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Insurance Corporation of British Columbia

2019 Revenue Requirements Application

Decision
and Order G-192-19

August 19, 2019

Before:
K. A. Keilty, Panel Chair
E. B. Lockhart, Commissioner
T. A. Loski, Commissioner
R. D. Revel, Commissioner

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1.0 Introduction

The Insurance Corporation of British Columbia's (ICBC) 2019 Revenue Requirements Application for Universal Compulsory Automobile Insurance (Basic insurance) seeks an increase of +6.3 percent in Basic insurance rates for the policy year commencing April 1, 2019 (PY 2019) and proposes changes to its performance measures and other reporting (Application).

ICBC outlines that:

- Claims costs are the largest component of ICBC's Basic insurance costs and bodily injury (BI) claims represent the majority of claims costs;
- BC's unrestricted tort system led to legal and related injury claims being the single largest category of expense;[1]
- The Basic insurance business suffered a 'major' net loss for fiscal year 2017/18 due to a trend of increasing claims costs;
- ICBC continues its efforts to manage the increase in claims costs but the structure of the Basic insurance system prior to product reform resulted in unsustainable growth in these costs, particularly for minor injuries;[2]
- A continuation of the Basic insurance model under the pre-product reform system would require a Basic insurance rate increase of almost +40 percentage points or ppt for PY 2019 in order for the premiums collected to be enough to cover estimated costs;
- ICBC worked with Government to introduce product reform under the Rate Affordability Action Plan[3] which moves BC towards a care and recovery model for Basic insurance;
- Product reform increases certain benefits such as Accident Benefits (AB), introduces a limit on pain and suffering payouts for minor injuries and gives the Civil Resolution Tribunal (CRT) jurisdiction over disputes on minor injuries, *Insurance (Vehicle) Act* entitlements, and claims under $50,000. Some of the changes, such as the change to the overall AB, came into effect during 2018 while others came into effect on April 1, 2019;
- The dollar amount limit on payouts for pain and suffering on minor injury claims and expanded CRT jurisdiction over disputes relating to motor vehicle injury claims are expected to save $1.2 billion for policies being written from April 1, 2019 through to March 31, 2020. These savings include an offset due to an increase in AB and other benefits for PY 2019;
- Product reform significantly reduces the required rate increase from what it would otherwise have been, but a rate increase of +6.3 percent is still required to cover the expected costs of providing Basic insurance in PY 2019; and
- The reforms are also expected to provide ongoing savings and positively impact rates in future years due mostly to lower bodily injury claims costs.[4]

[1] Exhibit B-1, p. 4-1.
[2] Ibid.
[3] Defined in Subsection 1.3.

ICBC states its proposal for a +6.3 percent rate increase meets the requirements of *Special Direction IC2 to the British Columbia Utilities Commission, BC Regulation 307/2004, as amended* (Special Direction IC2). Special Direction IC2 includes the requirement for the British Columbia Utilities Commission (BCUC) to set rates based on accepted actuarial practice (AAP) and within the rate smoothing band.

This Decision is the Panel's determination of the Basic Insurance rate change on a permanent basis for PY 2019, in accordance with the legislative and regulatory framework outlined in Subsection 1.3, as well as our consideration of the other approvals sought as set out in Subsection 1.1.

In Section 2 of the Decision, the Panel sets the context for the Decision given that the rate indication must be based on AAP and that the "closed system" for Basic insurance enables variances resulting from the uncertainty involved in forecasting to be absorbed in the subsequent policy year. In this Section, the Panel also considers the scope of certain issues raised by interveners as well as issues raised in letters of comment from members of the public.

Section 3 includes the Panel's review of the issues related to the components of the PY 2019 indicated rate increase of +6.3 percent, including the Panel's findings on the actuarial estimates of claims costs both pre and post product reform and other key changes in the indicated rate compared to PY 2017.

In Section 4, the Panel reviews the issues raised regarding ICBC's Minimum Capital Test (MCT) ratio and the status of Basic capital available. Section 5 includes the Panel's analysis and determinations related to issues raised by interveners regarding performance measures and other reporting matters. Section 6 addresses an issue raised by an intervener related to information filed confidentially by ICBC.

1.1 Approvals Sought

ICBC's request for a change to the PY 2019 Basic insurance rates is pursuant to sections 59 to 61 of the *Utilities Commission Act,* R.S.B.C. 1996, c. 473 (UCA),[5] the *Insurance Corporation Act*, R.S.B.C. 1996, c. 228 (ICA), as amended (ICA), and section 15 of the *Administrative Tribunal Act*, R.S.B.C. 2004, c. 45. ICBC seeks approval for a Basic insurance rate increase of +6.3 percent to be applied to all new or renewal policies with an effective date on or after April 1, 2019.[6]

ICBC also seeks approval for proposed refinements to its reporting on performance measures and to discontinue reporting on the Transformation Program.[7]

By Order G-1-19 dated January 2, 2019, the BCUC approved ICBC's requested +6.3 percent Basic insurance rate increase for implementation on an interim basis for all new or renewal policies with an effective date on or after April 1, 2019. The BCUC noted it will determine how any variance between approved interim rates and

[4] Ibid, pp. 1-1 – 1.2.

[5] Section 44 of the *Insurance Corporation Act* limits the sections of the UCA that apply to ICBC. Section 44(2) of the *insurance Corporation Act* provides that ICBC is not a public utility.

[6] Exhibit B-1, p. 1-1.

[7] Ibid., p. 1-5.

permanent rates, including interest if any, will be refunded to or collected from policyholders at the time the BCUC renders its final decision on the Application.

1.2 Application Review Process and Participants

The BCUC set the regulatory timetable for the review of the Application including intervener registration, two rounds of BCUC and intervener information requests (IR) to ICBC, and a procedural conference, followed by written final and reply arguments.[8]

There were ten registered interveners and four interested parties in this proceeding. The registered interveners who filed final arguments are:

- Richard Landale (Landale);
- Movement of United Professionals (MoveUP);
- Richard McCandless (McCandless); and
- British Columbia Old Age Pensioners' Organization et al. (BCOAPO).

The BCUC also received 40 letters of comment from members of the public.

1.3 Regulatory Framework

Special Direction IC2

ICBC is a provincial Crown corporation of the Province of British Columbia (BC). ICBC operates Basic insurance and optional vehicle insurance (Optional). ICBC's Basic insurance business is regulated by the BCUC. The legislative and regulatory framework is set out in the ICA and specified sections of the UCA (regulatory framework).[9] This framework restricts the BCUC's jurisdiction to the regulation of Basic insurance rates. The BCUC has no jurisdiction over ICBC's Optional insurance business.

Under the regulatory framework, the Lieutenant Governor in Council may provide government directives related to Basic insurance, which the BCUC is required to recognize and accept, and may provide directions to the BCUC, in the form of a Special Direction regarding the way ICBC's Basic insurance business is regulated. Specifically, this is done through Special Direction IC2. [10] A detailed overview of the regulatory framework and Special Direction IC2 is included in Appendix A of this Decision.

Special Direction IC2 sets out the BCUC's requirements with respect to setting ICBC's Basic insurance rates for PY 2019. This regulatory framework specifies that the rate-setting must ensure that any increases or decreases are phased in so that the rate remains relatively stable and predictable.

Under Special Direction IC2, the BCUC must:

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[8] By Orders G-1-19, G-57-19 and G-73-19.
[9] Exhibit B-1, p. 2-2.
[10] Ibid., p. 2-2.

- Fix Basic insurance rates based on AAP so that the rates allow ICBC to collect sufficient revenue to pay the costs related to Basic insurance;
- Set the rate change for PY 2019 within +/- 1.5 percentage points of the PY 2017 approved rate change of +6.4 percent. This means the rate change for PY 2019 must be within the band of rate changes between +4.9 percent and +7.9 percent; and
- Suspend the requirement to set rates for Basic insurance rates in a way that will allow ICBC to achieve or maintain the capital available in relation to its Basic insurance business equal to at least 100% of the Minimum Capital Test (MCT) ratio. The MCT ratio requirement is suspended until the end of PY 2021 and the Capital build and release provisions are suspended up to and including PY 2020.[11]

In addition, Special Direction IC2 requires that the BCUC must regulate and fix Basic insurance rates in a manner that recognizes and accepts actions taken by ICBC in compliance with government directives issued to ICBC.

Product Reform

Product reform is part of the Rate Affordability Action Plan (RAAP) [12] introduced by the government to "return ICBC to a stable financial footing and to increase the affordability of insurance rates for British Columbians." The RAAP identifies initiatives in four areas: product reform, rate design, road safety, and cost-effectiveness.

Basic insurance product reforms, for the most part, came into effect on April 1, 2019 and provide important context for the Application.[13] ICBC describes the key changes as follows:

- The introduction of a $5,500 limit on pain and suffering payouts for injuries that are defined as minor;
- An increase in the overall medical care and recovery cost allowance from $150,000 to $300,000, retroactive to accidents that occurred on or after January 1, 2018;
- Increases to wage loss payments, home support benefits, funeral cost coverage and death benefits;
- Changes to collateral benefits[14] effective for all claims with a date of loss that occurred on or after May 17, 2018; and
- The placement of certain disputes on the changes set out above under the jurisdiction of the CRT.[15]

In November 2018, the government provided further details regarding minor injuries,[16] with changes to be effective April 1, 2019. ICBC states that the amendments added three injuries to the list of what constitutes a

[11] Exhibit B-1, p. 2-4 – 2-5.
[12] On March 6, 2018, the Lieutenant Governor in Council issued OIC No. 84 (OIC 84/18) approving the government directive issued by the Attorney General to ICBC on February 13, 2018.
[13] Exhibit B-1, p. 2-11.
[14] Collateral benefits refer to accident benefits payable by ICBC under Part 7 of the IVR and similar benefits payable by other insurers, employers and others. After product reform, ICBC will no longer reimburse other insurers, employers or others, with the exception of WorkSafeBC and Medical Services Plan, for their payments to customers for benefits those customers would otherwise receive under Part 7 of the IVR. (Exhibit B-1, p. 2-13)
[15] Exhibit B-1, pp. 2-12 – 2-14.
[16] By OIC No. 595 (OIC 595/18).

"minor injury" and defined a physiological or psychiatric condition as a minor injury only if it does not result in mental or physical incapacity lasting longer than 16 weeks (rather than the previous 12 months).[17]

2.0 Decision Context

In this Section, the Panel sets the context for its approval of a change to the PY 2019 Basic insurance rates. The regulatory framework discussed in Subsection 1.3 limits the Panel's approval of a rate change for PY 2019 to a band of no more than +7.9 percent and no less than +4.9 percent. The +6.3 percent rate that ICBC is applying for falls within this band. For PY 2019, the Panel also has no authority to require ICBC to build capital.

The regulatory framework also requires that the rate indication be based on AAP and the Panel considers this requirement further in Subsection 2.1 below. In Subsection 2.2, the Panel reviews the "closed system" for Basic insurance which enables variances resulting from the uncertainty involved in forecasting to be absorbed in the subsequent policy year. In Subsection 2.3, the Panel considers the scope of certain issues raised by interveners as well as issues raised in letters of comment from members of the public.

2.1 Accepted Actuarial Practice

ICBC states that Special Direction IC2 places primacy on the application of AAP and that AAP constrains rate setting. ICBC submits that AAP requires the use of "best estimates" and imposes rigorous requirements on the professional judgment that actuaries employ in developing and reviewing the rate indication.[18] ICBC explains that its proposed rate indication has been certified by actuaries as being prepared in accordance with AAP[19] and outlines the following relevant AAP principles:

- Basic insurance rates should cover the full cost of providing Basic insurance, subject to legislation;
- The rate indication should be prepared using reasonable assumptions, both individually and in aggregate. ICBC submits that one way it ensures that assumptions are appropriate in aggregate is by performing the rate indication analysis at a single point in time, considering all information together; and
- Cost estimates must be unbiased "best estimates" based on pertinent information.[20]

ICBC submits that because it is necessary to apply judgment in the process of developing rate indications, two actuaries may develop different, but equally valid, models that accord with accepted actuarial practice in Canada.[21] However, ICBC submits that there will be a range of professional judgments possible within AAP but the range of results should be narrow when actuaries have availed themselves of all of the relevant data because the estimate of costs must be an unbiased "best estimate" based on information available at the time the estimate is made.[22]

[17] Exhibit B-1, p. 2-12; Exhibit B-2, BCUC IR 19.2.
[18] ICBC Final Argument, p. 3.
[19] Ibid., p. 9.
[20] Ibid., pp. 10–13.
[21] Exhibit B-1, Appendix A.0, pp. 3–4.
[22] Exhibit B-1, Appendix A.0, p. 3; ICBC Final Argument, p. 12.

ICBC submits that its proposed Basic insurance rate increase of +6.3 percent (i) was developed in accordance with AAP, (ii) uses assumptions that are reasonable both individually and, in the aggregate, and (iii) was certified by ICBC's filing actuary as well as an external reviewing actuary (Mr. Weiland).[23]

Intervener Arguments

Landale submits the BCUC Staff, Commission Panel and interveners cannot verify or test the actuaries' determinations or conclusions and in the absence of independent facts or data must accept in good faith that best practices were rigidly followed using actuary principles.[24]

Panel Determination

The Panel agrees with ICBC that its Decision is constrained by AAP. The regulatory framework requires that the Panel must fix Basic insurance rates based on AAP.

ICBC argues that AAP constrains the judgment that actuaries employ, thus 'circumscribing' the potential outcomes of actuarial analysis.[25] However, as noted above, ICBC also points out there are alternate assumptions and judgments that could be developed by another actuary that could be equally valid and compliant with AAP.

Given the current uncertainties, especially in the face of product reform, the Panel finds it reasonable that there are possible alternate assumptions and judgments that could comply with AAP and result in rate level indications either higher or lower than the rate indication proposed by ICBC. While some possible alternate selections may not change the rate level indication beyond the $17 million materiality standard selected by ICBC,[26] it is also possible that alternate assumptions associated with several key judgments could materially impact the rate level indication.

This finding is consistent with ICBC's position that any estimate of future claim activity, particularly for BI, is necessarily subject to a substantial amount of uncertainty.[27] Even though ICBC's certifying actuaries have availed themselves of all relevant data, there is still significant uncertainty that could cause the actuarial estimates to be outside the materiality threshold selected by ICBC. This is due, in part, to the current unstable environment, in which there have been "significant, unexpected changes in the underlying loss cost trends."[28] Given that ICBC is operating in an environment where estimates of ultimate loss amounts are unstable and unpredictable, the Panel finds it reasonable that a wide range of results is reasonably possible, and that many estimates within this wide range could be supported as a "best estimate" under AAP.

