis, effective the first day of the first month that is at least 60 days following the Commission's final decision respecting this application for an increase in Basic insurance rates, for all new and renewal policies other than the Plate Owner Basic and Fleet Reporting Policies; and

E. On March 29, 2007 ICBC submitted its first application to the Commission respecting rate design for Basic Insurance (the "Rate Design Application" or "RDA"); and

F. By Order No. G-32-07, the Commission established that ICBC was to lead a Workshop with respect to the RRA and the RDA on April 23, 2007. The Order also established a Pre-hearing Conference to be held on the same date following the Workshop; and

G. The Commission by Order No. G-48-07 established that the RRA and the RDA would be reviewed in a combined regulatory process but each Application would have its own separate record of evidence. The RRA would be examined in a Written Hearing process for the non-actuarial matters and actuarial matters from the RRA would be examined in an Oral Public Hearing as per the Regulatory Agenda and Timetable attached as Appendix A to Order No. G-48-07; and

H. The Commission subsequently issued Letters No. L-42-07 and L-76-07 dealing with various aspects of the Application; and

I. An Oral Public Hearing was held in Vancouver, B.C. and commenced on July 30, 2007 and concluded on July 31, 2007; and

J. ICBC filed its Argument for the RRA on September 14, 2007. Registered Intervenors filed their Final Argument on September 28, 2007. Subsequently, ICBC filed its Reply Argument on October 9, 2007; and

K. The Commission Panel has reviewed and considered all the evidence on the record for the RRA proceeding.

NOW THEREFORE the Commission orders as follows:

1. The increase in Basic Insurance rates of 3.3 percent for all new and renewal policies with an effective date on or after May 1, 2007 that (i) have premiums determined through the use of the Schedule of Basic Insurance Premiums as filed with the Commission, excluding rate class 800 and rate classes 900 – 906 and excluding policies relating to vehicles located on isolated islands; or (ii) have premiums determined under a Fleet Reporting Policy, is approved on an permanent basis. Also, the increase in Basic Insurance rates of 3.3 percent to be effective the first day of the first month that is at least 60 days following the date of this Decision, for all new and renewal policies other than the Plate Owner Basic and Fleet Reporting Policies, is approved on a permanent basis.

…/3

2. Policyholders who renewed or purchased new policies in the period between May 1, 2007 and the effective date of this Order, are to be notified of the permanent increase in the most cost effective manner, which is to be determined by ICBC. The notice must be reviewed by the Commission in advance of its release. For policyholders renewing or purchasing new policies after the effective date of this Order, notice of the permanent increase will be given with the Notice to Renew or other similar form issued by ICBC to Basic Insurance policyholders in the ordinary course of business for renewal policies, and at the time of purchase for new policies.

3. The Commission will accept, subject to timely filing, amended Basic Insurance rate schedules in accordance with the terms of this Order.

4. The Basic Insurance Capital Management Plan, as set out in Chapter 6.2 of the Application, is approved subject to the modifications set forth in the Decision issued concurrently with this Order.

5. ICBC is directed to comply with all determinations and instructions set out in the Decision that is issued concurrently with this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 9th day of January 2008.

BY ORDER

Original signed by:

L.F. Kelsey
Panel Chair and Commissioner

Summary of the Components of Required Premium
Policy Year 2007

($ 000's)

