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Insurance Corporation of British Columbia

2021 Revenue Requirements Application

Decision
and Order G-307-21

October 28, 2021

Before:
A. K. Fung, QC, Panel Chair
K. A. Keilty, Commissioner
B. A. Magnan, Commissioner

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Executive Summary

On December 15, 2020, the Insurance Corporation of British Columbia (ICBC) filed its 2021 Revenue Requirements application with the British Columbia Utilities Commission (BCUC), seeking a 15 percent decrease to Basic insurance rates for the 23-month policy year (PY) commencing May 1, 2021 and ending March 31, 2023 (PY 2021) (Application). In the Application, ICBC also proposed changes to the formula for the New Money Rate and Yield on Basic Equity, performance measures and other reporting.

The *Insurance Corporation Act* sets out the BCUC's role in regulating ICBC's Basic insurance. In particular, ICBC must make Basic insurance available in a manner that the BCUC considers is adequate, efficient, just and reasonable. The BCUC must also follow government directives when regulating and fixing rates using the factors, criteria and guidelines as provided. The BCUC does not regulate or set rates for optional automobile insurance.

Following a public review process, which included nine interveners, two interested parties and three letters of comment from members of the public, the Panel approves a permanent Basic insurance rate decrease of 15 percent for all new or renewal policies with an effective date on or May 1, 2021, as well as other changes in accordance with ICBC's Application.

The Panel makes the following key findings:

- The claims costs component of ICBC's costs, including cost assumptions related to the impact of the COVID-19 pandemic, is reasonable for the purpose of determining the PY 2021 indicated rate change;
- ICBC's forecasted operating expenses for PY 2021 are reasonable for the purpose of determining the PY 2021 indicated rate change;
- By Government direction, which is binding on the BCUC, the BCUC is required to accept a capital build provision for ICBC that results in the addition of 11.5 percentage points on the rate indication for PY 2021; and
- The proposed changes to the New Money Rate formula and Yield on Basic Equity are appropriate following the transfer of ICBC's investment management to British Columbia Investment Management Corporation.

Claims costs are the largest component of ICBC's Basic insurance costs and the primary driver of the proposed rate decrease of 15 percent, or a revenue surplus of $1.07 billion. The rate change is an estimate of how much Basic insurance premiums need to change to pay for the net costs and expenses of accidents that occur within PY 2021 compared to existing premiums.

Since 2018, ICBC has worked with the BC Government to undertake reform of the Basic insurance product. Enhanced Care, which came into effect on May 1, 2021, replaces previous tort-based insurance systems or models and is the latest culmination of those product reform efforts. Enhanced Care removes legal and expert report costs from the insurance system and increases certain enhanced accident benefits limits in the event of a motor vehicle crash, no matter who is responsible for the crash. Enhanced Care has a favourable 23.3 percentage point impact on rates. The costs savings in claims and related costs from the product change and higher forecast investment income are offset by the BC Government-directed capital build provision for PY 2021 referenced above.

The Panel acknowledges that the inherent uncertainty in the actuarial estimates, compounded with the introduction of Enhanced Care for which there is no previous ICBC data or analysis, means there is considerable uncertainty in the estimate of claims costs. Actual claims data related to Enhanced Care will emerge over the 23-month policy year and any estimation differences will be captured in future rate applications.

With respect to the impact of subsequent events related to the Civil Resolution Tribunal decision and the two COVID-19 rebates directed to be returned to customers pursuant to Government direction, ICBC's evidence is that these events do not materially impact the PY 2021 indicated rate change because they do not impact expected premium or claims costs associated with policies written in PY 2021. Furthermore, the impact of investment income on Basic equity is a small component of the total required premium. The Panel is satisfied that no adjustment to the rate indication is warranted to reflect the cumulative impact of these subsequent events. The impact of these events will be reflected in the next rate application.

The Panel also approves changes to performance measures and other reporting in this proceeding. Notwithstanding, ICBC is directed to continue reporting the Insurance Expense Ratio as a separate measure to better reflect its actual insurance operations. In addition, ICBC is directed to provide an analysis of the expected savings that will be achieved and the forecast versus savings achieved in fiscals 2022/23 and 2023/24 related to phasing out the two previous insurance models, as part of its next general rate change application for PY 2023, currently scheduled to be filed by December 15, 2022.

1.0 Introduction

The Insurance Corporation of British Columbia's (ICBC) 2021 Revenue Requirements Application (RRA) for Universal Compulsory Automobile Insurance (Basic insurance) seeks a decrease of 15 percent in Basic insurance rates for the 23-month policy year (PY) commencing May 1, 2021 and ending March 31, 2023 (PY 2021), among other requests (Application).

ICBC submitted the Application in accordance with *Special Direction IC2 to the BCUC, BC Regulation 307/2004*, as amended (Special Direction IC2), which sets out the regulatory framework and requirements for the regulation of Basic insurance. The start of PY 2021 coincides with the implementation of a care-based insurance system (Enhanced Care). ICBC noted that Enhanced Care, which was implemented on May 1, 2021, will reduce auto insurance premiums for customers and give access to significantly enhanced accident benefits.[1]

This Decision is the Panel's determination of the Basic insurance rate change on a permanent basis for PY 2021, in accordance with the legislative and regulatory framework outlined in Subsection 1.2, as well as the Panel's consideration of the other approvals sought as set out in Section 4. The Panel addresses the following:

- The context for the Decision given that the rate indication must be based on accepted actuarial practice in Canada 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;
- The scope of certain issues raised by interveners as well as members of the public in their letters of comment;
- The components of the PY 2021 indicated rate change that make up the proposed 15 percent Basic insurance rate decrease, including the Panel's findings on the actuarial estimates of claims costs;
- The approvals sought regarding changes to performance measures, financial allocation methodology and compliance reporting; and
- Matters raised by participants relating to ICBC's financial viability, Basic insurance rate design and the need for insurance product reform.

1.1 Background

ICBC is a provincial Crown corporation mandated by the *Insurance Corporation Act* (ICA), *Insurance (Vehicle) Act* and the *Motor Vehicle Act* to provide Basic insurance to drivers in BC. Established in 1973, ICBC has more than 900 broker locations and provides Basic insurance coverage to approximately 3.8 million customers.[2] In addition, ICBC competes with other insurance companies in the Optional automobile insurance market (Optional

[1] Exhibit B-1, Cover Letter, p. 1.
[2] Exhibit B-1, p. 1-1.

insurance). ICBC states that it operates these two lines of business, along with its Non-insurance[3] business on a fully integrated basis so that economies of scope and scale of ICBC's operations can benefit BC motorists.[4]

Pursuant to Government direction, ICBC has undertaken certain Basic insurance rate design changes and product reforms since 2018. Enhanced Care is the latest culmination of those efforts.

History of ICBC's Rate Design Reform

In 2018, by Orders in Council (OIC) No. 458/18 and 459/18, respectively, the Lieutenant Governor in Council provided directions to ICBC and the BCUC regarding ICBC's rate design. Pursuant to OIC 458/18, ICBC was directed to apply to the BCUC for approval of rate design amendments as set out in that directive and of the accompanying amended or new Tariff pages.

ICBC noted that the 2018 rate design represented a significant change in the way Basic insurance premiums are determined.[5] The majority of the rate design Tariff amendments took effect September 1, 2019. These rate design changes included:

- Changes to driver-based factors where a driver's at-fault crashes are considered in determining premiums of all vehicles on which that driver is listed as a driver. Previously, the premium impact of an at-fault crash was often experienced by the registered owner of the vehicle, even if that owner was not the driver who caused the crash.[6]
- Updates to vehicle-based factors to account for risk conditions associated with a vehicle's rate class (type of vehicle and how it is used) and territory (generally, based on the location of the vehicle when not in use). These updates occur over a 10-year period to moderate the impact on Basic insurance premiums.[7]

As the BCUC was directed to regulate and fix the rates using the factors, criteria and guidelines set out in OIC 458/18, the BCUC approved the Tariff pages associated with the 2018 rate design application.[8]

2019 Rate Affordability Action Plan (RAAP)

In April 2019, ICBC introduced product reform under the Rate Affordability Action Plan (RAAP), focusing on reducing ICBC's litigation and Bodily Injury (BI) claims costs and improving accident benefits. ICBC submits, for several years, legal and expert report costs, as well as general damages payments (particularly related to injury claims), had been increasing rapidly. Those costs put considerable pressure on ICBC's financial position and the ability to deliver affordable insurance.[9]

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[3] Exhibit B-1, p. 1-1: ICBC provides vehicle and driver licensing services, vehicle registration services, and fines collection on behalf of Government.