However, in this proceeding, the only evidence that the rate indication was derived in accordance with AAP is presented by ICBC. Since the Panel's decision is constrained by AAP, the Panel must either accept this evidence or if it has reason to doubt the validity of the evidence, given the regulatory framework, the Panel must obtain further evidence to support that the rate indication was derived in accordance with AAP. The Panel's decision to

[23] ICBC Final Argument, pp. 10 –13.
[24] Landale Final Argument, p. 1.
[25] Exhibit B-1- Chapter 3, Appendix A.0, p. 1; ICBC Final Argument, p. 10.
[26] As discussed on page 3-42 of Exhibit B-1.
[27] ICBC Final Argument, p. 21.
[28] Ibid., p. 6.

pursue further evidence may be impacted by the fact that the inherent uncertainty in the actuarial estimates is captured in the "closed system" as discussed below.

2.2 Closed System

During the procedural conference, ICBC explained that the rate indication requires actuarial estimates of claims costs that are far out in the future and it is understood that variances in estimates are going to occur.[29] ICBC states that claims costs are subject to a variety of uncontrollable factors and there is inherent uncertainty involved in forecasting future claims costs associated with policies written during a policy year. [30] ICBC describes that its regulatory framework is essentially a closed system for Basic insurance in that when inevitable variances in estimates occur, they stay in the system and affect future years' rates.[31]

ICBC submitted that this closed system should come into play when the BCUC considers what type of process should be put in place for review of the Application.[32] ICBC further submitted the existence of this closed system coupled with the limitations imposed by the rate change band further reduces the potential benefit of undertaking progressively more and more process associated with the review of the Application.[33]

The closed system means that any surplus or deficit that may result from an understatement or overstatement of the revenue requirement will affect retained earnings and is therefore reflected in the level of capital available, or the MCT.[34] For instance, if there is a favourable variance of the Basic insurance operating expense of $2 million, that amount flows into ICBC's Basic insurance equity or capital to the benefit of future rate indications.[35]

In the 2013 ICBC RRA proceeding, ICBC explained that the rate smoothing framework is the product of the regulatory framework governing Basic insurance as follows:

- The closed nature of the Basic insurance business allows ICBC to use Basic capital to further moderate Basic insurance rates by means of the mechanism for rate exclusions;
- To effectively use Basic capital for this purpose, an appropriate Basic insurance Capital Management Plan (Basic Capital Management Plan) that accounts for the provisions of the regulatory framework is required; and
- The Basic Capital Management Plan must be sufficient to absorb rate exclusions over and above the ability to cover plausible adverse events and still remain above the regulatory minimum.[36]

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[29] Transcript Volume 1, p. 6.
[30] ICBC Final Argument, p. 3.
[31] Ibid.
[32] Transcript Volume 1, pp. 6–7.
[33] Ibid, p. 8.
[34] Exhibit B-5, BCUC IR 101.2, 115.3; ICBC 2015 Revenue Requirements Application (2015 RRA), Exhibit B-11, BCOAPO IR 20.1; ICBC 2013 Revenue Requirements Application (2013 RRA), Exhibit B-3, BCUC IR 74.3; ICBC Streamlined 2010 Revenue Requirements Application, Reasons for Decision to Order G-137-10 dated November 24, 2010, p. 8; ICBC 2009 Revenue Requirements Streamlining Application, Exhibit B-1, pp. 9-10.
[35] ICBC 2014 Revenue Requirements Application (2014 RRA), Exhibit B-13, BCUC IR 5.1 – 5.1.3.
[36] ICBC 2013 RRA, Exhibit B-3, BCUC IR 74.3

In 2018, amendments were made to the regulatory framework such that there were no regulatory minimum capital requirements for BCUC's rate-setting for the 2019, 2020 and 2021 policy years.[37]

Panel Determination

The Panel agrees with ICBC that the Basic insurance system is designed to operate as a closed system and that the system has done so as follows:

- Rate exclusions have been covered by drawing down Basic capital. For example, this was the case in PY 2017 where there was a rate exclusion resulting from ICBC seeking a Basic insurance rate approval that was insufficient to cover the indicated rate change because the indicated rate exceeded the rate band set out in the regulatory framework;
- The differences between the actuarial estimate for the loss cost provision reflected in the previous RRA and the re-estimate of the loss cost provision reflecting updated information and claims emergence have been reflected in the subsequent year's indicated rate change (i.e. the Loss Cost Forecast Variance (LCFV)); and
- Any profit or loss that may result from an understatement or overstatement of the rate requirement has affected retained earnings, which then impacts Basic capital.

However, because the regulatory minimum capital requirements have been suspended, the concept of a closed system now requires that Basic capital be sufficient to absorb rate exclusions and unfavourable differences in estimates. Further, ICBC's characterization that Basic insurance operates as a closed system must be considered in the context of there having been previous injections to the Basic insurance system from the Optional insurance business, as outlined in Table 2-1 below.

Table 2-1: Transfers from Optional to Basic insurance ($ millions)

	2013 RRA	2014 RRA	2015 RRA	2016 RRA	2017 RRA	5-year Total
Income transfer				$300[38]		$300
Capital transfer	$373[39]	$113[40]	$450[41]	$172[42]	$470[43]	$1,578

[37] By OIC 67/18.
[38] Approved by OIC 615/16 and stated in ICBC 2017 RRA, Exhibit B-2, BCOAPO IR 5.1.
[39] OIC 082/13 directed ICBC to transfer all of its excess Optional capital as at December 31, 2012 to Basic insurance; the amount transferred was $373 million as stated in the ICBC 2013 RRA, Exhibit B-3, BCUC IR 60.2.
[40] OIC 055/14 directed ICBC to transfer all of its excess Optional capital as at December 31, 2013 to Basic insurance; the amount transferred was $113 million as stated in the ICBC 2014 RRA, Exhibit B-13, BCUC CDI IR 1.1.
[41] Approved by OIC 596/15.
[42] Approved by OIC 615/16 and as stated in the ICBC 2017 RRA, Exhibit B-2, BCOAPO IR 5.1.
[43] Approved by OIC 326/17 and as stated in the ICBC 2017 RRA, Exhibit B-2, BCOAPO IR 5.1.

The income transfer in 2016 was treated as additional revenue for the policy year and was used to lower the required rate change. The capital transfers noted in the table were used to maintain the Basic insurance capital levels at or above the regulatory minimum of 100% MCT[44] prior to the suspension of the minimum MCT requirements.

The Panel finds that for the Basic insurance system to perform as a closed system, under the current regulatory framework, there must be enough Basic capital to absorb any rate exclusions resulting from the imposed rate band as well as the emergence of any unfavourable variances in estimated claims costs. It has been ICBC's ability to use Basic capital, augmented by transfers from its Optional business, that has enabled the moderation of Basic insurance rates up to this point in time.

As set out in Section 4, ICBC's outlook year-end Basic capital available, prepared as of December 31, 2018, is negative $215 million. Further, ICBC has indicated that Optional insurance capital levels have been depleted and can no longer sustain transfers to Basic insurance.[45] This negative level of Basic capital available concerns the Panel because:

- ICBC's Basic insurance liabilities may potentially exceed assets;
- There is no Basic capital available to backstop further losses in the Basic insurance program, absorb unfavourable claims costs variances or withstand volatility in equity markets;
- The suspension of the ability to build Basic capital through rate increases before PY 2021 means Basic capital will only build up (i) if future rate indications are lower than the legislative rate band or (ii) if actual income exceeds costs in a policy year; and
- Further injections from sources outside the Basic system, cost reductions or further insurance reform amendments to reduce costs may be required.

While the closed nature of the Basic insurance system does provide context for the Panel's decision, given the negative outlook Basic capital available discussed above, the Panel finds it cannot place much weight on the system being closed in making its decision on the rate indication. The Panel cannot simply conclude that if the estimates prove to be insufficient, any short-fall will be carried forward to be dealt with in the next RRA. Accordingly, the Panel finds the limitations imposed by the rate change band, the capital build restrictions and the need to follow AAP provide more context for the Panel's decision on the PY 2019 rate indication. The Panel's overall findings on the rate indication are set out in Subsection 3.5.

2.3 Implications of Other Concerns Raised

In this Subsection, the Panel reviews certain issues raised by interveners as well as issues included in letters of comment from members of the public and considers whether these issues are within the scope of or provide context to its decision on the Application.

McCandless submits there should be more information available about the Optional program.[46] Landale expresses his concern regarding several product reform and rate design matters.[47] In reply, ICBC submits these

[44] ICBC 2017 RRA, Exhibit B-2, BCOAPO IR 5.1.
[45] Exhibit B-1, p. 8A-13.
[46] McCandless Final Argument, p. 8.

aspects of their arguments should be disregarded since they stray beyond the scope of the proceeding.[48] The Panel agrees with ICBC and finds these issues either fall outside of the scope of the BCUC's jurisdiction or this proceeding.

The Panel notes that members of the public raise several concerns in letters of comments filed during the proceeding, including but not limited to:

- Lack of comparability of rates to other Canadian jurisdictions;
- Increasingly unaffordable rates;
- Rate increases that exceed inflation;
- Rate increases that occur year after year;
- Unfairness of across-the-board rate increases for accident-free drivers rather than allocating the increases to the drivers responsible for accidents;
- Suggestions for the privatization or dismantling of ICBC and allowing competition for Basic coverage; and
- Views regarding the appropriateness of previous transfers to Government from Optional insurance.

While the Panel acknowledges the above-noted concerns raised by the public, the Panel finds these topics either beyond the scope of the current proceeding or outside of the jurisdiction established by the regulatory framework for the BCUC's regulation of Basic insurance.

In addition to these general concerns, the Panel considers the following public comments within the scope of the Application elsewhere in the Decision:

- Concerns regarding management salaries and bonuses;
- Capping of Basic insurance rates; and
- Concerns related to a lack of capital.

3.0 The PY 2019 Indicated Rate Change

This Section includes the Panel's review of the issues related to the components of the PY 2019 indicated rate increase of +6.3 percent, including the Panel's findings on the actuarial estimates of claims costs both pre and post product reform and other key changes in the indicated rate compared to PY 2017 as set out in Table 3-1 below.

ICBC explains that its actuaries first calculate the rate indication by calculating the present value of all expected loss and loss adjustment expense, administrative expense, broker fees, premium tax, and capital maintenance, as well as offsets for income attributable to both miscellaneous revenue and investment income for PY 2019 (PY 2019 Required Premium). The second step is to calculate the total Basic insurance premium that ICBC would collect for PY 2019 if the current Basic insurance premium rates were charged in PY 2019 (Projected PY 2019

[47] Landale Final Argument, pp. 4–6.
[48] ICBC Reply Argument, pp. 2–3.

Premium at Current Rate Level). The difference between the two steps indicates that PY 2019 rates need to increase by +6.3 percent to provide an additional $217.6 million of premium to cover the deficiency.[49] The actuarial analysis underlying ICBC's loss reserving, trending, and prospective adjustments is based on claims information available up to August 31, 2018, and takes into consideration the recent amendments to Special Direction IC2. The estimated impact on PY 2019 claims costs from product reform is based on the Ernst & Young LLP (EY) November 2018 Product Reform Costing Report (Product Reform Costing Report) prepared to estimate the savings from product reform for Fiscal Loss Year (FLY) 2020 and 2021.[50] The Product Reform Costing Report was completed prior to the Government's November 2018 announcements regarding minor injuries.[51] The actuarial analysis for ICBC's exposure and average premium analysis is based on information available up to June 30, 2018. The New Money Rate and the Yield on Basic Equity, as well as the financial outlook for operating expenses and other items, are based on information available as of September 30, 2018.[52]

There are several factors that explain the +6.3 percent difference between the Projected PY 2019 Premium at Current Rate Level and the PY 2019 Required Premium. Figure 3.3 of the Application (reproduced in Table 3-1 below) provides a breakdown of these components which are calculated by comparing the cost or revenue that was included in the previous rate change for each component to what is required now.[53] The significant premium components are further explained in the Subsections that follow the table.

Table 3-1: Overview of Impact on PY 2019 Indicated Rate Change[54]

Line No.	Components	Impact (Percentage points (ppt) of PY 2019 indicated rate change)
1	Removal of Prior Year's Capital Provision	12.8
2	PY 2019 Loss Cost Forecast Variance	14.0
3	Loss Cost Trend to PY 2019	15.5
4	Product Reform Impact	-37.4
5	Investment Income	0.4
6a	Operating Expense: Claims Services Expense (ULAE)	0.9
6b	Operating Expense: Other	0.3
7	Capital Maintenance Provision	0.0
8	Change in Average Premium	0.2
9	Other	-0.4
10	**PY 2019 Rate Change to Cover Costs**	**6.3**
11	Capital Provision	**0.0**
12	**PY 2019 Indicated Rate Change**	**6.3**

[49] Exhibit B-1, pp. 3-2–3-4.
[50] Ibid., p. 3-4; Exhibit B-2, BCUC IR 18.2.
[51] Exhibit B-2, BCUC IR 19.1.
[52] Exhibit B-1, p. 3-5.
[53] Ibid., p. 3-5.
[54] Ibid., Figure 3.3, p. 3-5.

ICBC states, as set out in Special Direction IC2, the capital provision has no impact on the PY 2019 rate indication. Based on this regulatory framework, there is no capital provision impacting the rate indication for the Application, since (a) capital build and impacts from capital maintenance are suspended through PY 2020; (b) the rate change to cover costs for PY 2019 is within the band of allowable rate changes between +4.9 percent and +7.9 percent (+/- 1.5 percentage points of the PY 2017 rate change of +6.4 percent) and (c) the conditions set out in the Basic Capital Management Plan for ICBC to propose a rate exclusion are not met.[55]

3.1 Removal of 2017 Capital Provision

ICBC explains that a -13.6 percentage point capital provision was included in the PY 2017 rate change to cover costs in excess of the PY 2017 allowable rate change ceiling of 6.4 percent. Since Special Direction IC2 only authorizes the use of a capital provision to impact an indicated rate change for a single year, the removal of the capital provision is the first component of the indicated rate change for PY 2019. The +12.8 percentage points of the PY 2019 rate change to cover costs is lower since the amount represents a smaller proportion of Projected PY 2019 Premium at Current Rate Level.[56]

3.2 Claims Costs

ICBC explains the costs of processing and paying out claims (claims costs) represent most of the costs of providing Basic insurance and are the primary drivers of the indicated rate change. The rate indication reflects a -37.4 percentage point favourable prospective adjustment for the effect of product reform. ICBC submits this adjustment is supported by the overall savings estimates quantified by actuaries from EY and reviewed by ICBC's Chief Actuary and the Reviewing Actuary. In the absence of product reform, continued claims cost increases under the existing insurance system would have necessitated a rate increase in the range of +40 percentage points.[57]

ICBC states that claims costs are the most significant determinant of ICBC's Basic insurance rates, and BI claims are the largest component (about three quarters[58]) of total claims costs. ICBC submits the Application reflects a number of initiatives to combat rising claims costs and the evidence supports the following findings:

- Product reform represents the most significant step taken to manage rising claims costs, making the successful implementation of product reform ICBC's primary focus at present;
- ICBC is taking appropriate steps to combat fraud;
- ICBC's Road Safety initiatives, which are generally implemented with partners, respond to the significant year-over-year growth in the number of crashes occurring on BC roads; and
- ICBC is implementing the material damage initiative recommended by PwC as part of the RAAP.[59]