	Description	**Amount**	**Exhibit Reference / Formula**
A.	Claims and Related Costs		
(a)	Loss and ALAE Payments	1,829,872	A.0.2: Row (e) Col (4)
(b)	KOL 37	1,110	A.0.2: Row (e) Col (5)
(c)	Claims Expenses (ULAE)	165,095	A.0.2: Row (e) Col (6)
(d)	Total Claims and Related Costs	1,996,077	(a) + (b) + (c)
B.	Expenses		
(e)	Operating Expenses		
(f)	Road Safety and Loss Management	46,436	H.1 (complete formula provided below)
(g)	Operating Costs - Administration and Other	49,347	H.1
(h)	Operating Costs - Insurance Services	26,811	H.1
(i)	Non-Insurance Expense	74,229	H.1
(j)	Total Operating Expense	196,823	A.0.2: Row (e) Col (7)
(k)	Per-Policy Broker Fee	59,951	A.0.2: Row (e) Col (8a)
(l)	Variable Broker Fee	2,587	A.0.2: Row (e) Col (8b)
(m)	Premium Tax	90,235	A.0.2: Row (e) Col (9)
(n)	Total Expenses	349,595	(k) + (l) + (m)
(o)	Total Claims and Expenses	2,345,672	(d) + (n)
(p)	Capital Provision	45,664	A.0.2: Row (e) Col (12)
(q)	Total Projected Costs	2,391,336	(o) + (p)
C.	Miscellaneous Revenue		
(r)	Servicing Fees for Financing Plans	30,813	H.3: Row (c) Col (4)
(s)	Driver Penalty Points Premium	17,500	H.3: Row (c) Col (5)
(t)	Short Term Surcharge	12,111	H.3: Row (c) Col (6)
(u)	Multiple Crash Premium	531	H.3: Row (c) Col (7)
(v)	Investment Income on Retained Earnings	30,597	A.0.2: Row (e) Col (3)
(w)	Investment Income on Policyholder Supplied Funds	248,999	A.0.2: Row (p)
(x)	Total Miscellaneous Revenue	340,551	sum (r) through (w)
(y)	Required Premium	2,050,785	A.0.0 = (q) - (x)
(z)	Projected Premium at Current Rate Level	1,984,673	A.0.0
(aa)	2007 Basic Insurance Revenue Surplus / (Deficiency)	(66,112)	(z) - (y)
(ab)	Indicated Rate Change	3.3%	A.0.0 = -(aa) / (z)

Notes:

Row (f) = H.1 Row (a) Col (5) * [H.1 Row (x) + (H.1 Row (y) * (1+ H.1 Row (aa))) + (H.1 Row (z) * (1 + H.1 Row (aa))^2)]
Rows (g) though (i) are developed using a similar formula as Row (f) above

LIST OF APPEARANCES

P. MILLER	Commission Counsel
C. JOHNSON, Q.C. M. GHIKAS	Insurance Corporation of British Columbia
J. QUAIL L. WORTH	B.C. Old Age Pensioners' Organization *et al.*, the Active Support Against Poverty, B.C. Coalition of People with Disabilities, Council of Seniors' Organization of B.C., End Legislated Poverty, Federated Anti-Poverty Groups of B.C., and the Tenants' Rights Action Coalition
L. MUNN	Insurance Bureau of Canada
J. ELWICK	Canadian Direct Insurance Inc.
N. WELLS	N.W. Insurance Brokers
R. FINNIE	Pemberton Insurance Corporation
G. ADAIR	Coalition Against No-Fault Insurance
S. TOOMEY	COPE Local 378
R. SYKES	Self
F. DUCK	Self

W.J. GRANT P.W. NAKONESHNY J.W. FRASER D. CHONG J. YANG	Commission Staff
ALLWEST REPORTING LTD.	Court Reporters

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

Insurance Corporation of British Columbia
2007 Revenue Requirement Application

EXHIBIT LIST

Exhibit No.	Description
COMMISSION DOCUMENTS	
A-1	Letter dated March 19, 2007 issuing Order G-31-07 regarding Interim Rates for Revenue Requirements Application
A-2	Letter dated March 19, 2007 issuing Order G-32-07 to establish Workshop and Notice of Pre-Hearing Conference to review the Revenue Requirements Application
A-3	Letter dated April 16, 2007 issuing letter to all participants in respect to the regulatory process
A-4	Letter dated April 27, 2007 issuing Order No. G-48-07 establishing Regulatory Agenda and Timetable
A-5	Letter dated May 1, 2007 issuing Commission Information Request No. 1 to ICBC
A-6	Letter No. L-42-07 dated June 11, 2007 confirming ICBC's understanding of Commission Order No. G-48-07 and the Actuarial Issues to be reviewed at the Oral Public Hearing
A-7	Letter dated June 12, 2007 and Commission Information Request No. 2
A-8	Letter dated July 9, 2007 directing ICBC to respond to Intervenor's amended information requests on a best efforts basis to as many of the new or revised questions relating to the proceeding (Exhibit C9-3)
A-9	Letter dated July 17, 2007 Issuing Oral Public Hearing Hours
A-10	Letter dated July 19, 2007 establishing the location for the Oral Public Hearing and issuing a response to Intervenor's request for a motion