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

[5] ICBC 2018 Rate Design Application, Exhibit B-1, p. 1-1.

[6] ICBC 2018 Rate Design Application, Exhibit B-1, p. 1-3.

[7] ICBC 2018 Rate Design Application, Exhibit B-1, pp. 1-3 to 1-4.

[8] BCUC Order G-188-18 and Order G-244-18.

[9] Exhibit B-1, p. 1-3.

In the ICBC's 2019 Revenue Requirements Application (2019 RRA), ICBC described the key change of RAAP product reform 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 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 Civil Resolution Tribunal (CRT).[10]

ICBC submits that the above product reforms, together with fewer crashes and injuries than expected, helped avoid a Basic insurance rate increase for PY 2020.[11]

Enhanced Care

In February 2020, the Government announced a move to Enhanced Care "in the continued pursuit to provide affordable insurance."[12] Enhanced Care came into effect on May 1, 2021, replacing the previous tort-based insurance systems, and provides important context for this Application.[13]

ICBC states that Enhanced Care relieves the pressure on Basic insurance rates by largely removing the legal and expert report costs from the insurance system. in addition, a care-based insurance system can focus on providing customers with enhanced accident benefits that are aligned with the care they need in the event of a motor vehicle crash, no matter who is responsible for the crash.[14]

ICBC submits that the proposed rates in this Application are based on an actuarial rate indication that only takes into consideration new claims and associated claims services costs resulting from policies sold during the 23-month PY 2021 (May 1, 2021 to March 31, 2023). Therefore, the actuarial analysis is based on estimated costs and revenues as from May 1, 2021 and claims costs are those associated with the Enhanced Care coverages in effect at that time.[15]

ICBC outlines the differences in coverages between the 2019 RRA and Enhanced Care in the table below:

[10] ICBC 2019 Revenue Requirements Application Decision and Order G-192-19 dated August 19, 2019 (2019 RRA Decision), p. 4.

[11] Exhibit B-1, p. 1-3; By Order G-21-20 dated February 14, 2020, the BCUC approved a rate change of 0 percent for PY 2020 in accordance with Special Direction IC2. In Footnote 2 on page 3-6 of the Application, ICBC submits the PY 2020 Basic insurance rate change of 0 percent was based on the underlying actuarial analysis at that time.

[12] Exhibit B-1, p. 1-3.

[13] Exhibit B-1, p. 1-3.

[14] Exhibit B-1, p. 1-4.

[15] Exhibit B-1, p. 1-5.

Table 1: Enhanced Care Coverages for New Claims[16]

2019 RRA	Enhanced Care Coverages
INJURY COVERAGES	
Accident Benefits (AB) Medical and Rehabilitation (MR) Weekly Benefits (WB) Death Benefits (DB)	Enhanced Accident Benefits (EAB) Medical and Rehabilitation (MR) Income Replacement and Indemnity (IRI) Permanent Impairment and Death Benefits (PI & DB)
Third Party Liability - Bodily Injury (BI) including Underinsured, Uninsured and Unidentified Motorist Protection (BI)	Third Party Liability (TPL-BI)*
NON-INJURY COVERAGES	
	Basic Vehicle Damage Coverage (BVDC)
Third Party Liability - Property Damage including Underinsured, Uninsured and Unidentified Motorist Protection (PD)	Third Party Liability (TPL-Vehicle Damage and TPL-non Vehicle Damage)

* As explained in Chapter 2, under Enhanced Care, TPL-BI coverage will still be available in certain specified situations.

Under Enhanced Care, ICBC outlines that benefits are payable for injury claims regardless of who is responsible for the accident and coverage is not just for drivers—it is extended to pedestrians, cyclists, and passengers injured in an automobile accident. ICBC states the types of benefits available include:

- Medical care and rehabilitation (up to at least $7.5 million, up from the RAAP product reform maximum of $300,000);
- Increased wage-loss payments;
- Income replacement benefits including a retirement income benefit;
- Caregiver benefits; and
- Recreational benefit, death benefits and grief counselling.

Additional benefits for the most seriously injured include permanent impairment compensation and personal care assistance.[17] For vehicle damage, a new Basic Vehicle Damage Coverage (BVDC) is included in Basic insurance. With BVDC, ICBC states, in most situations, the not-at-fault driver will no longer need to sue the at-fault driver to cover the cost of vehicle repairs, replacement and loss of use. These costs will be included as part of the insured's policy and will cover their losses up to the percentage they are not at fault.[18]

With the introduction of Enhanced Care, ICBC states that, operationally, it now serves customers under three separate models for handling BC claims, and will be doing so for many years to come:

- Claims for crashes that occurred before April 1, 2019 (full tort claims);
- Claims for crashes that occur over the period from April 1, 2019 to April 30, 2021 (modified tort claims); and

[16] Exhibit B-1, Figure 1.1, p. 1-6.
[17] Exhibit B-1, p. 2-3.
[18] Exhibit B-1, p. 2-3.

- Claims for crashes that occur from May 1, 2021 (new claims or Enhanced Care claims).[19]

ICBC submits that it must staff accordingly for this operational change.[20]

1.2 Legislative and Regulatory Framework

Part 2 of the ICA and specified sections of the *Utilities Commission Act* (UCA) provide the BCUC's jurisdiction to regulate ICBC's Basic insurance business, in that ICBC must make available Basic insurance in a manner, and in accordance with practices and procedures, that the BCUC "considers are in all respects adequate, efficient, just and reasonable."[21] Further, section 44 (1) of the ICA provides that the UCA applies to ICBC as if it were a public utility, excluding specified sections of the UCA. Under the rates setting sections of the UCA, a public utility must not make, demand, or receive "an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service provided by it in British Columbia." However, because ICBC is not a public utility, the reference to "rate" in the UCA is defined as "compensation of the Insurance Corporation of British Columbia, other than any fee or other remuneration to which that corporation is entitled for any activity it undertakes under section 7 (g), (h) or (i) of the *Insurance Corporation Act.*" Section 7(g), (h), and (i) of the ICA generally refer to ICBC's function related to government programs and highway safety.

ICBC's regulatory framework is established by the legislature and the Lieutenant Governor in Council. Special Direction IC2 sets out the BCUC's requirements with respect to setting ICBC's Basic insurance rates for PY 2021. Under Special Direction IC2, the BCUC must:

- Fix Basic insurance rates based on a 23-month policy period beginning May 1, 2021 through to March 31, 2023;[22]
- Fix Basic insurance rates based on Accepted Actuarial Practice (AAP) so that the rates allow ICBC to collect sufficient revenue to pay the costs related to Basic insurance;
- 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 percent of the Minimum Capital Test (MCT) ratio. The MCT ratio requirement is suspended until the end of PY 2021;
- Add a capital build provision that would result in the addition of 11.5 percentage points to the rate change to cover costs after accounting for the effect of investment income and expenses that vary with the amount of premium collected from a policyholder;[23] and
- Include a capital maintenance provision that neither increases nor decreases the rate change.[24]

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. The

[19] Exhibit B-1, p. 1-5.
[20] Exhibit B-1, p. 1-5.
[21] Insurance Corporation Act, RSBC 1996, c. 228, retrieved from: https://www.bclaws.gov.bc.ca/civix/document/id/complete/statreg/96228_01#part2
[22] Exhibit B-1, p. 1-5.
[23] Exhibit B-1, p. 2-5.
[24] Exhibit B-1, p. 2-5.

Lieutenant Governor in Council may provide Government directives in the form of a Special Direction regarding the way ICBC's Basic insurance business is regulated.[25]

The BCUC has no jurisdiction over ICBC's Optional insurance business and does not set rates for Optional insurance.

1.3 Approvals Sought

On December 15, 2020, ICBC filed its Application with the BCUC. On February 26, 2021, ICBC submitted an errata with minor corrections to the Application.[26] ICBC seeks the following approvals:[27]

- Approval for a 15 percent rate decrease for PY 2021.
- Approval to change the formula for the New Money Rate and Yield on Basic Equity used in the actuarial analysis to reflect the adoption of Enhanced Care and the relationship with its new investment manager, the British Columbia Investment Management Corporation (BCI).
- Approval to defer the review of the financial allocation methodology due December 2022 until December 2023, in light of the need to first reach steady state under Enhanced Care.
- Approval to change the schedule of compliance reporting for the 2021/22 fiscal year as required in the absence of an RRA next year in accordance with various BCUC orders.
- Approval to make minor changes to performance reporting.