ICBC explains that prospective adjustments are necessary for the rate indication to be consistent with AAP and to account for expected costs and savings from events that have an incremental effect on future claims costs

[55] Exhibit B-1, p. 3-2; Specifically, ICBC explains that it has not met the first condition set out in the Basic Capital Management Plan, which is that the Basic MCT ratio is greater than 130%.
[56] Exhibit B-1, p. 3-6.
[57] ICBC Final Argument, p. 1.
[58] Exhibit B-1, p. 3-24.
[59] ICBC Final Argument, p. 37.

beyond what is reflected through the loss trend models that rely on historical data. There are limits to what can be treated as a prospective adjustment due to the risk of double counting. The need for an adjustment is transitory in that the actual impact of the event becomes reflected in the data and loss trends. ICBC's rate indication incorporates prospective adjustments with claims cost savings of $1,261.1 million in PY 2019.[60]

ICBC states that the impacts of prospective adjustments are included in the LCFV and loss trend components of the indicated rate changes. However, since the impact from product reform is one event that materially influences the cost of future claims, it has been separated out from other prospective adjustments (i.e., their impacts on the PY 2019 LCFV and loss trend to PY 2019 components) for transparency.[61]

3.2.1 PY 2019 Loss Cost Forecast Variance

ICBC describes the PY 2019 LCFV as the difference between the estimate for PY 2017 loss cost provision reflected in existing rates (as presented in the 2017 RRA) and the re-estimate of the PY 2017 loss cost provision reflecting updated information and claims emergence since the setting of the existing rates.[62] ICBC notes that the re-estimate of the prior policy year's loss cost is still an estimate because many of the claims associated with the prior policy year are still open and costs are not finalized. Even claims associated with a policy year as far back as 2013 may still not be fully resolved.[63]

ICBC submits the PY 2019 LCFV is driven by unexpected changes from past trends and that an additional +14.0 percentage points of rates is required to cover this "unfavourable emergence." Favourable variances attributable to property damage (PD) frequency, BI frequency, and Part 7 benefit frequency emerged, however, these were more than offset by an unfavourable variance in BI severity (+14.4 percentage points) and, to a much lesser extent, PD severity.[64]

ICBC states in the 2018/19 fiscal year it has experienced an increase in the number of BI claims as well as increased legal activity which added to the complexity of adjusting claims and adversely affected ICBC's ability to resolve claims as quickly as initially anticipated.[65] ICBC notes three main abrupt changes in data that were not in line with recent historical trends, as follows:

- The proportion of represented BI claims increased by 2.0 percentage points between FLY 2017 and FLY 2018, compared to 0.7 percentage points per year between FLY 2014 and FLY 2017;
- The BI paid severity at 17 months of development increased by 7.7 percent from FLY 2017 to FLY 2018, compared to 2.2 percent per year between FLY 2014 and FLY 2017; and
- The unfavourable emergence inlarge and catastrophic claims since FLY 2011, as well as the growth in the large and catastrophic claim frequency by 11.2 percent from FLY 2017 to FLY 2018.[66]

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[60] Ibid., pp. 25–26.
[61] Exhibit B-1, p. 3-6.
[62] Ibid..
[63] Exhibit B-2, BCOAPO IR 9.1.
[64] ICBC Final Argument, pp. 19–20; Exhibit B-1, Figure 3.6, p. 3-15.
[65] ICBC Final Argument, p. 21.
[66] ICBC Final Argument, pp. 21-24; Exhibit B-2, BCUC IR 5.3; Exhibit B-1, pp. 3-20 – 3-23.

ICBC submits that since loss cost forecasts are estimates of future claim outcomes, which are necessarily subject to a substantial amount of uncertainty, it is to be expected that the actual claim experience will differ from the original estimates and could turn out to be either higher or lower.[67] In particular, estimates for future claims activity for BI are uncertain because there is significant potential for changes in driving behaviour, inflation, weather, and claims handling, among other variables, during the two-year fiscal time frame following the implementation date of a rate change.[68]

Table 3-2 below provides a summary of the historical LCFV impact on the rate change to cover costs for the last six RRAs. Positive numbers represent unfavourable deviations, and negative numbers represent favourable deviations.[69]

Table 3-2: Policy Year Loss Cost Forecast Variance Rate Impacts

Policy Year	2013	2014	2015	2016	2017	2019
LCFV Impact (ppt)	6.6	-1.5	5.8	5.2	4.9	14.0

The LCFV has been unfavourable for the most recent four policy years, with PY 2019 having the most unfavourable LCFV. ICBC indicates, however, that it does not consider this represents a trend since the forecast of the loss cost for each policy year uses best-estimate assumptions that taken together, provide an unbiased forecast of the loss cost for the future policy period using data and information that are available at the time of the estimation process. Since the loss cost forecast for a policy year is an unbiased forecast at the time of the RRA and one year later, there is no expectation that the difference between those two forecasted quantities will be either favourable or unfavourable. In other words, ICBC considers that the LCFV will be random.[70]

ICBC submits the unfavourable LCFV for the most recent four years reflects the current environment for technology, claim costs, and complexity of claims (i.e., higher rates of legal representation, increase in legal and medical costs, etc.), all of which are rapidly changing and increase the uncertainty of forecasts.[71] ICBC considers the magnitude of the LCFV is reasonable and proportionate to the current level of uncertainty.[72]

Intervener Arguments

McCandless submits that the LCFV adjustment for PY 2017 seems "unreasonably large" and that the trend in the LCFV in recent years leads one to question ICBC's forecasting methodology generally.[73]

Landale expresses concern that ICBC's actuarial model is incapable of anticipating prospective adjustments due to unfavourable emergence. Landale submits that the "actuarial analysis is highly suspect and unreliable" and considers that there is a lack of data supporting the +14.0 percentage point PY 2019 LCFV.[74]

[67] Exhibit B-2, BCOAPO IR 9.2.
[68] ICBC Final Argument, p. 21.
[69] Exhibit B-2, BCOAPO IR 9.1.
[70] Ibid., BCUC IR 5.1.1.
[71] Ibid.
[72] ICBC Final Argument, p. 22.
[73] McCandless Final Argument, p. 3.
[74] Landale Final Argument, p. 2.

BCOAPO notes that of the six years of historical LCFV provided, only one of the six showed a ratepayer favourable result (i.e. a negative number reducing the rate indication). BCOAPO submits concern that ICBC's estimates are exhibiting bias, stating: "While six represents a small sample size, BCOAPO submits that given the cluster of under-forecasting LCFV, there may be a problem with unbiasedness [sic] in ICBC's methodology." BCOAPO, therefore, urges that ICBC re-examine its methodology in respect of its LCFV performance.[75]

MoveUP makes no specific comment on the PY 2019 LCFV.

ICBC Reply Argument

With respect to the concern that the LCFV is exhibiting bias, ICBC submits that statistical diagnostics support the actuarial modelling. The statistical diagnostics test the quality of the models and support the predictive capability of ICBC's loss trend models. ICBC also notes there are a number of discrete forecasts that go into the overall loss cost forecast and these discrete forecasts exhibit the favourable and unfavourable variances that one expects to see. Among these, the main source of the unfavourable LCFV has differed from year to year. For example, in PY 2016 it was BI frequency; in PY 2017 it was a combination of BI frequency, PD frequency and PD severity; and in this Application, it is BI severity.[76]

In ICBC's view, the LCFV resulted from distinct and unexpected changes reflected in the data in FLY 2018 and not flaws in the actuarial model.[77] Certifications from ICBC's Chief Actuary and Reviewing Actuary reflect that the rate indication, including the PY 2019 LCFV, is in accordance with AAP.[78]

Panel Determination

The Panel acknowledges interveners' concerns regarding the magnitude of the LCFV. The size of the LCFV for PY 2019 and the recent history of successive unfavourable variances is concerning to all stakeholders and illustrates the inherent uncertainty in the actuarial estimates. This uncertainty can arise from the estimation method selected, the assumptions developed, the reliability and relevance of the underlying data, the mathematical accuracy of the calculations, variations from historical patterns and changes in trends and behaviours, and the related judgments required for all these elements.

In making its decision, the question for the Panel is whether or not the LCFV estimate component of the rate indication complies with AAP. What is not relevant to the BCUC's decision is whether a LCFV estimate which is compliant with AAP will result in an unreliable estimate or if there is a history of significant variances from previous estimates that also complied with AAP.

The Panel finds that ICBC's evidence adequately explains the reasons for the variances, as follows:

- ICBC explained that its Loss Cost Forecasts represent unbiased best estimates based on the relevant data known at the time the estimates are made. ICBC pointed out that since they are estimates of future

[75] BCOAPO Final Argument, pp. 7–8.
[76] ICBC Reply Argument, pp. 6–7; Exhibit B-1, BCOAPO IR 9.3.
[77] ICBC Reply Argument, p. 7.
[78] Ibid., p. 11.

claim outcomes, which are necessarily subject to a substantial amount of uncertainty, it is to be expected that the actual claim experience will differ from the original estimates and could turn out to be either higher or lower than the estimates.[79]

- ICBC provided explanations for the unfavourable LCFVs in the most recent four years indicating these unfavourable variances reflect the current environment for technology, claim costs, and complexity of claims due to higher rates of legal representation, increase in legal and medical costs and other factors. ICBC stated the environment is changing rapidly and this increases the uncertainty of forecasts.[80]
- ICBC discussed the main drivers to the increase to BI severity forecasts, "all of which were unexpected and were not in line with recent trends."[81]

In addition, ICBC's actuaries have certified the calculations as being in accordance with AAP. The Panel finds no evidence to support that the LCFV does not comply with AAP.

The Panel also finds no evidence to confirm a historical bias in ICBC's prior actuarial estimates. However, the significant unfavourable variances in recent years do highlight the continuing uncertainty in the PY 2019 Loss Cost Trend estimates and indicate that some elements of this uncertainty could materially impact the rate level indication for PY 2019. Further, as ICBC points out, the re-estimate of the prior policy year's loss cost which gives rise to the LCFV is still an estimate because many of the claims associated with the prior policy year remain open and costs are not yet finalized.

3.2.2 Loss Cost Trend to PY 2019

ICBC explains that forecasting the losses for PY 2019 must account for anticipated changes in the cost level that occur over time and defines this as the "Loss Cost Trend to PY 2019." ICBC states that losses are trended from the average accident date for PY 2017 (November 1, 2018) to the average accident date for PY 2019 (April 1, 2020) which represents a period of 17 months due to an extended 2017 policy period.[82]

ICBC indicates that the pre-product reform Loss Cost Trend to PY 2019 results in an unfavourable +15.5 percentage point addition to the requested rate increase, which includes the impact of all prospective adjustments other than product reform. ICBC explains that a longer time between the policy years translates to a larger impact on the rate indication from the Loss Cost Trend to PY 2019. ICBC submits that the trends are more comparable to the trends in the 2017 RRA if measured on the same 12-month basis. ICBC also explains that the increase in the loss cost trend is driven primarily by higher BI frequency and severities that have emerged since the time of the 2017 RRA and that this explains +11.4 percentage points of the total +15.5 percentage points impact from the Loss Cost Trend to PY 2019.[83] The PD loss cost trend contributes +2.8 percentage points and the other coverages have a small unfavourable contribution of +1.3 percentage points.[84]

[79] Exhibit B-2, BCOAPO IR 9.2.
[80] Ibid., BCUC IR 5.1.1.
[81] Ibid., BCUC IR 5.3.
[82] Exhibit B-1, p. 3-7; OIC 456/18.
[83] Ibid., p. 3-24; ICBC Final Argument, pp. 24–25.
[84] Ibid., p. 3-25.

ICBC estimates the BI annual severity trend to be 4.1 percent, compared to a short-term trend of 2.0 percent and a long-term trend of 3.2 percent used in the 2017 RRA.[85] The BI annual severity trend is based on the combination of three separate trend estimates: (i) trend in unrepresented BI claim severity; (ii) trend in represented BI claim severity; and (iii) trend in the proportion of BI claims that are represented.[86] ICBC submits a simple regression model using the most recent eight fiscal loss years supports a trend rate of 2.4 percent and 2.0 percent for unrepresented and represented BI claim severity, respectively.[87] With respect to the expected future increase in the proportion of represented claims, ICBC relies on the experience trend line from 2008 through 2017 of 1.4 percentage points per year following the upward trend observed in the last 10 years prior to considering the effects of product reform.[88]

Intervener Arguments

McCandless submits that the Loss Cost Trend to PY 2019 appears high based on the last two years of actual and forecasted fiscal year data and notes the loss cost trend represents +15.5 percentage points of the PY 2019 indicated rate increase, compared to only +8 percentage points of the PY 2017 rate increase.[89]

ICBC Reply Argument

ICBC reiterates that the Loss Cost Trend to PY 2019 is affected by a 17-month extended policy period and large claims. ICBC submits the 2017 RRA and the Application are more comparable when measured on a 12-month basis. ICBC also submits that FLY 2018 actual BI severity was materially higher than that of the previous two years. This was appropriately recognized by ICBC's actuaries in extending the BI severity trend line from the FLY 2018 actual data point.[90]

Panel Determination

The Panel finds that ICBC's evidence supports the unfavourable Loss Cost Trend to PY 2019. The Loss Cost Trend to PY 2019 reflects a large unfavourable impact from higher than expected BI severity trend as compared to the 2017 RRA and is affected by a 17-month extended policy period.

The Panel finds no evidence to suggest that the Loss Cost Trend to PY 2019 does not comply with AAP. ICBC's actuaries have certified the calculations as being in accordance with AAP.

However, as set out in the Panel determination in Subsection 3.2.1, the significant unfavourable variances in recent years do highlight that the uncertainty in the PY 2019 Loss Cost Trend estimates and the variability in several elements of the calculations may be substantial enough to materially impact the rate level indication for PY 2019.

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[85] Ibid., pp. 3-19–3-20.
[86] Ibid., Appendix D.0, p. 12
[87] Exhibit B-2, BCUC IR 13.1.
[88] Exhibit B-1, p. 3-21; Exhibit B-2, BCUC IR 6.1.
[89] McCandless Final Argument, p. 3.
[90] ICBC Reply Argument, p. 8.

3.2.3 Product Reform Impact

ICBC states the total expected PY 2019 claims savings from product reform is estimated to be $1.2 billion, representing an impact of -37.4 percentage points on the PY 2019 rate.[91] The $1.2 billion savings on PY 2019 claims costs is derived 50 percent from $1.1 billion savings for FLY 2020 and 50 percent from $1.3 billion savings for FLY 2021.[92] The expected product reform impact is set out in Table 3-3:

Table 3-3: Product Reform Impact on PY 2019 Basic Claims Costs Forecasts and Rate Change to Cover Costs[93]

Coverage	PY 2019 Claims Costs Forecast ($ 000's)			PY 2019 Loss Distribution (Post-Reform)	Impact on PY 2019 Rate
	Current (Pre-Reform)[1]	Post-Reform	Impacts		
Bodily Injury	3,392,011	1,810,231	-1,581,779	54%	-47.6 ppt
Property Damage	817,731	817,731	0	24%	0.0 ppt
Part 7	283,203	652,633	369,430	19%	+11.1 ppt
Manual Basic	118,215	87,791	-30,424	3%	-0.9 ppt
Total	4,611,160	3,368,386	-1,242,774	100%	-37.4 ppt

[1] Figures in this column include impacts from prospective adjustments, other than product reform.