Exhibit No.	Description
A-11	Letter dated July 19, 2007 filing response to Intervenor's request for assistance (Exhibit C7-8)
A-12	Letter dated July 26, 2007 responding to Russell Sykes' letter of July 20, 2007 (Exhibit C7-9)
A-13	Letter dated July 26, 2007 responding to Russell Sykes on the Oral Public Hearing process of hearing his Motion and comments (July 22, 2007 letter) (Exhibit C7-10)
A-14	**SUBMITTED AT HEARING** – Cross examination reference book
A-15	**SUBMITTED AT HEARING** – Witness Aid - Minimum Capital Test (MCT) Rations under Different Methodologies
A-16	**SUBMITTED AT HEARING** – Guideline from the Office of the Superintendent of Financial Institutions Canada - Minimum Capital Test (MCT) for Federally Regulated Property and Casualty Insurance Companies dated July 2003
A-17	**SUBMITTED AT HEARING** – Guideline from the Office of the Superintendent of Financial Institutions Canada - Minimum Capital Test (MCT) for Federally Regulated Property and Casualty Insurance Companies dated January 2007
A-18	Letter dated September 18, 2007 seeking comments from Intervenors who object to re-opening the record solely for the purpose of filing ICBC's errata for 2007.2 RR IBC.83.1
A-19	Letter No. L-76-07 dated September 26, 2007 reopening the evidentiary record to accept for filing ICBC's September 13, 2007 errata to information request response for 2007.2 RR IBC.83.1

APPLICANT DOCUMENTS

B-1-1	Letter dated March 15, 2007 filing Insurance Corporation of British Columbia 2006 Revenue Requirements Application, Volume 1
B-1-2	Letter dated March 15, 2007 filing Insurance Corporation of British Columbia 2006 Revenue Requirements Application, Volume 2
B-1-3	Letter dated March 20, 2007, filing excel files included in Chapter 4 "Actuarial Rate Indication Analysis" and Appendix 7.3 B Basic Insurance Information Sharing (Exhibit B-1-1)

Exhibit No.	Description
B-1-4	Letter dated April 13, 2007 filing Errata to ICBC Revenue Requirements Application, Volume I, Chapter 4, *Actuarial Rate Level Indication Analysis*
B-1-5	Letter dated April 13, 2007 filing Addendum to Application - Chapter 6.3, Table of Contents and Table of Figures
B-1-6	Letter dated May 10, 2007 filing an Errata to the Application in Volume 1, Chapter 6.2, Appendix 6.2A, page 14, regarding the Eckler report on 2005 unpaid claims
B-2	Letter dated April 19, 2007 filing proposed Regulatory Timetable for review of the Revenue Requirements Application
B-3	Distributed at the Pre-Hearing Conference, filing proposed Regulatory Timetable for review of the Rate Design Application
B-4	Letter dated April 30, 2007, filing Affidavits of publication of Pre-Hearing Conference Notice
B-5	Letter dated May 1, 2007 filing presentation on ICBC's Basic Insurance Rate Design and 2007 Revenue Requirements Applications presented at the BCUC public workshop on April 23, 2007
B-6	Response dated June 1, 2007 to British Columbia Chiropractic Association Information Request No. 1
	EXHIBIT WITHDRAWN – RE-ASSIGNED AS EXHIBIT B-11-3
B-7	Response dated June 1, 2007 to British Columbia Old Age Pensioners Organization Information Request No. 1
	EXHIBIT WITHDRAWN – RE-ASSIGNED AS EXHIBIT B-11-4
B-8	Response dated June 1, 2007 to Consumers' Association of British Columbia Information Request No. 1
	EXHIBIT WITHDRAWN – RE-ASSIGNED AS EXHIBIT B-11-6