By Order G-12-21 dated May 1, 2021, the BCUC approved ICBC's requested 15 percent decrease to Basic insurance rates for implementation on an interim basis for all new or renewal policies with an effective date on or after May 1, 2021. The BCUC noted it will determine how any variance between approved interim rates and 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.

1.4 Application Review Process and Participants

The BCUC set the regulatory timetable for the review of the Application including intervener registration, a workshop, and two rounds of BCUC and intervener information requests (IR) to ICBC, followed by written final and reply arguments.[28]

Nine interveners and two interested parties registered in this proceeding. The seven registered interveners who filed final arguments are:

- Richard Landale (Landale);
- Movement of United Professionals (MoveUP);
- Richard McCandless (McCandless);

[25] Exhibit B-1, p. 2-1.
[26] Exhibit B-1-2.
[27] Exhibit B-1, p. 1-7.
[28] By Orders G-12-21, G-134-21 and G-221-21 dated January 14, 2021, May 5, 2021 and July 21, 2021, respectively.

- British Columbia Old Age Pensioners' Organization et al. (BCOAPO);
- Darcy Repen (Repen);
- Toward Responsible Educated Attentive Driving (TREAD); and
- The Fournier Auto Group.

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

2.0 Decision Scope and Context

The scope and context of the Panel's review set the parameters of the Panel's approval of the PY 2021 indicated rate change for Basic insurance. The regulatory framework discussed in Subsection 1.2 limits the scope of Panel's approval of a rate change for the policy year 2021 to allow ICBC to collect sufficient revenue to pay the costs related to Basic insurance and to add a capital build provision that would result in the addition of 11.5 percentage points to the rate change to cover costs. For PY 2021, the Panel also has no authority to amend ICBC's rate design directed in 2018.[29]

In this section, the Panel discusses the impact of the following items on the scope and context of the Panel's review of the Application.

- The direction in Special Direction IC2 that the rate indication must be determined using AAP, subject to applicable legislation;
- The implication of ICBC operating in a "closed system" enabling variances resulting from forecast uncertainty to be absorbed in the subsequent policy year;
- The appropriate treatment of events occurring subsequent to the completion of the actuarial analysis; and
- The limitation on the Panel's decision-making authority regarding the scope of certain issues raised by interveners and in letters of comment from members of the public.

2.1 Accepted Actuarial Practice

ICBC Basic insurance rates are set on a policy year basis. The rate change to cover costs represents the change to ICBC's Basic insurance revenue required in order to pay for expected future costs.[30] ICBC Basic rates cover the costs and expenses that relate to an automobile accident that occurs within the policy year. However, not all of those costs are actually paid during the period covered by a policy year. ICBC elaborates that the vast majority of ICBC's Basic insurance costs are for claims related to the accidents occurring within the policy year which may result in claims payments and costs over the next 40 years including income replacement and medical costs for the injured parties. As a result, ICBC's premiums for a policy year must account for costs that can be paid out well into the future. ICBC explains that estimating the cost of a claim with uncertain payment amounts 40 years into the future requires modelling based on historical patterns, assumptions and expert judgment.[31]

[29] OIC No. 458/18 and 459/18.
[30] Exhibit B-1, p. 3.1.
[31] Exhibit B-1, pp. 1.1-1.2.

As required by Special Direction IC2, the calculation of the revenues required to cover costs for a policy year is performed by actuaries in accordance with AAP,[32] which is the actuary's professional standards of practice.[33]

ICBC explains that the potential outcomes of the actuarial analysis are circumscribed by AAP, since AAP constrains the judgement that actuaries employ.[34] ICBC states that AAP applies to all aspects of actuarial work, specifically by defining the constraints on judgment. Actuarial judgment is a necessary part of the application of the professional standards of practice, and that judgment is required to be exercised in a reasonable fashion. Actuarial judgment is considered reasonable if the judgment is objective and takes account of such matters as the actuary's professional standards of practice , the spirit and intent of the standards, the duty of the actuarial profession to the public, information relevant to the circumstances of the case, and common sense.[35] In addition, ICBC states that AAP is subject to legislative requirements[36]such as the 2020 Government Directive regarding ICBC's Application for a General Rate Change Order for the 2021 Policy Year.[37]

According to ICBC, its proposed rate indication has been certified by ICBC's filing actuaries (Filing Actuary) and an external reviewing actuary, Mr. Weiland of Eckler Ltd. (Reviewing Actuary), as being prepared in accordance with AAP.[38] ICBC outlines the following components of AAP which have particular relevance to this Application:

- Basic insurance rates should cover the full cost of providing Basic insurance, subject to legislation and a provision for capital as directed by Special Direction IC2;[39]
- Cost estimates must be "best estimates" based on pertinent information. A best estimate implies an absence of bias (conservatism or optimism) based on the available data (favourable and unfavourable);[40]
- The rate indication and actuarial analysis may rely on a third-party actuarial analysis provided that certain criteria are met to ensure the integrity of the analysis;[41]
- The rate indication and actuarial analysis may rely on third-party data as permitted by Government and the Canadian Institute of Actuaries' "Standards of Practice";[42] and

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[32] In Exhibit B-1, Chapter 3, Appendix A.0, p. 1 and ICBC Final Argument, p. 8, ICBC explains that AAP in Canada includes adherence to the following: the Canadian Institute of Actuaries' "Rules of Professional Conduct" (Rules); the Canadian Institute of Actuaries' "Standards of Practice"; the Casualty Actuarial Society's "Statement of Principles Regarding Property and Casualty Unpaid Claims Estimates"*;* and the Casualty Actuarial Society's "Statement of Principles Regarding Property and Casualty Insurance Ratemaking."

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

[34] ICBC Final Argument, p. 8.

[35] Exhibit B-1, Chapter 3, Appendix A.0, p. 1.

[36] ICBC Final Argument, p. 8.

[37] Exhibit B-1, Chapter 3, Appendix A.0, p. 1: the Government Directive of November 30, 2020 with respect to ICBC's Application for a General Rate Change Order for the 2021 Policy Year approved by Order in Council 632, December 14, 2020 (the 2020 Government Directive regarding ICBC's Application for a General Rate Change Order for the 2021 Policy Year) specifies that the derivation of the indicated rate change must use Manitoba Public Insurance (MPI) historical claims data with specific exceptions to estimate the future Enhanced Accident Benefit (EAB) claims costs.

[38] Exhibit B-1, p. 3-3.

[39] ICBC Final Argument, p. 8.

[40] ICBC Final Argument, p. 9.

[41] ICBC Final Argument, p. 9.

[42] ICBC Final Argument, p. 10.

- 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.[43]

In essence, ICBC states that AAP requires that Basic insurance rates provide for the best estimate of the costs of Basic insurance and a provision for capital.[44] AAP also requires the actuary to set a standard for materiality. The materiality standard says, "…an omission, understatement, or overstatement is material if the actuary expects it to affect either the user's decision-making or the user's reasonable expectations."[45] The materiality standard selected by ICBC in this revenue requirements analysis and calculation of the -15.0 percent rate indication is $57.5 million for the 23-month policy period (equivalent to approximately 1 percent of the annualized required premium).[46]

ICBC explains the broad analytical framework that ICBC's actuaries have used to determine the rate indication, largely tracks that employed in prior RRAs. The exception is for the data used to support the forecasted claims for the new Enhanced Care accident benefits coverage, given this is a fundamentally different product.