As shown in the table, product reform is expected to reduce the PY 2019 BI claims costs forecast by $1.6 billion.[94] The largest component of the impact on BI claims costs results from the $5,500 cap on the General Damages (GD) amount for claimants who have suffered a minor injury. Specifically, the reduced GD payments constitute $1,075 million of the total estimated savings for BI claims costs of $1,466 million for FLY 2020, and have a similar relative magnitude for FLY 2021.[95] Lower legal expenses as a result of more claims going through the CRT, lower medical and wage loss payments, and a reduction in the number of minor injury claims are also expected to result in BI claims costs savings. These savings are offset in part by an increase in Part 7 claims costs resulting from more customers making use of post-reform enhanced Part 7 benefits.[96]

EY discussed, and ICBC agreed, that there are three areas where significant variability could arise compared to the estimates used in the Product Reform Costing Report related to post-reform BI and medical rehabilitation (MR) costs:

- The proportion of claims ultimately determined to be minor may differ materially from that underlying EY's projections;

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[91] Exhibit B-1, p. 3-25.

[92] The Panel notes that the term FLY is used in this Application for grouping all claims for accidents occurring during a fiscal reporting period (e.g. FLY 2020 refers to the period from April 1, 2019 to March 31, 2020 and FLY 2021 refers to the period from April 1, 2020 to March 31, 2021) whereas the term PY is for grouping all losses (regardless of when reported) arising from policies with an inception date or renewal date between a specified period and spans the year which the policies are effective (e.g. PY 2019 refers to period from April 1, 2019 to March 31, 2020 and spans 24-months as a 12-month policy written on April 1, 2019 is in force until March 31, 2020) (Exhibit B-1, p. 11A-2); Exhibit B-2, BCUC IR 18.3; Exhibit B-1, Appendix E.2.

[93] Exhibit B-1, Figure 3.15, p. 3-25.

[94] Ibid, p. 3-26.

[95] Ibid., Technical Appendix E.0, p. 4 – 6.

[96] Ibid., Appendix E.0, p. 8.

- The CRT may award higher or lower claims settlements from that projected by EY based on claims closed in calendar year 2017; and
- The assumed increase in the number of at-fault MR claims (a Part 7 cost) may differ materially from EY's best estimate assumption.[97]

In its public response to confidential BCUC IRs, ICBC confirmed the forecast savings associated with BI calculated by EY reflect a higher GD amount for represented minor versus represented non-minor claimants.[98] ICBC stated this is reasonable because the average GD for represented minor injury claimants has been increasing at a faster rate than represented non-minor injury claimants. ICBC also stated the GD amount for represented minor claimants exceeded that of represented non-minor claimants for the first time in 2017.[99]

ICBC submits the product reform adjustment is supported by a 'robust' EY costing analysis to estimate the savings for FLY 2020 and FLY 2021, which is prepared in accordance with AAP.[100]

ICBC explains that the data used by EY was extracted from more than 50,000 claims that were closed during calendar year 2017. EY characterized the data as "a very large and credible data set that is appropriate for the estimation of the impact of product reform."[101]

Additionally, EY explains that a "Closed Claim Study" was completed by senior ICBC claims personnel, under the guidance of EY, as a supplement to EY's costing analysis and to assess the reasonability of EY's estimates and confirm certain assumptions such as the minor injury mapping (i.e. determining the injury codes from ICBC's claims system which EY would consider as minor injuries). EY considers that the primary purpose of the Closed Claims Study was to validate EY's minor injury mapping given that the most fundamental element of product reform is the cap on GD for minor injuries.[102] The Closed Claim Study involved reviewing a sample of over 1,200 claims closed from 2017 one-by-one to assess if the claimants' injuries met the minor injury definition, how product reform would impact the payments claimant received, and if claimants would still have pursued their claims had product reform been in place at the time.[103]

ICBC outlines that EY used the data from the Closed Claim Study to produce its costing analysis, however, the ICBC review team members involved in the Closed Claim Study did not review the results of the output of the costing analysis. ICBC submits that the role of the review team was limited to reviewing individual claims and providing the claim-specific information. Reviewing the results of the costing analysis "was not within the Review Team's area of expertise."[104]

[97] Exhibit B-2, BCUC IR 18.5, 18.5.1.
[98] Exhibit B-5, BCUC IR 9.4.1.
[99] Exhibit B-5, BCUC IR 9.4.1.
[100] ICBC Final Argument, pp. 27–30.
[101] Exhibit B-2, BCUC IR 18.4.
[102] Ibid.
[103] Exhibit B-1, Technical Appendix E.0, p. 5.
[104] Exhibit B-5, BCUC IR 9.4.

Intervener Arguments

McCandless questions the $1.0 billion in GD savings because of the cap and notes that for 2017 there were $723 million in payments for GD for minor injury claims. McCandless submits that without knowing the severity information by claim representation (unrepresented, represented but not litigated, and litigated) or by claim severity (minor or non-minor) it is impossible to make comparisons with actual data from previous years. Therefore, it is not possible to assess the reasonableness of the EY assumptions and calculations.[105]

ICBC Reply Argument

ICBC responds by explaining the forecast cost of over $1.3 billion is higher than the $723 million amount of pain and suffering paid for claims that closed in the 2017 calendar year due to growth in the number of injury claims and in the average payments, which would occur in the absence of product reform. ICBC submits that with the resulting estimate of over $1.3 billion in general damages costs for minor injury claims in FLY 2020, savings of $1 billion are a reasonable and expected outcome of the product reforms.[106]

Panel Determination

The Panel finds the forecast FLY 2020 BI claims severities in EY's costing analysis which show that unrepresented claimants with minor injuries will receive a higher GD award than represented claimants with non-minor injuries before product reform is counter-intuitive. If the estimate of savings from GD awards is overstated, then the savings from product reform may be overstated since the cap on GD for minor injuries is the main source of product reform savings.

Further, while ICBC characterizes the EY analysis as "robust," the Panel finds there is significant uncertainty related to the estimated savings associated with product reform because of limitations in available information to support certain assumptions used in the estimates. To illustrate, certain implicit assumptions underlying the EY costing analysis are discussed as follows:

- Assumption that there has been correct, consistent and complete coding of information in the ICBC claims system database for FLYs 2008 to 2018. Contrary to this assumption, the Panel notes that EY completed the data by including all claimants with "unknown" codes in the minor injury group. However, based on the sample of claims reviewed in the Closed Claim Study, 11 percent of the claims had missing injury data which means that it could not be determined whether these claim exposures actually meet the minor injury definition or not.[107]
- Assumption that the selected injury types that would meet the minor injury definition reflects an accurate mapping of claims into minor and non-minor injury groups. Contrary to this assumption, the Panel notes that a threshold of 67 percent was used by EY for mapping minor injuries.[108] This means that if a specific injury type was considered by the ICBC review team to meet the minor injury definition more than 67 percent of the time, then 100 percent of claimants with that injury type was then identified as minor injuries in the EY costing analysis. A number of injury types (e.g. headaches, soft

[105] McCandless Final Argument, p. 4.
[106] ICBC Reply Argument, p. 9.
[107] Exhibit B-1, Technical Appendix E.0, Appendix E, p. 9; Calculated as (72+50+16)/1,234 claims = 11 percent.
[108] Ibid., Technical Appendix E.0, Appendix E, p. 15.

tissue injury – spine) were mapped as minor injuries based on this threshold.[109] The Panel also notes that claim exposures where the claimant had claims for multiple motor vehicle accidents open simultaneously were not mapped and this group represents 17 percent of the claims closed in 2017.[110] If this group had been included in the Closed Claim Study, the results of the minor injury mapping may have differed.

- Assumption that there is an accurate allocation of negotiated single sum settlements into the heads of damage categories[111] over 2008 to 2018, and correct and consistent coding of payments in the claims database. However, the Panel notes as an example that the EY estimated percentage allocation of legal costs and disbursements for represented minor injury claimants, as a percentage of all costs, has decreased from 25 percent in FLY 2009 to 4 percent in FLY 2018. EY selected 10 percent for FLY 2020 and did not select a percentage consistent with the declining pattern. [112] This data is contrary to expectations and may be an indication of inaccurate splitting of settlements into heads of damage in the claims database.
- Assumption that the Severity Adjustment Factor (ratio of the average FLY 2020 severity to the Closed Claim Year 2017 average severity) should apply uniformly to adjust actual 2017 closed claim severities to forecast FLY 2020 severities, regardless of accident year.[113]
- Assumption that all claimants with a forecast GD amount of $4,500 or greater before product reform will receive a $5,500 GD amount after product reform, regardless of injury type.[114]

Considering the assumptions discussed above and three areas of significant variability in the results of the Product Reform Costing Report related to post-reform BI and MR costs outlined by EY,[115] there is significant uncertainty related to ICBC's estimate of savings from product reform, even though it represents EY's "unbiased best estimate based on all the information available to EY at the time the estimate was prepared."[116]

However, the Panel has no alternative evidence to what has been presented by EY. The estimate of product reform savings impact is supported by EY's certification that its report has been prepared according to Canadian APP and ICBC also supports the estimates. The Panel is bound by the regulatory framework and therefore the question for the Panel is whether the product reform component of the rate indication complies with AAP. Accordingly, the Panel finds the product reform impact included in the rate indication conforms with AAP.

3.2.4 Other Prospective Adjustments

The rate indication also reflects $18.3 million favourable prospective adjustments for ICBC's counter-fraud initiative, the upgrading of intersection safety cameras, the rural highway speed limit reduction, and the use of

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[109] Ibid.
[110] Exhibit B-1, Technical Appendix E.0, Appendix E, p. 8.
[111] As noted in Footnote 6 on page 15 of the Product Reform Costing Report, "heads of damage" refers to the type of claim payment such as Past Wage Loss, Future Wage Loss, General Damages (pain and suffering), etc.
[112] Exhibit B-1, Technical Appendix E.0, Appendix A.7, p.9.
[113] Ibid., Technical Appendix E.0, p. 37.
[114] Ibid., Technical Appendix E.0, pp. 39–40.
[115] Exhibit B-2, BCUC IR 18.5, 18.5.1.
[116] Exhibit B-1, Technical Appendix E.0, p. 3.

high-friction surface treatment at select locations in the province.[117] There were no issues were identified with these adjustments.

3.2.5 Sensitivity Analyses

ICBC's actuaries examined several scenarios to evaluate the sensitivity of the rate indication to a change in certain assumptions, while holding all other assumptions constant, both in the Application and in responses to IRs. The sensitivity analyses were intended for informational purposes, in recognition that there was interest on the part of the BCUC and interveners, and to accord with what has been done in prior RRAs.[118]

In the scenarios, ICBC changed one or two assumptions in its actuarial analysis while holding all others constant, and provided:

- the degree of change to the requested assumption(s);
- the extent to which that degree of change would impact the Loss Cost Trend to PY 2019, the PY 2019 LCFV, the product reform impact, and the overall rate indication; and
- whether the change is within AAP.

ICBC identified only one assumption which may be changed that would still provide a rate indication which is in accordance with AAP because it would be considered a simplification in the estimate and the simplification is not material.[119] For a few of the scenarios, ICBC stated the change in the product reform impact and rate change to cover costs cannot be estimated because it would depend on the underlying factors that caused the pre-reform loss trends to change. The scenarios regarding product reform showed that there could be significant variability in the results of product reform.[120]

As set out in Subsection 3.2.3, EY identified three areas of significant variability in the results of the Product Reform Costing Report related to post-reform BI and MR costs. To illustrate the magnitude of such potential variability, EY selected a range in each of the identified areas that it deemed appropriate for informational purposes and calculated that a different assumption in any one of the three areas might have changed the product reform impact by greater than 1 percent of EY's current "best estimate."[121]

ICBC indicates changing product reform savings by 1 percent (or $12 million) has a +/- 0.3 percentage point impact on the rate change depending on the direction of the change.[122]

However, ICBC submits the sensitivity analyses included in the evidence are not a substitute for ICBC's full actuarial analysis.[123] ICBC views that substituting different assumptions might be informative from the perspective of understanding how sensitive the models are to changes in assumptions, but alternative

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[117] ICBC Final Argument, pp. 30–31.
[118] CBC Final Argument, p. 17.
[119] The materiality standard selected by ICBC in this revenue requirements analysis and calculation of the +6.3 percent rate change to cover costs is 0.5 percentage points of the rate, which translates to $17 million (Exhibit B-1, p. 3-42).
[120] Exhibit B-2, BCUC IR 10.2, 13.2, 18.5, 18.5.1, 21.5, 22.5 and 27.2; Exhibit B-5, BCUC IR 95.1 – 95.1.1, 97.1, 98.1 – 98.4.
[121] Ibid., BCUC IR 18.5, 18.5.1; Exhibit B-5, BCUC IR 98.1 – 98.4.
[122] Exhibit B-1, Figure 3.21, p. 3-41.
[123] ICBC Final Argument, p. 17.

assumptions are not necessarily reasonable for use in actuarial modelling based on known facts. ICBC argues that the scope of professional judgment that goes into the determination of the actuarial rate indication is constrained by the principles of AAP. Sensitivity analyses do not consider all assumptions in aggregate as required under AAP. Therefore, ICBC argues that "it is not open to ICBC's actuaries - or, by virtue of Special Direction IC2, the BCUC - to pick and choose inputs used in different sensitivity analyses without consideration of how they fit with other assumptions."[124] As noted in the evidence, sensitivity analyses may produce rate indications that are not in accordance with AAP in Canada.[125]

Interveners did not provide any comments on this issue.

Panel Determination

The regulatory framework requires that the Panel must fix Basic insurance rates based on AAP. The Panel agrees with ICBC and finds that sensitivity analyses may produce rate indications that are not in accordance with AAP. Further, a change in any of the assumptions would require ICBC and EY to revisit all assumptions within their analysis to assess whether all assumptions in the aggregate remain appropriate.

In this proceeding, the Panel finds it has no significant evidence in accordance with AAP that would support the alternative assumptions used in the sensitivity analyses.