Exhibit No.	Description
B-9	Response dated June 1, 2007 to Frank Duck Information Request No. 1
	EXHIBIT WITHDRAWN – RE-ASSIGNED AS EXHIBIT B-11-7
B-10	Response dated June 1, 2007 to Insurance Bureau of Canada Information Request No. 1
	EXHIBIT WITHDRAWN – RE-ASSIGNED AS EXHIBIT B-11-8
B-11-1	Letter dated June 1, 2007, filing cover letter and response to the Commission's and Intervenors Information Request No. 1
B-11-2	**CONFIDENTIAL -** filing under separate cover confidential responses to Commission Information Request No. 1, Question 85.7
B-11-3	Response dated June 1, 2007 to British Columbia Chiropractic Association Information Request No. 1 (formerly Exhibit B-6)
B-11-4	Response dated June 1, 2007 to British Columbia Old Age Pensioners Organization Information Request No. 1 (formerly Exhibit B-7)
B-11-5	**CONFIDENTIAL –** filing confidential BCOAPO response - Attachment B – BI Basic Claims Costs of March 2, 2006
B-11-6	Response dated June 1, 2007 to Consumers' Association of British Columbia Information Request No. 1 (formerly Exhibit B-8)
B-11-7	Response dated June 1, 2007 to Frank Duck Information Request No. 1 (formerly Exhibit B-9)
B-11-8	Response dated June 1, 2007 to Insurance Bureau of Canada Information Request No. 1 (formerly Exhibit B-10)
B-12	Letter dated June 7, 2007 requesting confirmation of ICBC's understanding of Order No. G-48-07
B-13	Letter dated June 28, 2007 filing comments and copy of amended Information Request No. 1 to ICBC from Russell Sykes
B-14	Letter dated June 29, 2007 filing amended Commission Information Request No. 35.1 and 35.2

Exhibit No.	Description
B-15	Letter dated July 10, 2007 filing responses to Commission's and BCOAPO's Information Request No. 2 and Intervenors' Information Request No. 1
B-16	**CONFIDENTIAL** - Letter dated July 10, 2007 filing confidential response to Commission Information Request No. 2.177.3
B-17	Letter dated July 20, 2007, filing Witness Panels and Direct Testimony of Camille Minogue, Andrew Loach, and William T. Weiland
B-18	**SUBMITTED AT HEARING** – Response to Information Request entitled "MCT Implications of New Financial Instrument Standards"
B-19	**SUBMITTED AT HEARING** – Response to Information Request entitled "ICBC Reconciliation of 2007 Basic Forecast ($27 Million) to First Quarter Forecast Update"
B-20	**SUBMITTED AT HEARING** – ICBC Witness Aid, MCT Ratio Under Different Methodologies (Updated Exhibit A-15)
B-21	**SUBMITTED AT HEARING** – Undertaking at Volume 2, Page 117, Line 12 to Page 118, Line 7, responding to BCOAPO question on calculations for the Corporate MCT ratio
B-22	**SUBMITTED AT HEARING** – Undertaking at Volume 2, Page 140, Line 13 to Page 141, Line 10, responding to BCOAPO question on the MCT target ratio and the available excess capital
B-23	Letter dated August 7, 2007 filing response to Mr. Russell Sykes acknowledging receipt of fax requesting hard copies for outstanding undertakings and Arguments (Exhibit C7-11)
B-24	Letter dated August 10, 2007, filing Undertakings at Transcript Volume 2, Page 141 and Page 200 to 201, Transcript Volume 3, Page 390 to 391, 399, 402to 405, 422- 423, 307 to 308, filing responses to various Commission and Intervenors requests for information
B-25	Letter dated August 15, 2007, filing Undertaking at Transcript Volume 3, Page 393 to 396, and Page 410, lines 9 to 23, filing outstanding responses to the Commission's questions on MCT and 20 year transition period on rate levels
B-26	Letter dated September 4, 2007 filing outstanding Undertaking at Transcript Volume 3, Page 355, line 5 to Page 356, line 25, filing a revised base scenario from the material in the Eckler Report

Exhibit No.	**Description**
B-27	Letter dated September 13, 2007 filing Errata with respect to Information Request response to IBC Question 83.1 containing a table outlining the 2007 forecast for Loss Management programs and initiatives