Since Enhanced Care introduces new coverages, ICBC submits there is no previous ICBC data or analysis. As a result, ICBC states that its rate indication for PY 2021 relies, in part, on the actuarial assessment of Ernst & Young (EY), ICBC's external consulting actuaries, for the expected prospective claims costs of Enhanced Accident Benefits (EY Report). ICBC submits that EY has the necessary qualifications to perform the analysis within AAP. ICBC submits that its Filing Actuary and its Reviewing Actuary have reviewed EY's work and take responsibility for the use of the EY's work.[47] ICBC states it has been transparent where it has relied on EY's analysis.[48]

The 2020 Government Directive regarding ICBC's Application for a General Rate Change Order for the 2021 Policy Year directs ICBC to rely on Manitoba Public Insurance's (MPI) data, where applicable, in its costing analysis. ICBC states Enhanced Care benefits and coverages for Basic insurance are similar to MPI's "Personal Injury Protection Plan" with a few exceptions. ICBC states that the MPI data was also used by MPI's actuaries in its recent rate application. Therefore, ICBC views its use of MPI data as in accordance with AAP.[49] ICBC states that the Government directive specifies how ICBC is to consider: i) any differences between Enhanced Care and MPI's benefits and coverages, and ii) any differences in claims data, trends and environment between BC and Manitoba.[50] The Panel addresses the use of MPI data further in Subsection 3.1.1 of the Decision.

Regarding the use of AAP, ICBC submits its Filing Actuary and EY have relied on available data, methods and assumptions to complete the actuarial analysis. All analysis reflects their best estimates and is in accordance with AAP. However, ICBC points out that in the short term, there is uncertainty in the estimation of overall costs

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[43] ICBC Final Argument, pp. 10–11.
[44] Exhibit B-1, p. 3-1.
[45] Exhibit B-1, p. 3-25.
[46] Exhibit B-1, p. 3-26.
[47] Exhibit B-1, Chapter 3, Appendix A.0, p. 5; ICBC Final Argument, p. 10.
[48] ICBC Final Argument, p. 9.
[49] ICBC Final Argument, p.10.
[50] ICBC Final Argument, p. 10.

for the new product and how it will be utilized in BC. ICBC states it will gain more information on the costs associated with the new model over the next few years as BC transitions to the new Enhanced Care model.[51]

Positions of the Parties

Landale submits that AAP is an "infamous" process for which nobody outside of ICBC can challenge because "actuarial process is premised entirely on judgemental scenarios/models contrived from ICBCs privileged/ confidential historical data…"[52] Landale expresses a number of concerns regarding whether ICBC had determined the rate indication according to AAP.

In reply, ICBC submits that Landale's concerns are rooted in certain erroneous calculations. ICBC reiterates that all of the information that went into the rate indication analysis was reviewed and signed-off by ICBC's Filing Actuary and Reviewing Actuary, both of whom are required to adhere to professional standards of practice. Accordingly, the rate indication has been prepared according to AAP.[53] ICBC also submits that AAP provides a well-defined framework for managing the inherent uncertainty in insurance ratemaking, such that the consistent application of AAP should provide the BCUC with comfort as to the reasonableness of the forecasts.[54]

Panel Discussion

The regulatory framework requires that the Panel must fix Basic insurance rates based on estimates developed using AAP. While ICBC argues that AAP constrains the actuaries' judgments, thus placing bounds on the potential outcomes of actuarial analysis, it also points out that two actuaries may develop different, but equally valid, models that accord with AAP in Canada.[55] Given the inherent uncertainty in the actuarial estimates, especially with the introduction of Enhanced Care for which there is no previous ICBC data or analysis, the Panel considers it reasonable that there are possible alternate assumptions and judgments that could comply with AAP and result in rate level indications that are 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 $57.5 million materiality[56] standard selected by ICBC for the 23-month policy year, it is also reasonably possible that alternate assumptions associated with certain key judgments could materially impact the indicated rate change.

Further, despite ICBC's statement that Enhanced Care benefits and coverages for Basic insurance are similar to MPI's system with a few exceptions and given the direction for ICBC to rely on MPI data where applicable, any estimate of future claim activity is subject to a substantial amount of uncertainty. Even though ICBC's actuaries have availed themselves of all relevant data, as ICBC points out, there is short-term uncertainty in the estimation of overall costs for the new Enhanced Care product and how it will be utilized in BC. The uncertainty related to the use of certain MPI data is discussed further in Subsection 3.1.1.

Given that the new Enhanced Care coverage is a fundamentally different product, a wide range of results is reasonably possible and many different 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

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[51] Exhibit B-1, p. 3-26.

[52] Landale Final Argument, p. 2.

[53] ICBC Reply Argument, pp. 5–6.

[54] ICBC Reply Argument, p. 2.

[55] Exhibit B-1, Chapter 3, Appendix A.0, p. 4.

[56] Exhibit B-1, p. 3-26: For PY 2021, ICBC uses a materiality standard is $57.5 million for the 23-month policy period (equivalent to approximately 1 percent of the annualized required premium). This is updated from the $17 million (0.5 percentage point of rate) used in the 2019 RRA.

accordance with AAP is presented by ICBC. Since the Panel's decision is constrained by AAP, the Panel must either accept ICBC's evidence or if it has reason to doubt its validity, the Panel must obtain further evidence to support that the rate indication was derived in accordance with AAP. The Panel's decision to pursue further evidence may be impacted by the fact that differences arising due to the uncertainty of the actuarial estimates is captured in the "closed system" as discussed below.

2.2 Closed System

As noted above, there is uncertainty in the estimation of overall costs for Enhanced Care. ICBC states that more information will become available on the costs associated with the new model over the next few years as BC transitions to the new Enhanced Care model, including information about changes in customer behaviour and cost pressures that are unique to BC.[57] ICBC also states that the rate indication requires actuarial estimates of claims costs where payments will be made far out into the future and it is understood that variances in estimates are going to occur.[58] ICBC states that since it operates in a closed system, any forecast variance between the estimation of overall costs associated with Enhanced Care and actual costs will flow into Basic capital and any changes to on-going trends will be accounted for in subsequent RRAs.[59]

ICBC states that it does not earn a profit or any return for Government on Basic insurance.[60] ICBC explains that the regulatory framework for Basic insurance is a closed system. Since positive or negative net income variances from forecast affect retained earnings and are therefore reflected in the Basic capital, ICBC operates in a closed system. Variances between required and collected premiums from the rate indication stay within the Basic insurance business and get accounted for in future rate setting. ICBC submits this is different compared to a for-profit insurance company where net income above expectation is paid to shareholders in the form of dividends.[61]

In ICBC's view, the existence of the closed system addresses the inherent uncertainty of forecasting future claims costs. Basic capital effectively serves as a "rate stabilization fund," in which unanticipated events are absorbed by capital and capital provisions in the rate indication either maintain and/or build capital.[62] ICBC notes 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.[63] However, a capital build provision for PY 2021 results in the addition of 11.5 percentage points to the rate indication.[64]

Positions of the Parties

Regarding the implications of the closed system, McCandless notes ICBC repeatedly states that annual variances between the forecast revenue requirement and the actual net income or loss will be reflected in the Basic

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57 Exhibit B-1, p. 3-26.
58 ICBC 2019 RRA proceeding, Transcript Volume 1, p. 6.
59 Exhibit B-1, p. 3-26.
60 Exhibit B-1, p. 1-1; Transcript Volume 1, p. 25.
61 Exhibit B-1, p. 1-1; Exhibit B-1, Chapter 7, Attachment 7A.1, p. 7A.1-11, Footnote 9; ICBC Final Argument, p. 8; Transcript Volume 1, p. 25.
62 ICBC Final Argument, p. 8.
63 By OIC 67/18.
64 Exhibit B-1, p. 3-2.

capital. McCandless submits that since ICBC implies that overages or underfunding will be addressed in the subsequent year's rate request, there should be less concern about the accuracy of the yearly forecast revenue requirement.[65] In McCandless's view, the closed system assumes Basic capital is in a "satisfactory financial state" and that there is a reasonably short period of time for either remedial management action or an increase in rates, if an adverse event depletes Basic capital.[66]

To the extent that the RRA operates within a closed system that cannot be adjusted or updated, BCOAPO questions the purpose of a BCUC rate-setting review.[67]

In reply, ICBC argues that BCOAPO "significantly overstate[s]" the legislative constraints on the BCUC's jurisdiction. ICBC states, among other things, that the BCUC evaluates ICBC's actuarial analysis, including the actuarial methodologies, assumptions and data inputs, which support the rate change as at a point in time. In addition, the BCUC tests ICBC's operating expenses and determines the basis for reflecting investment income in the rates. ICBC submits in future proceedings, that the BCUC will also be assessing ICBC's capital management plan.[68]

ICBC also states that while forecast variances are expected, the closed system limits the impact of those variances on policyholders over time.[69]