However, the Panel finds the sensitivity analyses and alternative scenarios useful for highlighting to stakeholders that there is a range of variability in the rate indication that may arise from one or more changes to various assumptions. This is especially highlighted by altering the most significant assumptions surrounding product reform. Varying the number of claim exposures determined to be minor by +/- 10 percent would change the product reform impact by -/+ $244 million in FLY 2020 and -/+ $260 million in FLY 2021.[126]

3.2.6 Events Subsequent to Completion of the Actuarial Analysis

The Panel has identified three main issues regarding subsequent events or information that could affect the +6.3 percent rate indication presented in the Application, as follows:

- the updated estimate of loss amounts as of November 2018;[127]
- the change in Supreme Court rules which limits the number of experts and expert reports permitted in motor vehicle-related court cases;[128] and
- the change in the Minor Injury definition in November 2018.[129]

[124] Ibid., pp. 1, 11–12, 17.
[125] Exhibit B-1, p. 3-41; Exhibit B-2, BCUC IR 10.2, 13.2, 21.5, 27.1; Exhibit B-5, BCUC IR 95.1.1, 98.2.
[126] Exhibit B-2, BCUC IR 18.5, 18.5.1; For FLY 2020, calculated as -$1,222 million minus -$1,465 million equals -$244 million, or -$1,709 million minus -$1,465 million equals $244 million. For FLY 2021, calculated as -$1,438 million minus -$1,698 million equals -$260 million, or -$1,958 million minus -$1,698 million equals $260 million.
[127] Exhibit B-5, BCUC IR 101.1.
[128] Ibid., BCUC IR 95.1.
[129] See Section 1.3 of this Decision.

The question for the Panel is to what extent should these subsequent events or information be considered in its Decision.

ICBC submits it is appropriate to rely on the rate indication without "piecemeal updates." ICBC argues the approach of relying on point-in-time actuarial analysis is consistent with what the BCUC has done in previous RRA proceedings. ICBC submits that a change in one element of the data can impact the rate indication in unanticipated ways and this is the reason it is necessary under AAP to consider the reasonableness of assumptions in the aggregate.

ICBC explains that estimates and trends are constantly changing as more information becomes available and the "closed system" means that variances will ultimately be accounted for in future years. ICBC and EY would need to revisit all assumptions within their analyses to ensure all assumptions in the aggregate are still appropriate and this process can take up to three months.[130]

In addition, ICBC states it is unlikely that the two most notable changes, being the deterioration in financial condition and Supreme Court rule changes, would significantly change the indicated rate change. ICBC outlines that the Supreme Court rule change would result in a reduction of approximately 0.5 percentage points in the PY 2019 rate indication.[131]

ICBC notes that aspects of the legislative definition of "minor injury" changed following EY's analysis. ICBC submits that although EY indicated that it was not possible to specifically quantify the impact, it noted the limited number of claims affected by the change. ICBC submits that it would be inconsistent with AAP to adjust the estimated impact of product reform alone, without adjusting the other elements of the Application. ICBC states it will be monitoring the proportion of minor injuries reported to improve its understanding of the types of injuries presented, including the impact of customer behavioural change.[132]

Intervener Arguments

McCandless submits the savings from limiting expert reports will not take effect until January 2020, contrary to what ICBC put in its argument.[133]

ICBC Reply Argument

ICBC responds that it made its final arguments based on the evidence on the record in the proceeding and since circumstances are always changing, it is necessary to close the evidentiary record at some point. ICBC reiterates that subsequent developments are accounted for in the next revenue requirements application, which is one of the benefits of having a closed system for Basic insurance.[134]

[130] ICBC Final Argument, p. 13.
[131] Ibid., p. 14.
[132] Ibid., p. 30.
[133] McCandless Final Argument, pp. 10–11.
[134] ICBC Reply Argument, pp. 10–11.

Panel Determination

The Panel notes that Section 1430 of the Standards of Practice of the Canadian Institute of Actuaries discusses actions that actuaries should take to reflect the impact of events that occur after a report is issued. If a "subsequent event" invalidates the report, the actuary is obligated to withdraw or amend the report.[135]

ICBC states that it is unlikely the deterioration in financial condition and Supreme Court rule changes would cause a significant change in the indicated rate change and that the change in minor injury definition impact cannot be measured at this time. ICBC also states that unfavourable developments are largely offset by favourable developments. Since ICBC submits it is appropriate to rely on the rate indication without piecemeal updates, the Panel finds this to mean that it is ICBC's position that the events subsequent to completion of the actuarial analysis do not "invalidate" the actuarial estimates supporting the rate indication.

The Panel remains concerned based on the confidential information filed in Exhibit B-5-1 BCUC IR 101.1 and the deterioration in financial condition indicated by the updated estimate of loss amounts as of November 2018 that these subsequent events could have a material unfavourable impact. While ICBC states that the majority of the unfavourable emergence will impact Optional insurance, it has not provided details of the impact on Basic insurance. Further, ICBC has not provided sufficient evidence to conclude that these negative developments will be offset by favourable developments.

Consistent with its finding in Subsection 3.2.5, the Panel agrees with ICBC's position that any update to actuarial estimates for these subsequent events would require ICBC and EY to revisit all assumptions within their analysis to assess the reasonableness of assumptions in the aggregate, as required under AAP. Therefore, the Panel must determine if it is appropriate to require ICBC to update its estimates.

ICBC argues that one of the benefits of having a closed system for Basic insurance is that subsequent developments are accounted for in the next revenue requirements application. As discussed in Subsection 2.2, the Panel places less weight on the closed system given that ICBC's outlook year-end Basic capital available is negative. However, the Panel finds that ICBC should not be required to update its actuarial estimates, based on the following:

- The Panel's finding above that ICBC's submissions mean that it is ICBC's position that events subsequent to completion of the actuarial analysis do not invalidate the actuarial estimates supporting the rate indication;
- Delaying the Decision on a permanent rate for PY 2019 for the three-month period that ICBC requires to prepare a full updated evaluation of the actuarial rate indication in accordance with AAP would be inefficient from a regulatory perspective, especially given the timing of ICBC's obligation to file the next RRA, which is scheduled for December 2019;
- The Panel's findings that there is already significant uncertainty in the actuarial estimates as discussed previously in this Section and refining the estimates for known changes may not reduce the amount of future variability; and

[135] Retrieved from: https://www.cia-ica.ca/publications/standards-of-practice. https://www.cia-ica.ca/publications/standards-of-practice

- The concerns considered above by the Panel are primarily related to potential unfavourable adjustments that could require an increase in the rate indication. ICBC has proposed a rate increase that is less than the +7.9 percent rate allowable under the regulatory framework. Given that the Panel's authority to adjust the rate increase is limited to +1.6 percentage points[136] or $55.6 million,[137] the Panel finds such an adjustment would not be significant enough to warrant pursuing further evidence to support the rate indication.

The Panel also notes MoveUP's statement:

> It should be frankly acknowledged that the precise financial impacts of these changes cannot be known now. Adding greater precision to the projected numbers does not necessarily contribute to their accuracy, which will only be known with certainty once the changes take effect. Even then, deconstructing the end results to determine how to attribute financial improvements amongst the various measures will necessarily be an inexact exercise.[138]

The Panel agrees with MoveUP that ICBC's efforts would be better spent focussing on successfully implementing product reform.

3.3 Investment Income

ICBC explains that investment income earned on new premiums collected and Basic equity offsets the cost of providing Basic insurance. For PY 2019, investment income has an unfavourable +0.4 percentage point impact on the indicated rate change to cover costs.[139] ICBC states that the unfavourable impact is mainly because the PY 2019 Required Premium is less than the PY 2017 Required Premium and a lower level of Basic capital means that the amount of assets that will be available to generate investment income in the current policy year is less than in the prior year. Assuming the same rate of return in both years, less investment income will be generated.[140] However, due to a higher investment portfolio allocation to equities and a rise in market interest rates over the past year, ICBC states that the unfavourable impact is partially offset by higher rates of return from the New Money Rate and Yield on Basic equity.[141]

ICBC states that the higher allocation to equities in PY 2019 results from changes to ICBC's Statement of Investment Policy and Procedures (SIPP) approved by the Board.[142] ICBC states that its investment strategy is formally reviewed every four years and that its latest review was conducted in fiscal year 2017/18, resulting in a revised June 2018 SIPP.[143] ICBC explains that the June 2018 SIPP strategic asset mix involves a reallocation from fixed income securities into equity and alternative assets. Within fixed income, the composition of the Canadian bond portfolio was changed to introduce an allocation to mid-term Canadian bonds, a new allocation to

[136] The difference between the +6.3 percent rate increase sought by ICBC and the maximum allowable rate increase of +7.9 percent.
[137] In response to BCUC IR 2.2 and 2.2.1, ICBC states that 1.0 percentage point change in the Basic insurance rates translates to an impact of $34.74 million on the project premium. Therefore, a +1.6 percentage point impact translates to $55.6 million ($34.74 million x 1.6).
[138] Move-Up Final Argument, p. 3.
[139] Exhibit B-1, p. 3-7.
[140] Ibid., pp. 3-7–3-8.
[141] Ibid., p. 3-8.
[142] Ibid., p. 6-1.
[143] Ibid., p. 6-2.

mezzanine debt was established, and the previous allocation to high yield bonds was eliminated. Within equity, ICBC introduced allocations to global small cap, global emerging market equities and infrastructure.[144]

ICBC stated the investment strategy review explicitly considered addressing ICBC's deteriorating financial position, while remaining consistent with the goal of ensuring sufficient assets are available to pay claims. The conclusion from a broader corporate perspective was that higher investment returns in the long term, as well as product reform, would be required to put ICBC back on the path towards financial stability.[145] ICBC submitted that a comparison of ex-ante measures of risk and risk-adjusted return was prepared between a portfolio reflecting the old strategic asset mix and the June 2018 SIPP. An increase in portfolio risk primarily reflects the higher overall allocation to equities, and the new strategic asset mix is projected to generate a higher expected return and higher surplus volatility.[146]

A misalignment between the weighted average duration of ICBC's investment portfolio and ICBC's claims liability (duration mismatch) is a measure of ICBC's interest rate risk from a balance sheet perspective. Based on ICBC's Q2 fiscal 2018/2019 financial position, ICBC stated that the duration mismatch from the June 2018 SIPP is $30 million.[147] ICBC is not able to determine a reasonable range of the impact, but expects that as a result of product reform, ICBC's claims liability duration will increase because BI costs for new claims will decrease and Part 7 costs for new claims will increase.[148] All else equal, interest rate risk is therefore expected to be higher after product reform.[149]

However, ICBC stated that it does not believe a target duration mismatch of zero is prudent. ICBC submitted that the requirement that bond portfolio duration precisely matches the duration of ICBC's claims liabilities could cause ICBC to forego higher investment returns, could be challenging to operationalize, and could have unintended negative consequences (e.g. forced asset sales). ICBC further states it has ample capacity to meet its insurance obligations due to its substantial holdings of highly liquid investment grade bonds, holdings of other cash generating assets, and the predictability of insurance premium cash flows.[150]

No interveners commented on ICBC's revised SIPP or investment income forecast.

Panel Determination

The Panel finds the forecast of investment income is consistent with the updated June 2018 SIPP and therefore reasonable for use in the PY 2019 rate indication. While the updated SIPP results in higher investments returns and offsets the reduction in returns due partially due to lower Basic capital, the Panel also finds the updated investment strategy does increase risk and add additional uncertainty to the rate indication. Further, the current misalignment between the duration of ICBC's investment portfolio and liabilities is expected to be higher after product reform and this also increases uncertainty due to potential volatility in market conditions.

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[144] Exhibit B-1, p. 6A-1; ICBC states that infrastructure investments encompass equity investments in real assets, providing services to a county, city or region. Investment sectors can generally be broken down between energy and utilities, transportation, social infrastructure and communications (Exhibit B-1, Appendix 6 A, Attachment 6 A1, p. 17).
[145] Exhibit B-2, BCUC IR 57.6.
[146] Ibid., BCUC IR 57. 1, 57.3.
[147] Ibid., BCUC IR 58.1; Exhibit B-5, BCUC IR 104.1.
[148] Exhibit B-5, BCUC IR 104.3.
[149] Ibid., BCUC IR 104.4.
[150] Ibid., BCUC IR 104.1.3.

3.4 Operating Expenses

ICBC states that operating expenses reflect cost control and measures to reduce claims costs. Operating expenses represent approximately ten percent of ICBC's total costs and contribute a +1.2 percentage point increase to the rate indication. The impact of non-claims related operating expenses impact is +0.3 percentage points. ICBC submits that except for Claims Services, it continues to "absorb" most cost pressures in the organization. ICBC states Claims Services spending represents a +0.9 percentage point increase in the rate indication for additional staffing to help to process claims more expeditiously and support the product reform transition.[151]

The amount of performance-based pay allocated to Basic insurance is $4.6 million[152] of the total operating expenses allocated to Basic insurance in PY 2019 of $562 million[153] or of the total PY 2019 Required Premium of $3,691 million.[154] ICBC stated performance-based pay has a favourable impact of -0.1 percentage points on the PY 2019 indicated rate change because performance-based pay allocated to Basic insurance in PY 2017 was $9.1 million resulting in a favourable change between PY 2017 and PY 2019 of $4.5 million. [155]

ICBC states that RAAP, specifically product reform and resulting organizational changes, may impact allocation methodologies in the future. ICBC plans to bring forward a financial allocation methodology application to the BCUC in mid-2022 once the RAAP initiatives have been implemented and sufficient data is available for analysis.[156]

MoveUp submits the "penny-wise" pressure to restrain and reduce operating costs in the face of increasing claims frequency, complexity and cost contributed to enormous increases in the overall cost of maintaining the Basic insurance program and ultimately led to the need to rebuild internal capacity.[157]

ICBC responds submitting that MoveUp's explanation for rising claims costs is too simplistic and that there are many factors contributing to rising claims costs.[158]

As noted in Subsection 2.3, concerns regarding management salaries and bonuses were raised in letters of comment with suggestions that management salaries and bonuses should be cut.

Panel Determination

The Panel finds the PY 2019 forecast of operating expenses to be reasonable for use in the PY 2019 rate indication. ICBC has contained increases in non-claims costs and the increases for claims costs in the face of the product reform transition are reasonable.

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[151] ICBC Final Argument, pp. 3132.
[152] Exhibit B-5, BCUC IR 107.7.
[153] Exhibit B-1, p. 7-6.
[154] Ibid., p. 3-3.
[155] Exhibit B-5, BCUC IR 107.7.
[156] Exhibit B-1, p. 7-9; Exhibit B-2, BCUC IR 65.1.
[157] MoveUp Final Argument, pp. 1–2.
[158] ICBC Reply Argument, pp. 11–12.

With respect to the concerns expressed regarding management salaries and bonuses, the Panel notes that the amount allocated to Basic insurance has been reduced by almost 50 percent compared to the previous policy year and the amount allocated to Basic insurance to has a minimal impact on Basic insurance rates.