INTERVENOR DOCUMENTS

C1-1	**INSURANCE BUREAU OF CANADA –** Email dated March 22, 2007 from Sara Mehrjou, filing request for Intervenorship
C1-2	Letter dated May 4, 2007 filing Information Request No. 1 to ICBC
C1-3	Letter dated June 12, 2007 filing Information Request No. 2 to ICBC
C1-4	**SUBMITTED AT HEARING** – Cross examination reference documents for the Actuarial Panel
C2-1	**CANADIAN OFFICE PROFESSIONAL EMPLOYEE'S UNION LOCAL 378 –** Online web registration received March 26, 2007 from Steve Toomey, filing request for Intervenorship
C3-1	**BRITISH COLUMBIA OLD AGE PENSIONERS' ORGANIZATION ET AL (BCOAPO)** - Received letter dated March 27, 2006 from Jim Quail requesting Intervenor Status and for Leigha Worth, Counsel
C3-2	Letter dated May 4, 2007 filing BCOAPO's Information Request No. 1 on Non-Actuarial Issues
C3-3	Letter dated June 4, 2007 filing BCOAPO's Information Request No. 2 to ICBC
C3-4	**SUBMITTED AT HEARING** – Cross examination reference documents for the Revenue Requirements Application
C4-1	**CANADIAN DIRECT INSURANCE –** Online web registration received March 28, 2007 from Karen Hopkins-Lee, filing request for Intervenorship
C4-2	Letter dated June 12, 2007, filing Information Request No. 2 to ICBC
C4-3	**SUBMITTED AT HEARING** – Reference Documents for the Actuarial Panel (Chapters 4, 5 & 6)

Exhibit No.	Description
C5-1	**FAMILY INSURANCE SOLUTIONS** – Email dated March 30, 2006 from Peter G. Thrower requesting Intervenor Status
C5-2	Email dated July 18, 2007 from Peter G. Thrower filing comments in support of information filed by Mr. Sykes (Exhibit C7-7)
C6-1	**BC CHIROPRACTIC ASSOCIATION** – Online web registration received April 12, 2007 from Dr. Don Nixdorf, filing request for Intervenorship
C6-2	Letter dated May 4, 2007 filing BCCA Information Request No. 1
C7-1	**SYKES, RUSSELL** – Letter dated April 13, 2007 requesting Intervenor Status
C7-2	Letter dated June 12, 2007 filing Information Request No. 1 to ICBC
C7-3	Letter dated June 26, 2007 filing amended Information Request No. 1 to ICBC
C7-4	Letter dated June 29, 2007 filing response regarding the amended Information Request to ICBC (Exhibit B-13)
C7-5	Letter dated June 29, 2007 filing comments on procedural matters and Regulatory Timetable schedule (Exhibit B-13)
C7-6	Letter dated July 16, 2007 filing comments on procedural matters and timeline for filing submissions on Evidence
C7-7	Letter dated July 17, 2007 filing a motion regarding the procedure for the conduct of the Oral Public Hearing
C7-8	Letter dated July 18, 2007 filing Notice to Attend the Oral Public Hearing and request for assistance
C7-9	Letter dated July 20, 2007 requesting the Commission to provide its findings with respect to the amount of premium taxes and the amount of commissions that make up the total commissions and premium taxes noted in the 2006 Revenue Requirements Decision
C7-10	Letter dated July 22, 2007 objecting to the ruling in Exhibits A-10 (revenue requirements) and A-12 (rate design) and requesting the Commission to provide additional reasons for its ruling
C7-11	Letter dated August 3, 2007 to ICBC filing comments and request for copies of undertaking documentation