Panel Discussion

The Panel agrees with ICBC that the Basic insurance system is designed to operate as a closed system. ICBC emphasizes that the closed system enables any forecast variance between this initial cost estimate of the overall costs for Enhanced Care and actual future costs to flow into Basic capital and any changes to on-going trends will be accounted for in subsequent RRAs. The BCUC has noted in previous RRA proceedings that closed system has allowed for amounts to be reflected in the subsequent year's indicated rate change or to be absorbed in Basic capital, as follows:

- Rate exclusions that resulted from ICBC seeking a Basic insurance rate approval that was insufficient to cover the indicated rate change since 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; and
- Any profit or loss amounts resulting from an understatement or overstatement of the revenue requirement has affected retained earnings, which then impacts Basic capital. [70]

However, as pointed out by McCandless the concept of a closed system does require that Basic capital be sufficient to absorb rate exclusions and unfavourable differences in estimates. The Panel agrees with McCandless that if Basic capital is depleted, there is reasonably only a short period of time for either remedial management action or an increase in rates. The Panel notes in the ICBC 2019 RRA Decision the BCUC stated:

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[65] McCandless Final Argument, pp. 7–8.
[66] McCandless Final Argument, p. 8.
[67] BCOAPO Final Argument, p. 5.
[68] ICBC Reply Argument, p. 4.
[69] ICBC Reply Argument, p. 2.
[70] ICBC 2019 RRA Decision and Order G-192-19 (ICBC 2019 RRA Decision), p. 8.

> The [BCUC] 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.[71]

While the closed nature of the Basic insurance system provides some context for the Panel's decision on permanent rates, Special Direction IC2 does require the BCUC to fix PY 2021 Basic insurance rates so that the rates allow ICBC to collect sufficient revenue to pay the costs related to Basic insurance. Accordingly, the Panel must find those estimates of costs and revenues to be reasonable.

In addition to ensuring rates are sufficient to recover costs, with respect to BCOAPO's comments about operating in a closed system, the Panel cannot simply conclude that if the estimates prove to be insufficient, any shortfall will be carried forward to be dealt with in the next RRA. The ability of the Panel to rely on the closed system to cover any shortfalls in claims costs estimates until the next RRA view depends on whether there is sufficient Basic capital available to cover any unfavourable outcomes. The Panel notes at the time ICBC completed its actuarial analysis, that forecast Basic capital available for the fiscal year ending March 31, 2023 is approximately $480 million, after accounting for the 11.5 percent capital build provision for PY 2021 and factoring in the impacts of certain risk provisions.[72] As will be discussed further in Subsection 2.3 below, subsequent to the actuarial analysis, several events occurred which have an impact on Basic net income, and thereby Basic capital. Specifically, based on the evidentiary record it is unclear whether the amount of the risk premiums included in ICBC's forecast Basic capital is sufficient to cover the unfavourable Civil Resolution Tribunal (CRT) decision and the two COVID-19 rebates that could increase costs attributable to Basic insurance by as much as $390 million and $518 million,[73] respectively.[74] Notwithstanding, all three of these events (the unfavourable CRT decision as well as the two COVID-19 rebates mandated by Government directive) are beyond the reasonable control of ICBC and, in any event, the regulatory framework suspends the BCUC's authority to fix rates which would allow ICBC to achieve or maintain a minimum MCT requirement or Basic capital for PY 2021.

2.3 Subsequent Events

Regarding events occurring after the completion of the actuarial analysis, ICBC explains that actuaries are required to make certain assumptions that are applied to historical data to estimate the rate change to cover costs. Due to the amount of time required by the actuaries to prepare the estimate, the data used generally precedes the date of submission of the Application by three months or more. Further, AAP requires that the assumptions be established on a best-estimate basis and to be independently reasonable and appropriate in aggregate. ICBC states that if, during the period over which the rate indication was being prepared by the actuaries, an assumption (or assumptions) ceased to meet these requirements, the actuaries would adjust the particular assumption (or assumptions) in a suitable fashion before the Application was submitted to BCUC.

[71] ICBC 2019 RRA Decision, p. 7.
[72] Exhibit B-5, BCUC IR 2.3.
[73] $330 million from the first COVID-19 Rebate plus $188 million from the second COVID-19 rebate.
[74] Exhibit B-6, Move UP IR 1.4b; Exhibit B-8, BCUC IR 84.1.1, 84.3; ICBC Application in Support of a Second COVID-19 Basic Insurance Rebate Order G-191-21 dated June 24, 2021.

In contrast, ICBC states that once the Application is submitted to BCUC, the rate change to cover costs is not revised by ICBC to reflect possible changes in individual assumptions from the emerging information. This is due to the need to examine each assumption that is material to the results to meet the requirement that actuarial assumptions be independently reasonable and appropriate in aggregate. This would be a time-consuming exercise equivalent to preparing a new rate analysis, which would support a different rate change to cover costs. Typically, ICBC would not embark on such an exercise in the middle of a process for reviewing the RRA.[75]

Since ICBC's Application was filed on December 15, 2020 and the analysis put forward in the Application is based on data at a point in time,[76] ICBC submits that the rate indication analysis should be the basis of the BCUC's determination, without considering updated information in a piecemeal manner.[77] ICBC submits that estimates and trends are constantly changing as more information becomes available, and variances are to be expected when forecasting long term costs. It argues that the closed system means that any long-term impact to ICBC's claim costs will be part of its next RRA, and any favourable short-term impact that has not been returned to customers through a Government directed rebate will be absorbed by capital.[78]

Since December 15, 2020, there were multiple subsequent events that occurred, including the CRT decision[79] in March 2021, the first COVID-19 rebate of $330 million announced in February 2021, amendments to the *Evidence Act* Regulations in February 2021, and the second COVID-19 rebate of $188 million announced in June 2021, that would have an impact on the PY 2021 rate indication or Basic capital. With respect to the CRT decision in March 2021 which has an estimated unfavourable impact to Basic insurance of up to $390 million, ICBC explains that the decision does not affect injury claims costs for PY 2021 or future policy years because litigation for crashes has been removed in Enhanced Care.[80] Both the CRT decision and the first COVID-19 rebate would adversely affect Basic net income and equity. ICBC also notes that the amendments to the *Evidence Act* Regulations in February 2021 have a favourable impact on claims savings estimated at $187 million for Basic insurance for fiscal 2020/21 and there is a small impact on fiscal 2021/22.[81] The Panel considers the specific impact of these subsequent events in Section 3.3.4.

Positions of the Parties

McCandless submits that ICBC's net income and Basic capital are materially affected by the subsequent events as noted above and cannot be ignored.[82] Similarly, BCOAPO questions why rates cannot be adjusted, stating, among other things, "If ICBC's RRA is a closed system that cannot be adjusted or updated, what is the purpose of a BCUC rate-setting review at all?"[83]

In Reply, ICBC reiterates that a holistic update part-way through a RRA proceeding is impractical and unnecessary considering the frequency of ICBC's RRAs. Further, the time required to prepare a new actuarial

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[75] Exhibit B-5, BCUC IR 3.2.
[76] Exhibit B-6, TREAD IR 3.4.
[77] Exhibit B-1, Application, Chapter 3, Appendix A.0, p. 7.
[78] ICBC Final Argument, pp. 29–30.
[79] March 2, 2021 Decision on the Constitutional Challenge of the jurisdiction of the Civil Resolution Tribunal.
[80] Exhibit B-6, MoveUP IR 1.4f-g.
[81] Exhibit B-8, BCUC IR 84.3.
[82] McCandless Final Argument, pp. 6–8.
[83] BCOAPO Final Argument, p. 5.

rate indication would delay the proceeding and similar data currency issues would arise with the updated analysis.[84]

Panel Discussion

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.[85] The Panel also accepts ICBC's position that any update to actuarial estimates for these subsequent events would require ICBC to revisit all assumptions within its analysis to assess the reasonableness of assumptions in the aggregate, as required under AAP.

Since ICBC submits it is appropriate to rely on the rate indication without piecemeal updates, the Panel considers this means 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. To consider the appropriateness of this position, for each significant subsequent event the Panel must consider the nature and materiality of the impact of the events on the rate indication, individually and in aggregate, to determine if it is appropriate to require ICBC to update its actuarial estimates.