The Panel accepts that it will take at least one-year of steady-state operations under the new operating model before ICBC is able to assess the impacts of RAAP changes on the financial allocation methodology for total corporate operating expenses. Therefore, the Panel finds ICBC's suggested timing to prepare the assessment is reasonable, but views that including the assessment as part of a general rate change application allows for greater regulatory efficiency. **The Panel directs ICBC to review the financial allocation methodology for total corporate operating expenses allocated to the Basic insurance line of business following the implementation of RAAP initiatives, and to report its findings and any recommendations to the BCUC as part of its general rate change application for PY 2023, which is scheduled to be filed by December 15, 2022.**

3.5 Panel Determination on the PY 2019 Indicated Rate Change

ICBC submits the regulatory framework requires the BCUC to fix Basic insurance rates based on AAP. ICBC states the rate indication:

- reflects AAP;
- is an unbiased actuarial best estimate of loss costs based on reasonable assumptions, both individually and in aggregate; and
- is based on pertinent information available at the time the estimate was made.[159]

Intervener Arguments

MoveUP submits that forecasting claims frequency and cost is a difficult art even under "steady-state" conditions and even more difficult where there are so many pieces in motion. MoveUP states:

> Especially when viewed within this context of ongoing flux, MoveUP submits that the actuarial projections presented in the Application are realistic, and are as reliable as can reasonably be expected. We submit that the Application should be approved, subject only to the continuation for the time being of two performance metrics.160

BCOAPO does not take exception to ICBC's proposal but notes:

> It is troubling that the Insurer has, despite the actuarial expertise it has on its side, been unable to contain, or even predict, the groundswell of Bodily Injury and Material Damages costs that have been contributing to its growing financial woes.161

The Panel addresses other specific issues raised by interveners in Subsections 3.2.1, 3.2.2, 3.2.3 and 3.2.6.

[159] ICBC Final Argument, pp. 8–12.
[160] Move-Up Final Argument, pp. 2-3.
[161] BCOAPO Final Argument, p. 1.

Panel Determination

The Panel approves a permanent +6.3 percent Basic insurance rate increase for the policy year commencing April 1, 2019. Based on the findings in Subsections 3.1 to 3.4, the Panel finds the PY 2019 rate indication to be based on AAP in Canada so that the rates allow ICBC to collect sufficient revenues to pay the costs related to Basic insurance and to be within the rate band established in Special Direction IC2.

In determining that the PY 2019 rate indication complies with Special Direction IC2, the Panel makes several observations in Subsections 3.1 to 3.4, which are summarized below:

- The regulatory framework requires that the Panel must set Basic insurance rates based on AAP. In this proceeding, the only evidence of AAP regarding the rate indication is presented by ICBC. However, there are alternate assumptions and judgments that could be developed by another actuary that could be equally valid and compliant with AAP. The Panel's decision not to pursue alternative actuarial evidence was impacted by the continuing inherent uncertainty in the actuarial estimates, the amount of time required to prepare a full updated evaluation of the actuarial rate indication, and the rate band limits the extent to which rates can be adjusted;
- The PY 2019 rate indication is a certified "best estimate" prepared in accordance with AAP. However, given the continuing uncertainties this does not mean the actual results will be within the materiality bounds set by ICBC in establishing its proposed rate indication;
- The size of the PY 2019 LCFV and the recent history of successive unfavourable LCFVs illustrate the continuing uncertainty in the actuarial estimates. However, contrary to submissions made by interveners, the BCUC's jurisdiction is not concerned with whether the application of AAP results in unreliable estimates or if there is a history of significant variances from previous estimates that also complied with AAP;
- There is no evidence to confirm intervener concerns with a historical bias in ICBC's actuarial estimates. However, there remains significant uncertainty in the Loss Cost Trend to PY 2019 and this uncertainty could materially impact the rate level indication for PY 2019. Further, the re-estimate of the prior policy year's loss cost which gave rise to the PY 2019 LCFV is still an estimate and many of the claims associated with the prior policy years are still open and costs are not yet finalized;
- There is significant uncertainty related to the estimated savings associated with product reform because of limitations in available information to support certain assumptions used in the estimates.
- The sensitivity analyses are not a substitute for AAP but this information does assist stakeholders in understanding how sensitive the actuarial models are to changes in assumptions and the range in variability that may arise from such changes. With respect to product reform, varying the number of claim exposures determined to be minor by +/- 10 percent would change the product reform impact by -/+ $244 million in FLY 2020 and -/+ $260 million in FLY 2021;
- There are concerns regarding potential negative developments after the completion of ICBC's actuarial estimates that were not fully explored because the Panel's authority under the regulatory framework is limited to a further rate increase of +1.6 percentage points [162]or $55.6 million. Such an adjustment would not be significant enough to warrant pursuing further evidence to support the rate indication In

[162] The difference between the +6.3 percent rate increase sought by ICBC and the maximum allowable rate increase of +7.9 percent.

addition, refining the estimates for known changes may not result in estimates that are more accurate or reliable;

- The updated investment strategy results in higher forecast investments returns, partially offsetting lower returns due to lower Basic capital, but adds increased risk and additional uncertainty to the rate indication; and
- The increases in forecast non-claims costs are contained and the increases for claims costs in the face of the product reform transition are reasonable. The amount of forecast management salaries and bonuses allocated to Basic insurance has a minimal impact on Basic insurance rates.

Since the Panel approves the requested +6.3 percent Basic insurance rate increase on a permanent basis, the Panel finds it is not necessary to determine how any variance between approved interim rates and permanent rates should be refunded to or collected from policyholders as interim and permanent rates are the same.

4.0 Basic Capital Available

As set out in Section 1.3 of this Decision, ICBC's MCT ratio requirement is suspended until the end of PY 2021 and the capital build and release provisions are suspended up to and including PY 2020. ICBC states that its outlook 2018/2019 year-end capital available, prepared as of Q2 fiscal 2018/2019, is capital available of $70 million and a 4% MCT.[163] ICBC outlines that Basic capital available is calculated as Basic insurance equity (sum of the Basic retained earnings and other components of equity) less the risk margin for intangible assets.[164] ICBC states that the outlook MCT ratio for 2018/2019 fiscal year end is expected to deteriorate as claims costs continue to increase beyond the level reflected in Basic insurance rates. ICBC explains, in past years, capital and income transfers from Optional insurance to Basic insurance have helped to "bolster" Basic capital levels. However, Optional insurance capital levels have been depleted and can no longer sustain transfers to Basic insurance.[165]

The Basic insurance cash flow outlook for 2018/2019, and forecast for 2019/20 and 2020/2021, based on ICBC's assumptions as of Q2 2018/2019 are provided in Figure 4-1 below:[166]

[163] Exhibit B-1, Figure 8A.5, p. 8A-13.
[164] Ibid., p. 2-6; Exhibit B-5, BCUC IR 117.1.
[165] Exhibit B-1, p. 8A-13.
[166] Exhibit B-5, BCUC IR 116.2.

Figure 4-1: Basic Insurance Cash Flow Outlook 2018/2019, Forecast 2019/2020 and Forecast 2020/2021

($ Millions)	2018/19 Outlook	2019/20 Forecast	2020/21 Forecast
Cash Received			
Vehicle premiums and others	$4,053	$4,378	$4,687
Investment and other income	468	441	381
Total Cash Inflow	**$4,521**	**$4,819**	**$5,068**
Cash Paid			
Claimants or third parties on behalf of claimants	$(3,179)	$(3,389)	$(3,593)
Federal Government and Province of BC for license fees, fines, taxes collected (including premium taxes)	(777)	(808)	(831)
Employees for salaries and benefits	(479)	(515)	(528)
Agents for commissions	(108)	(98)	(100)
Total Cash Outflow	**$ (4,543)**	**$ (4,810)**	**$ (5,052)**
Net Cash (Outflow) / Inflow	**$(22)**	**$9**	**$16**

ICBC noted that the net cash flow forecast for fiscal 2019/2020 and 2020/2021 is positive. ICBC further stated its current best estimate assumptions do not anticipate cash shortfall or liquidation of the investment portfolio that would adversely impact the forecasted investment income.[167]

ICBC updated its outlook capital available as of Q3 2019 and MCT ratio for the fiscal end 2018/2019 to -$215 million and -12%, respectively, as shown in the following calculation of the MCT ratio:[168]

Figure 4-2: Outlook Basic MCT ratio for the 2018/2019 Fiscal Year End as of Q3 2019

Line	Components of MCT Ratio ($ Millions)	2018/19 Outlook as at Q3
A	**Capital Available**	**$(215)**
B	Insurance Risk	1,182
C	Market Risk	1,195
D	Credit Risk	282
E	Operational Risk	312
F	Diversification Credit	351
G	Total Capital Required at 150% MCT (B+C+D+E-F)	2,620
H	**Total Minimum Capital Required (G/1.5)[1]**	**$1,747**
I	**Basic MCT Ratio (A/H)**	**(12%)**

ICBC stated that the significance of a negative MCT ratio is that ICBC will not have sufficient capital to absorb "a significant risk event" during this time period and it will be a more challenging time to rebuild capital.[169] However, ICBC argues that it is generating sufficient cash flows from premium revenue and investment income to allow it to meet its current obligations and make payments on claims as they become due. With product reform, ICBC expects to reduce annual claims costs by over $1 billion and states that it will continue to work with Government on initiatives to manage claims costs pressures. ICBC forecasts that it will be in a net income

[167] Ibid., BCUC IR 116.3.

[168] Ibid., BCUC IR 117.2.

[169] Exhibit B-2, BCUC IR 117.1.

position by the end of fiscal year 2020/2021[170] and that the suspended MCT requirements "will give an opportunity for ICBC to assess the impact of product reform and other initiatives to develop a long-term plan to rebuild capital."[171]

Intervener Arguments

McCandless submits that "the lack of any plan to address the lack of adequate capital reserve should be of concern to the Panel." McCandless acknowledges that the minimum MCT requirement is temporarily suspended but submits that there are "significant future affordability issues involved in raising the MCT ratio to the regulatory minimum after the temporary hiatus." In his view, the BCUC should be initiating discussions now on what MCT ratio would be appropriate to balance the risk and affordability concerns, and how quickly the capital reserve can be rebuilt.[172]

BCOAPO submits that if ICBC was a private insurer and not a Crown corporation, the MCT ratio's "dismal levels" would be a serious concern. However, BCOAPO sees no reason to doubt ICBC's claim that past and more recent claims costs are the most significant drivers of rate increases. BCOAPO remains cautiously optimistic that capping claims costs will reduce future costs significantly, allowing for greater stability until ICBC begins the process of building up its MCT ratio once again.[173]

ICBC Reply Argument

ICBC submits that the BCUC initiating the discussions suggested by McCandless would be inappropriate at the present time. ICBC submits the minimum MCT ratio is specified in Special Direction IC2 and is currently suspended. Special Direction IC2 also precludes a capital build provision for the next two policy years.[174]

Panel Determination

Given that the regulatory framework suspends the BCUC's authority to fix rates based on MCT ratio requirements until PY 2021 and capital build and release provisions up to and including PY 2020, the Panel agrees with ICBC that now is not the time to initiate a proceeding on these topics. It would not be efficient or effective to consider rebuilding the MCT until ICBC has sufficient claims experience under product reform.

The Panel agrees with intervener concerns related to the current MCT ratio and discusses these concerns in Subsection 2.2.

5.0 Performance Measures

ICBC requests approval of proposed refinements to the suite of performance measures reported in future RRAs and to discontinue reporting on the Transformation Program.[175] Specific details of the proposed list of amended

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[170] Ibid., BCUC IR 117.1.
[171] Ibid., BCOAPO IR 7.2
[172] McCandless Final Argument, p. 5.
[173] BCOAPO Final Argument, p. 2.
[174] ICBC Reply Argument, p. 2.
[175] Exhibit B-1, pp. 1-2, 1-5, 1B-1 – 1B-3.

performance measures are included in Appendix B of this Decision. ICBC states that the objective of the amended list of performance measures is to better align the measures reported to the BCUC with ICBC's publicly-reported corporate performance measures so as to provide the BCUC with a more efficient and meaningful view of ICBC's operation.[176]

ICBC views that its proposals represent an improvement of the current suite of performance measures.[177] ICBC submits that some of the existing measures no longer provide meaningful information or are at a granular level and are detracting from the focus of the regulatory process. In addition, some of the existing measures are confusing or not conveying the intended information.[178] Therefore, ICBC suggests discontinuing reporting on certain of these measures, and to either provide additional information or report on certain other measures in the context of the applicable chapter submitted as part of the RRA rather than in the Performance Measures chapter.[179] On the whole, ICBC submits that the proposed performance measures will provide sufficient information for the BCUC to assess whether ICBC's provision of Basic insurance is adequate, efficient, just, and reasonable.[180] ICBC does not believe that the performance measures it proposes to discontinue reporting on will result in decreased transparency, lowered comparability, or loss of continuity.[181]

Intervener Arguments

McCandless submits that the Panel should reject ICBC's proposal to change the existing performance measures and instead undertake a more thorough review of what service measures and performance indicators should be regularly reported by ICBC.[182]

Landale submits that ICBC should be told what the acceptable performance measure reports should be or, alternatively, ICBC should be directed to maintain the existing reporting elements alongside the new proposed performance measures so that direct comparisons can be drawn. Landale submits that the latter would allow participants the ability to review in-full the performance measures ahead of the next RRA and then the BCUC can adjudicate what are the best performance measure reporting components that it needs.[183]

MoveUP submits that ICBC's proposal should be approved "subject only to the continuation for the time being" of two performance metrics that ICBC proposes to discontinue – that is the New Claims Initiation (NCI) and Customer Contact Service Level (CCSL) metrics. Given ICBC's acknowledgement that it will continue to monitor these metrics for internal use, MoveUP argues that continuing to report on these metrics will not detract from ICBC's focus on meeting customer needs and will provide useful information to stakeholders that service levels are being maintained and improved. MoveUP submits that the time to revisit these performance metrics will be "once the dust settles."[184]

[176] Ibid., p. 1-2, 8A-4; ICBC's public reporting includes the Service Plan and the Annual Service Plan Report.
[177] ICBC Final Argument, p. 41.
[178] Exhibit B-2, Landale IR 2.4.
[179] ICBC Final Argument, p. 42; The metrics to be reported in other chapters in future RRAs are the Legal Representation Conversion Rate reported in the Claims Cost Management chapter, the Crash Frequency reported in the Road Safety chapter, and the Learner and Novice Crash Rate Ratios reported in the Road Safety chapter.
[180] Exhibit B-1, p. 8A-5.
[181] Exhibit B-2, BCOAPO IR 3.2; ICBC Final Argument, p. 46.
[182] McCandless Final Argument, p. 5.
[183] Landale Final Argument, p. 8.
[184] MoveUp Final Argument, pp. 3–4.