Exhibit No.	Description
C7-12	Letter dated September 18, 2007 opposing the reopening of the evidentiary record to accept ICBC's September 13, 2007 filing of Errata (Exhibit B-27)
C8-1	**CONSUMERS' ASSOCIATION OF CANADA (CAC)**– Letter dated April 13, 2007 from Bruce Cran and on behalf of Greg Basham requesting Intervenor Status
C8-2	Letter dated May 4, 2007 filing CACBC Information Request No. 1 – Non-Actuarial Matters
C9-1	**PEMBERTON INSURANCE** – Online web registration received April 13, 2007 from Dr. Don Nixdorf, filing request for Intervenorship
C9-2	Letter received June 12, 2007 filing Information Request No. 1 to ICBC
C10-1	**DUCK, FRANK** – Online web registration received April 16, 2007 filing request for Intervenorship
C10-2	E-mail dated May 4, 2007 filing Information Request No. 1
C10-3	Letter dated June 12, 2007, filing Information Request No. 2 to ICBC
C11-1	**COALITION AGAINST NO-FAULT IN BC (CANFBC)** – Online web registration received from Gordon Adair dated May 1, 2007 requesting Intervenor Status
C12-1	**TRIAL LAWYERS ASSOCIATION OF BC (TLABC)** – Online web registration received from Carla Terzariol, dated May 1, 2007 requesting late Intervenor Status
C13-1	**BC AUTOMOBILE ASSOCIATION INSURANCE CORPORATION** – Online web registration received from Patricia Stirling, dated May 7, 2007 requesting late Intervenor Status
C13-2	Online web registration received from Heather Prizeman, dated May 8, 2007 requesting late Intervenor Status
C14-1	**NW INSURANCE BROKERS LTD.** – Email dated May 22, 2007 from Nancy Wells requesting late Intervenor Status

Exhibit No.	Description
C14-2	Letter dated September 18, 2007 opposing the reopening of the evidentiary record to accept ICBC's September 13, 2007 filing of Errata (Exhibit B-27)

INTERESTED PARTY DOCUMENTS

D-1	**INSURANCE BROKERS ASSOCIATION OF BRITISH COLUMBIA –** Online web registration received March 21, 2007 from C.J. Byrne, Executive Director requesting Interested Party status
D-2	**MILLER, SPENCER** – Online web registration received dated April 2, 2007 requesting Interested Party Status
D-3	**MINISTRY OF PUBLIC SAFETY AND SOLICITOR GENERAL, POLICE SERVICES** - Online web registration received from Bruce Anderson dated April 16, 2007 requesting Interested Party Status
D-4	**CANADIAN NORTHERN SHIELD INSURANCE COMPANY (CNS) –** Online web registration received April 18, 2007 from Lori Manskopf requesting late Interested Party status
D-5	**COPE 378 -** Online web registration received May 2, 2007 from David Black requesting late Interested Party status

LETTERS OF COMMENT

E-1	Letter of Comment dated March 28, 2007 from Victor Landrie, Vancouver, BC
E-2	Letter of Comment dated May 10, 2007 from Rob Stokes, North Vancouver, BC filing complaint and additional correspondence

LIST OF WITNESSES

ANDREW LOACH CAMILLE MINOGUE WILLIAM WEILAND	Insurance Corporation of British Columbia (Panel 1)

ACRONYMS AND ABBREVIATIONS

2006 Decision	July 2006 Decision on ICBC's 2006 Revenue Requirements Application
ALAE	Allocated Loss Adjustment Expenses
Application, Exhibit B-1	2007 Revenue Requirements for Universal Compulsory Automobile Insurance
Basic	Universal Compulsory Automobile Insurance
BC Hydro	British Columbia Hydro and Power Authority
BCOAPO	B.C. Old Age Pensioners' Organization *et al.*
BCUC, Commission	British Columbia Utilities Commission
CDI	Canadian Direct Insurance
DCAT	Dynamic Capital Adequacy Testing
DPAC	deferred premium acquisition costs
Eckler	Eckler Ltd.
IBC	Insurance Bureau of Canada
IBC	Insurance Bureau of Canada
ICBC or Corporation	Insurance Corporation of British Columbia
IMPACT	Integrated Municipal Provincial Auto Crime Team
IR	Information Request(s)
ISD	Information Services Division
KOL	Kind of Loss
MCT	Minimum Capital Test
MOU	Memorandum of Understanding
OIC	Order in Council
OSFI	Office of Superintendent of Financial Institutions

PY 2007	Policy Year 2007referes to all policies becoming effective between May 1, 2007 and April 30, 2008
RDA	Rate Design Application
RRA	Revenue Requirements Application
Special Direction IC2, or IC2	Special Direction IC2 to the BC Utilities Commission, BC Regulation 307/2004
the Report	The Enhanced Road Safety Enforcement Initiative, 2005 Annual Report
UCA	Utilities Commission Act
ULAE	Unallocated Loss Adjustment Expenses
UMP	Underinsured Motorist Protection