In making its determinations regarding the specific subsequent events discussed in Subsection 3.3.4, the Panel applies the following considerations:

- Subsequent events that impact Basic capital only may not have a direct impact on claims costs given that the amount of capital build is directed in OIC 632/20. However, an increase or decrease in Basic capital may impact the investment income component of the rate indication;
- ICBC would require several months to prepare a full updated evaluation of the actuarial rate indication in accordance with AAP;
- Even if the estimates were to be holistically updated, there would still be significant inherent uncertainty in the updated actuarial estimates given the new Enhanced Care model; and
- Any change in estimates is eventually captured in the closed system as discussed above.

2.4 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.

Repen submits that rural British Columbians face undue financial hardship due to "intentionally implemented financially discriminatory policy" in Basic insurance rates. Repen requests that the BCUC correct that policy to ensure that there is equity between rural and urban policyholders, retroactively to May 1, 2021.[86] Fournier submits that changes which came in effect on May 1, 2021 regarding accelerated depreciation should be put on hold due to inadequate public consultation, and that public consultation and consensus in support of the change

[84] ICBC Reply Argument, pp. 3–4.
[85] Retrieved from: https://www.cia-ica.ca/publications/standards-of-practice
[86] Repen Final Argument, pp. 1–3.

are needed to proceed.[87] In reply, ICBC submits that Repen and Fournier are raising issues beyond the scope of the proceeding.[88]

Members of the public also raised concerns in letters of comments filed during the proceeding, including but not limited to:

- Whether the requested rate decrease ignores the overall health of ICBC;
- Whether it is in the best interest of the public to "break up" the ICBC monopoly; and
- Whether gas prices should also be lower.

We received one letter of comment in support of the requested rate decrease and ICBC's "no fault" Basic insurance program.

Panel Discussion

While the Panel acknowledges the above-noted concerns raised by Repen and in the letters of comment, 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. Regarding Repen's submissions on rate design, OIC 458/18 directed BCUC to regulate and fix the rates using the factors, criteria and guidelines set out in the Government direction and the BCUC currently has no authority to make any changes to ICBC's rate design. The Panel provides further comments on these issues in Section 5.

3.0 The PY 2021 Indicated Rate Change

In this Section, the Panel reviews the issues related to the components of a -15.0 percent PY 2021 indicated rate change, including the Panel's findings on the actuarial estimates of claims costs and other key changes in the indicated rate compared to PY 2019. There are several factors that explain the -15.0 percent proposed rate decrease.

ICBC states that the "rate indication" or "indicated rate change" represents the proposed change to Basic insurance revenue.[89] At a high level, ICBC submits that the rate indication is an estimate of how much Basic insurance premiums need to change to pay for the net costs and expenses of accidents that occur within PY 2021. Certain costs (e.g. medical payments, income replacement) may be paid several years into the future for a crash that takes place within the policy year.[90] In order to estimate the full costs and expenses of a crash, ICBC explains that it is required to incorporate modelling, assumptions and expert judgement.[91]

For PY 2021, the proposed indicated rate change is -15.0 percent. ICBC explains that its actuaries calculate the rate indication in two steps. The first step is to calculate the present value of all expected loss and loss adjustment expense, administrative expense, broker fees, premium tax and capital provision, as well as offsets for income attributable to both miscellaneous revenue and investment income for PY 2021 (PY 2021 Required Premium). The second step is to calculate the total Basic insurance premium that ICBC would collect for PY 2021

[87] Fournier Final Argument, p. 1.
[88] ICBC Reply Argument, pp. 19–20.
[89] Exhibit B-1, p. 3-1.
[90] Exhibit B-1, p. 3-1; Transcript Volume 1, p. 25.
[91] Transcript Volume 1, p. 25.

if the current Basic insurance premium rates were charged in PY 2021 (Projected PY 2019 Premium at Current Rate Level).[92] The difference between the two steps indicates that PY 2021 rates need to decrease by -15.0 percent as there is a surplus of $1,066.2 million between the projected and required premium.[93]

ICBC explains that the proposed rate decrease is primarily the result of changes to the Basic insurance product, as described in Section 1.1 above, referred to as Enhanced Care. The costs savings in claims and related costs from the product change and higher forecast investment income are offset by a Government-directed capital build provision that adds 11.5 percentage points to the indicated rate.[94] Table 2 below provides a breakdown of the components that comprise the PY 2021 indicated rate change.

Table 2: Components of the PY 2021 Indicated Rate Change[95]

Line No.	Components	Impact (Percentage points (ppt) of PY 2021 indicated rate change)
	Claims and Related Costs	
1	Loss and ALAE Payments*	-21.8
2	Claims Services Expenses (ULAE)	-1.5
	Expenses	
3	General Expense including RSLM	0.2
4	Commissions and Premium Tax	-1.1
	Capital Provision	
5	Capital Maintenance	0.0
6	Capital Build**	11.5
	Misc. Revenue and Investment Income	
7	Miscellaneous Revenue	0.6
8	Investment Income	-3.4
9	Other ***	0.4
10	**PY 2021 Indicated Rate Change**	**-15.0******

Tables 3 (reproduced from Figure 3.3. in the Application) below provides the required (average) premium per policy for PY 2021, along with each of the components that make up that premium, compared to the prior two policy years.

92 Exhibit B-1, pp. 3-4–3-6.

93 Exhibit B-1-2, Attachment A, p. 3. The surplus of $1,066.2 million is calculated from Figure 3.2 as: $7,098,736,000 less $6,032,541,000.

94 Exhibit B-1, p. 1-8; ICBC Final Argument, p. 15.

95 ICBC Final Argument, p. 17.

Table 3: Average Required Premium per Policy[96]

Line	Components of Required Average Premium ($)	PY 2021	PY 2020	PY 2019[d]
	Claims and Related Costs			
1	Loss and ALAE Payments [a]	$703	$928	$976
2	Claims Services Expense (ULAE) [b]	$64	$79	$80
	Expenses			
3	General Expense including RSLM [c]	$89	$87	$83
4	Commissions and Premium Tax	$70	$76	$77
	Capital Provision			
5	Capital Maintenance	$21	$21	$21
6	Capital Build	$116	$0	$0
	Misc. Revenue and Investment Income			
7	Miscellaneous Revenue	($31)	($37)	($35)
8	Investment Income	($152)	($115)	($132)
9	**Average Required Premium**	**$880**	**$1,039**	**$1,070**

[a] Allocated Loss Adjustment Expenses (ALAE): expenses incurred in the management of claims and which belong to a specific claim.
[b] Unallocated Loss Adjustment Expenses (ULAE): expenses incurred in the management of claims which cannot be directly allocated to a particular claim.
[c] Road Safety and Loss Management expenses.
[d] Policy Year 2019 (April 1, 2019 to March 31, 2020) estimates as in the 2019 RRA.

The components of the indicated rate change are explained further in the Subsections that follow.

3.1 Claims Costs

Claims and related costs (claims costs) represent the biggest component of the rate indication,[97] and reflect the actuarial estimates of claims costs that may be paid several years into the future for a crash associated with a policy written in PY 2021.[98] ICBC outlines that claims costs fall into two categories:

- Loss and Allocated Loss Adjustment Expenses (Loss Costs); and
- Unallocated Loss Adjustment Expenses (Claims Services Expenses).[99]

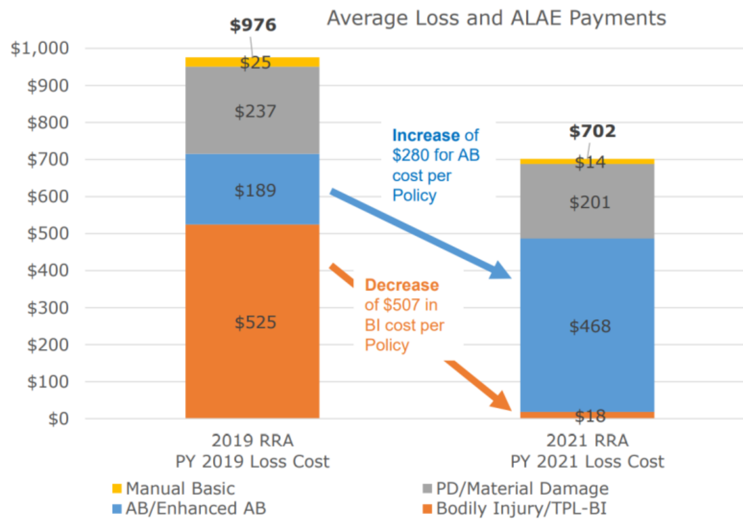
ICBC states that the majority (92 percent) of claims costs are Loss Costs which represent the overall costs to cover claims and the expenses that can be directly allocated to a specific claim (i.e., medical reports or legal costs).[100] The remainder of the costs, Claims Services Expenses, are expenses incurred in the management of claims which cannot be directly allocated to a particular claim (i.e., internal claims staff or claims adjuster salaries).[101]