BCOAPO requests that the BCUC direct ICBC to "propose – in its next RRA and supported by a study that it commissions – a number of basic operational metrics which could be recorded and tracked in the future to provide a quantitative assessment with respect to its performance over time and against its peers."[185] BCOAPO further submits that frequent changes in metrics reported, by definition, reduces comparability and transparency both across regulated utilities and over time, negating the value of regulatory oversight and public participation in that regulation. BCOAPO requests that the BCUC direct ICBC to retain information sufficient to easily replicate the current metrics on which ICBC reports and to provide these metrics in its next RRA.[186]

ICBC Reply Argument

ICBC submits that McCandless, Landale and BCOAPO's "wholesale opposition" to ICBC's proposed refinements to the performance measures fail to acknowledge or respond to the reasons for change that ICBC has submitted.[187] ICBC argues that the parties have lost sight of the fact that ICBC's revenue requirements applications provide a significant amount of information beyond the results presented in the table of performance measures and the only debate is about what measures to extract and highlight in the Performance Measures chapter.[188]

In response to BCOAPO's concerns respecting frequent changes in the metrics reported, ICBC states that it can still provide comparability and continuity of analysis with the historical performance of the proposed replacement performance measures.[189] ICBC submits that there is ample evidence on the record in this proceeding for the BCUC to make a determination on ICBC's proposal[190] and that a study of regulated public insurance companies in Canada with respect to performance metrics used is unnecessary given the BCUC's experience with performance measures for ICBC and ICBC's unique position among public insurers (prior to product reform) of operating in a pure tort environment.[191]

In response to MoveUp, ICBC submits that more meaningful and direct measures (from the perspective of claims cost management) are those focused on customer satisfaction and the proposed Claims Services Satisfaction measure includes the customer satisfaction survey results at First Notice of Loss (FNOL). Therefore, this provides useful insight into customer experience at approximately the same point in time in the claims process as NCI.[192] With respect to the CCSL metric, ICBC responds stating that the CCSL is an aggregate of four different contact centres[193] and does not provide a direct indication of the overall experience of customers with the service provided in any of these call centres. Instead, the proposed Driver Licensing Satisfaction and Insurance Services Satisfaction measures provide the BCUC with meaningful information on customer satisfaction in these two business areas.[194]

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[185] BCOAPO Final Argument, p.6.
[186] Ibid.
[187] ICBC Reply Argument, p. 13.
[188] Ibid., p. 19.
[189] ICBC Reply Argument, pp. 15–16.
[190] Ibid., pp. 13, 18.
[191] Ibid., p. 16.
[192] Ibid., pp. 13–14.
[193] The four contact centres representing different aspects of the business are: Broker Enquiry Unit, Customer Contact, Driver Testing and Vehicle Information, and Driver Licensing.
[194] ICBC Reply Argument, p. 14.

Panel Determination

The Panel approves ICBC's proposed list of amended performance measures as set out in Appendix B of this Decision. The Panel also approves ICBC's request to discontinue the reporting requirements that are specific to the TP that concluded in 2016. The Panel finds the purpose of the performance measures is to provide information to assist participants and the BCUC to assess ICBC's delivery of Basic insurance and to assist the BCUC in setting rates that comply with the regulatory framework.

The Panel agrees with ICBC that the performance measures are only a small part of the information included in ICBC's annual revenue requirements applications and that further information is gathered through the regulatory process. While the performance measures are useful at a high level for identifying areas that require further exploration, the Panel finds that other more detailed information in the Application and IRs is of greater assistance to the Panel in making its decision.

ICBC has provided reasons for its suggested changes and the only specific arguments that respond to ICBC's proposals are raised by MoveUP and addressed below. The Panel finds McCandless, Landale and BCOAPO's overall opposition to ICBC's proposed amendments to be unhelpful since these interveners did not address ICBC's specific reasons for changes requested or give reasons why they were opposed to the specific proposed changes. Further, if the performance measures and other information in the annual application do not provide interveners with the information they require to assess ICBC's proposals, interveners can request the additional information through the evidentiary process. Accordingly, the Panel finds it is not necessary to undertake a more thorough review or study of what performance measures should be reported by ICBC.

Regarding MoveUP's request to continue reporting on NCI and CCSL metrics, the Panel agrees with ICBC that the measures proposed by ICBC are more meaningful and direct measures of customer satisfaction.

The Panel notes that ICBC plans to include proposals for performance metrics to assess product reform in its next revenue requirements application,[195] which is scheduled for December 2019.

6.0 Other Issues

6.1 Filing of Confidential Information

During the regulatory review process, the BCUC received a letter from McCandless requesting the Panel direct ICBC to publicly file historical information that was redacted in one of ICBC's responses to intervener IR No. 1.[196] ICBC responded to the request stating that "after further consideration" the information that was redacted in the public version of the response to McCandless IR 3.8 could be released publicly with the appropriate context provided and reissued its responses with the additional context.[197]

McCandless questions the need for confidentiality of redacted information submitted in response to BCUC IR 101.1 during the second round of IRs which pertains to ICBC's BI segmented analyses prepared as of

[195] ICBC Final Argument, p. 48.
[196] Exhibit C3-4.
[197] Exhibit B-4.

November 2018. McCandless submits, "[i]t seems that ICBC has decided that some historic information can be made public, but a slight variation of the same information must remain confidential." McCandless states that a clear direction from the BCUC on where the assertion of potential financial harm is permitted is needed.[198]

ICBC Reply Argument

ICBC states that it has explained that there is commercial sensitivity around making information available on the public record that could be misused by claimants' legal counsel to advocate for larger settlements. ICBC continues to be concerned about the potential harm to all Basic insurance policyholders from the misuse of certain claims information. ICBC points out that the data provided in response to BCUC IR 101.1 is only available on a corporate basis; therefore, the disclosure of the information about ICBC's competitive, non-regulated business could harm ICBC's economic interests. For these reasons, ICBC submits that maintaining confidentiality over the redacted information is reasonable.[199]

Panel Determination

The Panel does not agree with McCandless and finds that a clear direction on the filing of confidential information is not needed. As noted in Appendix B to Order G-73-19, the Panel reminds all parties that the BCUC Rules of Practice and Procedure - Part IV – Confidential documents, Rule 21.03 outlines the process for objecting to a request for confidentiality and Rule 24 covers requests for access to confidential documents in a proceeding. If interveners wish to raise specific objections to information that has been filed confidentially or to obtain access to specific confidential documents, they should follow this process prior to the close of the evidentiary record.

DATED at the City of Vancouver, in the Province of British Columbia, this 19th day of August 2019.

Original signed by:

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K. A. Keilty
Panel Chair / Commissioner

Original signed by:

____

E. B. Lockhart
Commissioner

Original signed by:

____

[198] McCandless Final Argument, pp. 9–10.
[199] ICBC Reply Argument, p. 10.

T. A. Loski
Commissioner

Original signed by:

R. D. Revel
Commissioner

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ORDER NUMBER
G-192-19

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

the *Insurance Corporation Act*, RSBC 1996, Chapter 228, as amended

and

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

BEFORE:
K. A. Keilty, Panel Chair
R. D. Revel, Commissioner
E. B. Lockhart, Commissioner
T. A. Loski, Commissioner

on August 19, 2019

ORDER

WHEREAS:

A. On December 14, 2018, the Insurance Corporation of British Columbia (ICBC) filed an application with the British Columbia Utilities Commission (BCUC) for its 2019 Revenue Requirements for Universal Compulsory Automobile Insurance (Basic insurance), seeking a Basic insurance rate increase of 6.3 percent for the policy year (PY) commencing April 1, 2019, among other requests (Application);

B. Pursuant to the *Insurance Corporation Act* and Special Direction IC2 to the BCUC, BC Regulation 307/2004, as amended (Special Direction IC2), the BCUC's jurisdiction with respect to the regulation of ICBC's revenue requirements and rates is restricted to Basic insurance. The BCUC has no jurisdiction over ICBC's Optional insurance business;

C. In accordance with Special Direction IC2, as amended by Order in Council No. 456/2018, the BCUC must require ICBC to apply for a general rate change order by December 15 of each year for ICBC's Basic insurance rates to be effective April 1 of the next year;

D. By Orders G-1-19, G-57-19 and G-73-19, the BCUC established, among other things, regulatory timetables for the review of the Application, which included intervener registration, two rounds of BCUC and intervener information requests, and a procedural conference, followed by written final and reply arguments;

E. The BCUC has reviewed the Application and evidence filed in the proceeding and makes the following determinations.

NOW THEREFORE for the reasons provided in the Decision issued concurrently with this order, the BCUC orders as follows:

1. A permanent +6.3 percent Basic insurance rate increase for the policy year commencing April 1, 2019, is approved.
2. ICBC is directed to review the financial allocation methodology for total corporate operating expenses allocated to the Basic insurance line of business following the implementation of the Rate Affordability Action Plan initiatives, and to report its findings and any recommendations to the BCUC as part of its general rate change application for PY 2023, which is scheduled to be filed by December 15, 2022.
3. ICBC's proposed list of amended performance measures as provided in Appendix B of the Decision is approved.
4. ICBC's request to discontinue the reporting requirements that are specific to the Transformation Program is approved.

DATED at the City of Vancouver, in the Province of British Columbia, this 19th day of August 2019.

BY ORDER

Original signed by:

K. A. Keilty
Commissioner

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

Regulatory Framework and Special Direction IC2

ICBC is governed by the *Insurance Corporation Act* (ICA), the *Insurance (Vehicle) Act* (IVA), and specified sections[200] of the *Utilities Commission Act* (UCA) for the purposes of Basic insurance regulation.

The jurisdiction of the BC Utilities Commission (BCUC) with respect to ICBC's revenue requirements and rates is restricted by section 44 of the ICA to Basic insurance. The BCUC has no jurisdiction over ICBC's Optional insurance business. In accordance with section 45(6) of the ICA, the BCUC also does not have the power to change a term or condition of any plan of Basic insurance established under the IVA.

Pursuant to section 47 of the ICA, the Lieutenant Governor in Council may, by regulation, issue directions to the BCUC respecting the "factors, criteria and guidelines" that the BCUC must or must not use in regulating and fixing rates for ICBC. Special Direction IC2 to the BC Utilities Commission, BC Regulation 307/2004, as amended (Special Direction IC2) sets out the BCUC's requirements with respect to setting rates for Basic insurance, including the following:

- Section 1.1 provides that for each policy year for which the BCUC fixes Basic insurance rates, the Minimum Capital Test (MCT) must be determined:
  - using data available from the most recently completed quarter of the fiscal year at the time ICBC files an application for a general rate change order, and
  - based on that data, by projecting the MCT as at the end of that fiscal year.
- Sections 3(1)(b) and 3(1)(c)(iii) provides that the BCUC must set rates for Basic insurance in a way that will allow ICBC to achieve or maintain, as the case may be, capital available in relation to its Basic insurance business equal to at least 100% of the MCT ratio.
- Section 3(1)(c) provides that for each year that the BCUC fixes Basic insurance rates, the BCUC must fix those rates on the basis of accepted actuarial practice so that the rates allow ICBC to collect sufficient revenue to pay the following (specified in Sections 3(1)(c)(i) through (3)(1)(c)(ii):
  - the costs to be incurred in that policy year for road safety programs, including payments by ICBC to any level of government with respect to road safety,
  - the costs to be incurred in that policy year for vehicle licensing, driver licensing and other services and activities of ICBC that are undertaken in accordance with the Service Agreement between the Ministry of Public Safety and Solicitor General and ICBC,

[200] Section 44(1) of the ICA states that subject to subsections (3), (6) and (7), the UCA, other than sections 5 (4) to (9), 22, 23 (1) (a) to (d) and (2), 25 to 38, 40, 41, 43 (1) (b) (ii), 44.1, 44.2, 45 to 57, 59 (2) and (3), 60 (1) (b) (ii) and (2) to (4), Part 3.1, 97, 98, 106 (1) (k), 107 to 109 and 114, Parts 4 and 5 and sections 125.1 and 125.2 of that Act, applies to and in respect of ICBC as if it were a public utility.

  - the payments that ICBC is to make in that policy year under the "Memorandum of Understanding between B.C. Provincial Government and ICBC" executed in February 2003,
  - remuneration that ICBC is to pay in that policy year to persons appointed as agents of ICBC for collecting government fees, fines and other amounts payable by ICBC to the government and for collecting premiums, fees, debts and other revenue on behalf of ICBC, and
  - the payments that ICBC is to make under the “Traffic and Road Safety Law Enforcement Funding Memorandum of Understanding” between the government and ICBC.
- Section 3(1)(e) provides that, for each policy year up to and including the 2020 policy year, the BCUC must set rates in accordance with ICBC’s capital management plan in existence on May 27, 2016, but excluding the capital build or release provisions of that plan and using a calculation in relation to the capital maintenance provision which has no impact on Basic insurance rates for that policy year.
- Section 3 (1)(g) provides that the BCUC 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;
- Section 3(1)(j) provides that increases or decreases in Basic insurance rates are phased in in such a way that those rates remain relatively stable and predictable; and
- Section 3(1.1) provides that despite sections 3(1)(c) and (e)(i), for each year that the BCUC fixes Basic insurance rates,

  (a) the BCUC may exclude some or all of that year’s loss costs forecast variance from the rate fixed by a general rate change order, in accordance with a capital management plan, and

  (b) the percentage number of a rate change fixed by a general rate change order must differ from the percentage number of a rate change fixed by the previous general change order by no more than 1.5 and must not decrease existing rates.[201]

On February 26, 2018, by Order in Council (OIC) No. 67 (OIC 67/18), the Lieutenant Governor approved amendments to Special Direction IC2 such that sections 3(1)(b) and 3((1)c)(iii) do not apply with respect to fixing rates for the 2018, 2019, 2020 and 2021 policy years. As such, there is currently no minimum capital requirement for Basic insurance.

On August 9, 2018, Special Direction IC2 was further amended by OIC No. 456 (OIC 456/18) and OIC No. 457 (OIC 457/18) resulting in changes that included extending the Policy Year 2017 (PY 2017) and establishing the timing for ICBC’s next general rate change application.

On August 31, 2018, as directed, the BCUC issued OrderG-165-18 approving that the general rate change order established for PY 2017 would remain in effect until March 31, 2019. The BCUC also directed ICBC to file, by December 15, 2018, its application for a general rate change order for the policy year beginning April 1, 2019.

[201] From PY 2014 and for each subsequent year for which rates are set.

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

ICBC's Proposed List of Amended Performance Measures

ICBC's proposed list of amended performance measures,[202] to be reported in the Performance Measures chapter in future revenue requirements applications (RRAs), is as follows:

	Performance Measure	Definition	Reference
1	Insurance Services Satisfaction	The percentage of customers satisfied with their recent insurance purchase and renewal transaction. This measure has typically been based on a survey of over 5,000 customers throughout the year.	Exhibit B-1, p. 8A-7
2	Driver Licensing Satisfaction	The percentage of customers satisfied with their transaction with ICBC, which includes issuing or renewing a licence, taking a knowledge test, or taking a road test. This measure is weighted to reflect the total number of transactions for each service type and is based on a random sample of over 3,000 customers, surveyed throughout the year.	Exhibit B-1, p. 8A-8
3	Corporate Claims Services Satisfaction (Closed Claims and First Notice of Loss (FNOL))	The average of the Claims Services Satisfaction (Closed Claims) measure and the Claims Services Satisfaction (FNOL) measure from Closed Claims and FNOL survey results, respectively.	Exhibit B-1, pp. 8A-8, 8B-4
4	Basic Loss Ratio	The ratio of the total Basic insurance claims costs and Basic insurance claims-related costs, including road safety and loss management costs, to the Basic insurance premium dollars earned.	Exhibit B-1, p. 8A-10
5	Basic Minimum Capital Test (MCT) Ratio	The ratio of the Basic capital available to the minimum Basic capital required.	Exhibit B-1, p. 8A-12
6	Basic Insurance Expense Ratio	The ratio of the Basic insurance operating expenses (excluding claims, claims-related costs, and Non-insurance expenses) to the Basic insurance premium dollars earned.	Exhibit B-1, pp. 8A-10, 8A-15
7	Basic Non-Insurance Expense Ratio	The ratio of the Non-insurance expenses to the Basic insurance premium dollars earned.	Exhibit B-1, p. 8A-10
8	Investment Return	Incorporates both changes in the market value of, and the investment income generated from, the investment portfolio managed by ICBC. Individual asset class returns are measured relative to the performance of standard market benchmarks.	Exhibit B-1, p. 8A-11

[202] Exhibit B-1, pp. 1B-1 – 1B-3, 8-3 – 8-5.