ICBC states that the rate indication reflects a -23.3 percentage point favourable impact for the effect of Enhanced Care on Loss Costs (-21.8 percentage points) and Claims Services Expenses (-1.5 percentage points) costs.[102] ICBC submits that the decrease in Loss Costs is driven by the introduction of Enhanced Care, which will

[96] Exhibit B-1-2, Attachment A, p. 3, Figure 3.3.
[97] Transcript Volume 1, p. 29.
[98] ICBC Final Argument, p. 20.
[99] ICBC Final Argument, p. 20.
[100] Exhibit B-1, p. 3-8; Exhibit B-4, Slide 13; Transcript Volume 1, p. 29; ICBC Final Argument, p. 20.
[101] Exhibit B-1, p. 3-8; Exhibit B-4, Slide 13; Transcript Volume 1, p. 29; ICBC Final Argument, p. 20.
[102] ICBC Final Argument, p. 22.

reduce bodily injury (Bodily Injury) claims exposure costs associated with a tort-based system including legal costs and general damage payments.[103] ICBC's actuarial analysis shows that the significant reduction in Bodily Injury costs under Enhanced Care is expected to outweigh the additional cost of providing Enhanced Accident Benefit coverages. This is illustrated in Figure 1 below:

Figure 1: Impacts of Enhanced Care on Average Policy Loss Costs[104]



The above figure shows that the significant reduction in Bodily Injury costs associated with the legislated ban on most tort claims under Enhanced Care outweighs the additional cost of providing higher limits on Enhanced Accident Benefits, representing a net decrease from $976 in average required premium for PY 2019 to $702 for PY 2021–a favourable impact of -21.8 percentage points on the rate indication.[105]

The PY 2021 Claims Services Expenses are for claims associated with PY 2021 that occur on or after May 1, 2021 under Enhanced Care. ICBC submits that Enhanced Care is expected to reduce the overall costs for injury adjusting and legal staff to service claims because of the reduction in the number of Bodily Injury claims exposures, which are relatively complex to service. This will be partially offset by an increase in the cost to service Enhanced Accident Benefit claim exposures compared to Accident Benefits.[106]

Below, the Panel reviews issues related to the actuarial analysis for the PY 2021 Loss costs.

[103] Exhibit B-1, p. 3-8.
[104] Exhibit B-4, Slide 34. There is difference of $1 in Loss and ALAE component of the average required premium per policy in Figure 1 compared to Table 3 due to an evidentiary update after the filing of Figure 1. In Figure 1, the following acronyms are used: "AB" refers to Accident Benefit coverage, "PD" refers to Property damage coverage, and "TPL-BI" refers to Third Party Liability – Bodily Injury coverage.
[105] ICBC Final Argument, p. 21.
[106] Exhibit B-1, p. 3-8; ICBC Final Argument, p. 21.

3.1.1 Use of Manitoba Public Insurance Data

At a high level, ICBC outlines that its actuaries analyze the Loss Cost component of claims costs separately for each coverage by the number of claim exposures per policy (frequency) and the average cost per claim exposure (severity).[107] The major coverages included in ICBC's actuarial analysis are:[108]

- Enhanced Accident Benefits: medical rehabilitation, income replacement, permanent impairment, and death benefit coverages;
- Material Damage: first party Basic Vehicle Damage coverage (BVDC), third party liability vehicle damage coverage, and third party liability non-vehicle property damage coverage; and
- Third Party Liability – Bodily Injury (TPL – BI): third party liability bodily injury coverage.

To forecast costs into the future, ICBC explains that historical data is needed. However, since many claims are still open and accruing costs (or even have occurred but are yet to be reported), the ultimate frequency and severity of claims[109] are not known with certainty. As a result, ICBC's actuaries use a combination of historical claims data, actuarial methods, assumptions and professional judgement to develop historical frequency and severity estimates. ICBC explains that it then uses these estimates to develop trends to estimate the forecasted claims costs for PY 2021.[110]

ICBC submits that its overall forecasting approach for Loss Costs for PY 2021 is the same as in prior RRAs, although there are some changes to data sources and methodologies.[111] ICBC states the key point of differentiation is in the data used to support the forecasted claims costs for Enhanced Care's Enhanced Accident Benefit coverages, given that it is a fundamentally different product for which there is no previous ICBC data or analysis.[112]

As in prior RRAs, ICBC outlines that its actuaries relied on historical ICBC data for some coverages (e.g. BVDC and third party coverage).[113] However, with respect to the new Enhanced Accident Benefit coverages, EY's actuarial analysis (use of which ICBC takes responsibility for[114]) was conducted according to parameters established by Government directive. In the absence of historical BC data on the cost of Enhanced Accident Benefit coverages, ICBC states that Government directed ICBC to use MPI data subject to specified modifications.[115]

The Government directive[116] states, among other things:

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[107] Exhibit B-1, p. 3-12.
[108] Exhibit B-1, Chapter 3, Appendix A.0.1, pp. 2–3.
[109] Exhibit B-1, p. 3-12 and Appendix C.4.0, p. 11: Claim costs are a combination of the number of claim exposures per policy, and the average cost per claim exposure. The number of claims as a ratio to the number of insured vehicles is referred to as the claim frequency. The total claim amount divided by the number of claims is referred to as the claim severity.
[110] Exhibit B-1, p. 3-12.
[111] ICBC Final Argument, p. 22.
[112] Exhibit B-1, p. 3-1; ICBC Final Argument, p. 9.
[113] ICBC Final Argument, p. 22.
[114] ICBC Final Argument, p. 10.
[115] ICBC Final Argument, p. 22.
[116] OIC 632/20 dated December 14, 2020.

> b) That the Enhanced Care model is based on Manitoba Public Insurance's accident benefit insurance model with the specified exceptions outlined in this government directive (Enclosure)…

The Enclosure provided in the Government directive notes two categories of MPI data adjustments to be included in ICBC's costing model, as follows:

1. Product differences that require direct adjustment in costing models; and
2. Environmental adjustments (Environmental Adjustments) – adjustments to reflect differences in provincial income levels and MPI/ICBC data structures.[117]

ICBC describes that the Government directive, including the Enclosure, means that both frequency and severity may be adjusted to reflect claims data in BC where appropriate.[118]

With respect to product differences, EY notes that the benefits under Enhanced Accident Benefits are generally aligned with those offered by MPI. At the time of the EY analysis, the final benefit levels for BC had not been confirmed by Regulations. EY's use of the MPI data assumed that the expected ICBC benefit level for claims will be the same as those experienced under MPI, as well as the Manitoba environment.[119] EY states that it modelled the loss costs following MPI's product with specified exceptions for product differences that require adjustment. These include reflecting BC's average gross employment income and specific differences in ICBC claim data and trends.[120]

With respect to Environment Adjustments, EY states that it used ICBC's claim frequency data for the three subcoverages: (i) medical and rehabilitation, (ii) income replacement and indemnity, and (iii) death benefits and permanent impairments. The ICBC claim frequency data was adjusted to a claimant frequency basis; and the medical and rehabilitation claimant frequency modified to include any prior bodily injury-only claims.

EY used MPI's severity data per claimant with the following adjustments: (i) medical and rehabilitation for differences in health services costs, (ii) income replacement and indemnity for differences in population and wages, and (iii) death benefits and permanent impairment for differences in wages.[121] EY did not make any adjustments to the MPI severity to reflect BC's claims data for:

- Line of business (e.g., personal, motorcycle, commercial);
- Urban versus rural;
- Category of vehicle (e.g. long-haul trucks, light vehicles, farm vehicles);
- Driver experience and characteristics; and
- Other.[122]

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[117] OIC 632/20 dated December 14, 2020.
[118] Exhibit B-5, BCUC IR 8.1.
[119] Exhibit B-1, Chapter 3, Appendix C.4.0, pp. 8-10
[120] Exhibit B-1, Chapter 3, Appendix C.4.0, pp. 42–43
[121] Exhibit B-5, BCUC IR 8.2.
[122] Exhibit B-5, BCUC 8.2.