	Performance Measure	Definition	Reference
		The return of the overall portfolio is measured against a policy market benchmark calculated as the average of individual asset class market benchmark returns weighted according to the portfolio's strategic asset mix. The Investment Return is for the total investment portfolio that ICBC manages for the Basic and Optional insurance lines of business combined.	
9	Loss Adjustment Ratio	The ratio of the sum of i) claims services expenses, ii) external expenses and iii) loss management expenses, to claims paid net of external expenses.	Exhibit B-1, p. 8A-18
10	Corporate Insurance Expense Ratio	The ratio of the insurance operating expenses (excluding claims, claims-related costs and Non-insurance expenses) to the insurance premium dollars earned. Insurance operating expenses represent the sum of administrative costs, commissions to brokers, and premium tax.	Exhibit B-1, p. 8A-19

In addition, ICBC proposes the following to be reported in future RRAs in the chapter indicated:[203]

- Legal Representation Conversion Rate to be reported in the Claims Cost Management chapter;
- Crash Frequency to be reported in the Road Safety chapter; and
- Learner and Novice Crash Rate Ratios to be reported in the Road Safety chapter.

[203] Exhibit B-1, pp. 1B-3, 8-4.

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

GLOSSARY AND ACRONYMS

Glossary / Acronym	Description
AAP	Accepted Actuarial Practice
AB	Accident Benefits
Application	2019 Revenue Requirements for Universal Compulsory Automobile Insurance
Basic Capital Management Plan	Basic insurance Capital Management Plan
Basic insurance	Universal Compulsory Automobile Insurance
BC	British Columbia
BCOAPO	British Columbia Old Age Pensioners' Organization et al.
BCUC	British Columbia Utilities Commission
BI	Bodily Injury
CCSL	Customer Contact Service Level
Claims costs	Costs of processing and paying out claims
CRT	Civil Resolution Tribunal
EY	Ernst & Young LLP
FLY	Fiscal Loss Year
FNOL	First Notice of Loss
GD	General Damages
ICA	*Insurance Corporation Act*
ICBC	Insurance Corporation of British Columbia
IR	Information Request
IVA	*Insurance (Vehicle) Act*
Landale	Richard Landale

Glossary / Acronym	Description
LCFV	Loss Cost Forecast Variance
McCandless	Richard McCandless
MCT	Minimum Capital Test
MoveUp	Movement of United Professionals
MR	Medical Rehabilitation
NCI	New Claims Initiation
OIC	Order in Council
Optional	Optional vehicle insurance
PD	Property Damage
Product Reform Costing Report	The Ernst & Young LLP November 2018 Product Reform Costing Report
Projected PY 2019 Premium at Current Rate Level	The total Basic insurance premium that ICBC would collect for PY 2019 if the current Basic insurance premium rates were charged in PY 2019
PY	Policy Year
PY 2017	Policy Year Commencing November 1, 2017
PY 2019	Policy Year Commencing April 1, 2019
PY 2019 Required Premium	The present value of all expected loss and loss adjustment expense, administrative expense, broker fees, premium tax, and capital maintenance, as well as offsets for income attributable to both miscellaneous revenue and investment income for PY 2019
RAAP	Rate Affordability Action Plan
RRA	Revenue Requirements Application
SIPP	Statement of Investment Policy and Procedures
Special Direction IC2	*Special Direction IC2 to the British Columbia Utilities Commission, BC Regulation 307/2004*
UCA	*Utilities Commission Act*

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Insurance Corporation of British Columbia
2019 Revenue Requirements Application

EXHIBIT LIST

Exhibit No.	Description
COMMISSION DOCUMENTS	
A-1	Letter dated December 17, 2018 – Appointing the Panel for the review of the Insurance Corporation of British Columbia's 2019 Revenue Requirements Application
A-2	Letter dated January 2, 2019 – BCUC Order G-1-19 establishing the regulatory timetable and setting interim rate
A-3	Letter dated January 10, 2019 – Amending the Panel for the review of the Application
A-4	Letter dated January 11, 2019 – Response to Mr. Landale's Information Presentation request
A-5	Letter dated January 18, 2019 – Request to ICBC for supplemental information
A-6	Letter dated January 28, 2019 – Response to ICBC's redacted supplementary information extension request
A-7	Letter dated February 5, 2019 – BCUC Information Request No. 1 to ICBC
A-8	**CONFIDENTIAL** - Letter dated February 5, 2019 – BCUC Confidential Information Request No. 1 to ICBC
A-9	Letter dated March 14, 2019 – BCUC Order G-57-19 continuing the regulatory timetable and establishing a procedural conference
A-10	Letter dated March 20, 2019 – Procedural Conference Information

A-11	Letter dated April 1, 2019 – BCUC response to Mr. McCandless' request with respect to the confidentiality of 2019.1 RR RM.3.8C
A-12	Letter dated April 1, 2019 – BCUC Order G-73-19 continuing the regulatory timetable
A-13	Letter dated April 9, 2019 – BCUC Information Request No. 2 to ICBC
A-14	**CONFIDENTIAL** - Letter dated April 9, 2019 – BCUC Confidential Information Request No. 2 to ICBC
A-15	Letter dated April 11, 2019 – BCUC response to Mr. McCandless request with respect to the confidentiality of 2019.1 RR RM.3.8C

APPLICANT DOCUMENTS

B-1	**INSURANCE CORPORATION OF BRITISH COLUMBIA (ICBC)** – Letter dated December 14, 2018 Submitting 2019 Revenue Requirements Application
B-1-1	**CONFIDENTIAL -** Letter dated December 14, 2018 – ICBC Submitting Confidential Chapter 3, Technical Appendix E.0 and Chapter 10 B 2018/19 IT Capital Expenditure Plan
B-1-2	Letter dated January 21, 2019 – ICBC Submitting Blacked Out Redaction of Chapter 3, Technical Appendix E.0 and Chapter 10 B of the Application
B-1-3	**CONFIDENTIAL** - Letter dated January 24, 2019 – ICBC Submitting Confidential Supplementary Information to the Application
B-1-4	Letter dated January 30, 2019 – ICBC Submitting Redacted Supplementary Information to the Application
B-1-5	Letter dated February 1, 2019 – ICBC Submitting Errata to the Application with Redactions
B-1-6	**CONFIDENTIAL** - Letter dated February 1, 2019 – ICBC Submitting Errata Letter and Corrected Excerpts of the Application
B-1-7	Letter dated March 29, 2019 – ICBC Submitting Second Errata to the Application
B-2	Letter dated March 8, 2019 – ICBC Submitting Responses to BCUC and Intervener Information Requests No. 1
B-2-1	**CONFIDENTIAL** - Letter dated March 8, 2019 – ICBC Submitting Confidential Responses to BCUC and Intervener Information Requests No. 1

B-2-2	Letter dated March 29, 2019 – ICBC Submitting Errata and Clarifications to Responses to BCUC Information Request No. 1
B-2-3	Letter dated March 29, 2019 – ICBC Submitting Supplemental Information to Responses to BCUC Information Request No. 1 TLA.99.46
B-2-4	Letter dated April 8, 2019 – ICBC Submitting Supplemental Information to BCUC Information Request Nos. 1.29.2 and 1.29.3
B-3	**CONFIDENTIAL** - Letter dated March 8, 2019 – ICBC Submitting Responses to BCUC Confidential Information Request No. 1
B-4	Letter dated April 4, 2019 – ICBC Submitting Response regarding Mr. McCandless' request to BCUC Panel with respect to the confidentiality of 2019.1 RR RM.3.8C
B-5	Letter dated April 30, 2019 – ICBC Submitting Responses to BCUC Confidential IR No. 2 (9.0 series), BCUC IR No. 2, BCOAPO IR No. 2, Landale IR No. 2 and McCandless IR No. 2
B-5-1	**CONFIDENTIAL** - Letter dated April 30, 2019 – ICBC Submitting Confidential Responses to BCUC IR No. 2
B-5-2	Letter dated June 25, 2019 – ICBC Submitting Follow-up Response to BCUC IR 110.3
B-6	**CONFIDENTIAL** - Letter dated April 30, 2019 – ICBC Submitting Confidential Responses to BCUC Confidential IR No. 2

INTERVENER DOCUMENTS

C1-1	**RICHARD LANDALE (LANDALE) –** Letter dated December 17, 2018 Request for Intervener Status
C1-2	Letter dated January 3, 2019 – Mr. Landale submission requesting an ICBC Information Presentation
C1-3	Submission dated February 14, 2019 – Landale Information Request No. 1 to ICBC
C1-4	Submission dated April 9, 2019 – Landale Information Request No. 2 to ICBC
C2-1	**MOVEUP –** Letter dated January 2, 2019 Request for Intervener Status by Jim Quail
C2-2	Submission dated February 8, 2019 – MoveUP Information Request No. 1 to ICBC
C3-1	**RICHARD MCCANDLESS (MCCANDLESS) –** Letter dated January 4, 2019 Request for Intervener Status
C3-2	Submission dated February 12, 2019 – McCandless Information Request No. 1 to ICBC
C3-3	Submission dated March 24, 2019 – McCandless Addressing Procedural Conference Items
C3-4	Submission dated March 28, 2019 – McCandless Request BCUC Panel Require ICBC to Publicly File Full Response to IR 2019.1, RM 3.8
C3-5	Submission dated April 8, 2019 – McCandless submitting Information Request No. 2 to ICBC
C4-1	**TRIAL LAWYERS ASSOCIATION OF BRITISH COLUMBIA (TLABC)** – Letter dated December 21, 2018 Request for Intervener Status by Todd Hauptman
C4-2	Letter dated February 14, 2019 – TLABC submitting Information Request No. 1 to ICBC
C5-1	**HARD INDUSTRIES LIGHT OILFIELD SERVICES (HARD INDUSTRIES)** – Letter dated January 4, 2019 Request for Intervener Status by Brent Aaron Ingberg
C6-1	**DVD BACKFLOW INC. (DVD) –** Letter dated January 13, 2019 Request for Intervener Status by Steven De Vidi
C7-1	**BRITISH COLUMBIA OLD AGE PENSIONERS' ORGANIZATION (BCOAPO)** - Letter dated January 21, 2019 Request to Intervene by Leigha Worth and Irina Mis
C7-2	Letter dated February 14, 2019 – BCOAPO submitting Information Request No. 1 to ICBC
C7-3	Letter dated March 20, 2019 – BCOAPO submitting notice of co-counsel Ms. Irina Mis and expert consultant Mr. James Wightman
C7-4	Letter dated April 9, 2019 – BCOAPO submitting Information Request No. 2 to ICBC

C8-1 **NINA HELLER (HELLER) –** Letter dated January 2, 2019 Request for Intervener Status

C9-1 **DANIEL ALVAREZ (ALVAREZ) –** Letter dated January 3, 2019 Request for Intervener Status

C10-1 **SARAH POLLEY (POLLEY) –** Letter dated January 11, 2019 Request for Intervener Status

C11-1 **DELANEY BELL (BELL) –** Letter dated January 11, 2019 Request for Intervener Status – Request Withdrawn

INTERESTED PARTY DOCUMENTS

D-1 **SCHILE, JAMAI** – Submission dated January 3, 2019 - Request for Interested Party Status

D-2 **SMALL, JESSE** – Submission dated January 4, 2019 - Request for Interested Party Status

D-3 **INSURANCE BUREAU OF CANADA (IBC)** – Submission dated January 9, 2019 – Request for Interested Party Status by Miranda Lee

D-4 **BOBROFF, LEONARD** - Submission dated January 28, 2019 - Request for Interested Party Status

LETTERS OF COMMENT

E-1 Stern, D. – Letter of Comment dated December 18, 2018

E-2 Creech, R. – Letter of Comment dated January 2, 2019

E-3 Doerksen, J. – Letter of Comment dated January 2, 2019

E-4 Khandan, F. – Letter of Comment dated January 2, 2019

E-5 Langston, B. – Letter of Comment dated January 2, 2019

E-6 Lerch, M. – Letter of Comment dated January 2, 2019

E-7 Nayoski, J. – Letter of Comment dated January 2, 2019

E-8 Ramone, J. – Letter of Comment dated January 2, 2019

E-9 Robertson, D. – Letter of Comment dated January 2, 2019

E-10 Burke, B. – Letter of Comment dated January 3, 2019

E-11 Baker, S. – Letter of Comment dated January 3, 2019

E-12 Bonrll, G. – Letter of Comment dated January 3, 2019

E-13	Woods, R. – Letter of Comment dated January 3, 2019
E-14	Kaleta, K. – Letter of Comment dated January 3, 2019
E-15	Bryan, F. – Letter of Comment dated January 3, 2019
E-16	Tremblay, M. – Letter of Comment dated January 3, 2019
E-17	Azam, F. – Letter of Comment dated January 3, 2019
E-18	Bouska, M. – Letter of Comment dated January 3, 2019
E-19	Comeau, C. – Letter of Comment dated January 3, 2019
E-20	Hayward, M. - Letter of Comment dated January 3, 2019
E-21	Changster, DJ. – Letter of Comment dated January 4, 2019
E-22	Constable, T. – Letter of Comment dated January 4, 2019
E-23	Forbes, B. – Letter of Comment dated January 4, 2019
E-24	Giffen, M. – Letter of Comment dated January 4, 2019
E-25	Mauriello, C. – Letter of Comment dated January 4, 2019
E-26	Johnston, D. – Letter of Comment dated January 4, 2019
E-27	Smith, H. – Letter of Comment dated January 4, 2019
E-28	Anonymous – Letter of Comment dated January 4, 2019
E-29	Sutherland, B. – Letter of Comment dated January 4, 2019
E-30	Hogg, D. – Letter of Comment dated January 7, 2019
E-31	Davis, R. – Letter of Comment dated January 7, 2019
E-32	Omeasoo, C. – Letter of Comment dated January 8, 2019
E-33	Perry, J. – Letter of Comment dated January 16, 2019
E-34	Gillich, K. – Letter of Comment dated January 17, 2019
E-35	Polanski, M. – Letter of Comment dated January 17, 2019
E-36	Polanska, M. – Letter of Comment dated January 17, 2019
E-37	Anonymous – Letter of Comment dated January 18, 2019

E-38 Phair, M. J. – Letter of Comment dated January 24, 2019

E-39 Kandola – Letter of Comment dated August 30, 2018

E-40 Sager, D. – Letter of Comment dated March 31, 2019