EY states that other potential adjustments to estimate the Loss Costs for the new Enhanced Accident Benefits could be considered, in addition to those applied in the EY Report. However, EY explains that to make a particular adjustment, reliable information at the required levels of granularity from both BC and MPI must be available without undue effort or cost, in consideration of the magnitude of the impact the adjustment is assessed to have. EY believes it has applied appropriate adjustments under the circumstances.[123] In Table 4 below, EY provided its reasoning for not reflecting the following adjustments:

Table 4: EY Reasoning for Not Making a Particular Mix of Risk Adjustment to MPI Data[124]

Reasoning	Reasoning Description	Mix of Risk Adjustments Not Made due to the Selected Reasoning
Information not readily available	Information at the required level of granularity, or a common definition for both BC and Manitoba, was not readily available to make an adjustment.	By urban versus rural, By category of vehicle, By driver experience and characteristics
Minimal impact	For some of the contemplated adjustments, the information being compared between BC/ICBC and Manitoba/MPI was relatively similar and thus applying an adjustment would not have a meaningful impact.	By line of business
Time and effort required to make adjustments not commensurate	For other contemplated adjustments, a significant amount of time and effort would be required to collect, review, and analyze data from both BC/ICBC and Manitoba/MPI in order to apply an adjustment. From a cost-benefit perspective, it was assessed the adjustment would not have a meaningful impact and thus was not explored further.	By category of vehicle

EY elaborates on its reasoning for not reflecting other potential adjustments, as follows:

- MPI and ICBC have similar distributions by line of business so adjustments for line of business mix would not be expected to have a meaningful impact on the estimates. Further, ICBC does not split out lines of business for its reserving analysis;
- Accident benefits frequency is closely related to crash frequency which is influenced by province-specific environmental factors including the geography, weather, road conditions, road safety measures, etc. By relying on ICBC's frequency as the starting point, differences in traffic congestion between urban and rural are also accounted for; and
- Information by category of vehicle at these granular levels of detail is less readily available and for certain categories may be less credible given the smaller number of such vehicles. It would take significant time and effort to obtain, review, and analyze the information at this level of granularity for both ICBC and MPI. Private passenger vehicles represent more than 90 percent of both ICBC and MPI's books of business.[125]

[123] Exhibit B-5, BCUC IR 8.1.
[124] Exhibit B-5, BCUC IR 8.1.
[125] Exhibit B-5, BCUC IR 8.1.

EY submits it has applied appropriate adjustments under the circumstances, given the change in product, the lack of relevant experience to rely on, and the Government directive.[126] In addition, EY states:

> We compared EY's best estimates produced in accordance with OIC 632/20 with estimates based on the Cameron & Associates Insurance Consultants ("Cameron & Associates") closed file review conducted in parallel to the actuarial costings as described in Section 9 Closed File Review Results of the EY Report. Cameron & Associates reviewed over 960 ICBC claim files closed in 2019 having dates of loss on or after January 1, 2014 and estimated the impact the proposed Enhanced Accident Benefits product would have on each file. **The alignment of the EY best estimates (derived using the selected environmental adjustments described above) and the alternative estimates based on the closed file review provided a measure of reasonability to our best estimates.**[127] [*Emphasis added*]

With respect to comparing the proposed average severity for Enhanced Accident Benefits to Ontario, given the coverage benefits are higher in BC than Ontario, ICBC submits that there are many other factors, in addition to coverage limits, that have an impact on claim costs that need to be considered in order to compare two jurisdictions. These factors include but are not limited to the distribution of claims below the respective limits, the costs of treatment, the measures in place for customers to access the benefits, and claimant behaviour. EY states that such a comparison is not meaningful, as follows:

> …there are several reasons as to why severities could be different between Ontario and BC including product design (coverages offered for example), the distribution of claims below the respective limits, the costs of treatment, wage levels, the measures in place for customers to access the benefits, claimant behaviour, the controls and systems in place, the interactions of Ontario's hybrid tort based and no-fault system, among others.
>
> While it remains our belief that such comparison is not meaningful given the significant differences noted, we have nevertheless provided below some statistics for the two provinces purely for informational purposes. Due to the lack of historical ICBC EAB [Enhanced Accident Benefit] data, we took additional steps to project Ontario AB [Accident Benefit] severity to a PY 2021 level.[128]

EY provides a projected Ontario severity of $31,735 (for accident year 2019 projected to the 2021 cost level) compared to $18,614 for BC.[129]

ICBC also provides sensitivity analysis indicating that a 1 percent increase in the Enhanced Care Loss Costs would result in a +0.3 percentage point increase in the indicated rate change (as this includes consideration of the

[126] Exhibit B-5, BCUC IR 8.1.
[127] Exhibit B-5, BCUC IR 8.1.
[128] Exhibit B-8, BCUC IR 72.4.
[129] Exhibit B-8, BCUC IR 72.4; The Panel notes part of this difference may be attributed to EY's presentation of Ontario data on a claim basis and ICBC data on a claimant basis. Per the EY Report, ICBC estimates 1.25 claimants per claim; which converts the ICBC severity on a claim basis to $23,267 ($18,614 x 1.25= $23,267).

additional investment income). A+/-10 percent change in severity of Enhanced Care Loss Costs would result in an approximate +/-3.5 percentage point change in the indicated rate change.[130]

Positions of the Parties

TREAD and MoveUP submit there is uncertainty related to ICBC's EAB Loss Costs in PY 2021. TREAD submits that, if costs turn out to be much different than ICBC, and its advisor EY, have calculated and forecast, then any discrepancies or misjudgments should be closely examined in the next RRA proceeding.[131] In TREAD's view, ICBC's compliance with the Government directives is both required and appropriate in the circumstances. TREAD states:

> The BCUC need not, and should not, attempt to substitute its own forecast or judgement for that of ICBC and its professional advisors in these exceptional circumstances. The accuracy and reasonableness of its judgments in the absence of its own historical data is ICBC's own risk and responsibility, and ultimately must be held accountable to its customers for appropriately and fairly addressing the uncertainties.[132]

MoveUP submits it is not possible to confidently forecast EAB Loss Costs over the policy year in the same way that could be achieved with a more established regime, and that there is a measure of uncertainty inherent in the situation.[133] MoveUP submits that the approach taken by ICBC is reasonable under the circumstances, stating that attempting to "fine-tune" ICBC's calculations is more likely to produce an illusion than the reality of greater reliability. MoveUP concludes:

> Assuming that the new program remains in place over the next few years, the basis for reliable cost projections will be enhanced with experience. As things stand, we submit that there is little to be gained by rejecting or modifying ICBC's and Ernst & Young's calculations of ICBC's proposed premium adjustments for the current, twenty-three-month policy year.[134]

In reply, ICBC submits that AAP provides a well-defined framework for managing the inherent uncertainty in insurance ratemaking, such that the consistent application of AAP should provide the BCUC with comfort as to the reasonableness of the forecasts. While forecast variances are expected, ICBC argues that the "closed system" limits the impact of those variances on policyholders over time.[135]

Panel Determination

In considering the reasonableness of the Loss Cost component of the proposed PY 2021 indicated rate change rate, the Panel notes the following:

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[130] Exhibit B-5, BCUC IR 9.2, Attachment A.
[131] TREAD Final Argument, p. 3.
[132] TREAD Final Argument, p. 3.
[133] MoveUP Final Argument, p. 3.
[134] MoveUP Final Argument, p. 4.
[135] ICBC Reply Argument, p. 2,

- ICBC's Enhanced Care model is similar to MPI's current insurance model.[136] OIC 632/20 directs ICBC to rely on MPI data in estimating costs for the new EAB coverage, but to also consider BC's mix of claims and specific differences in claim data and trends;

- ICBC uses its own claims historical frequency data (number of claims) as the basis for the new Enhanced Care estimates, with various adjustments, because ICBC assumes that the new Enhanced Care model would not change the number of accident events that will occur, or the propensity to file a claim after the event;[137]

- ICBC uses the average severity amount for coverage provided by MPI for the total province and does not break this down by class or any other risk characteristic. ICBC also did not adjust the MPI severity data for differences for the mix of business or driving environment in its rate application;[138] and

- The rate indication is certified by ICBC's Filing Actuary and Reviewing Actuary as being prepared according to AAP, and the actuaries are required to adhere to professional standards of practice.[139] However, as ICBC also points out, two actuaries may develop different, but equally valid, models that accord with AAP in Canada.[140]

The Panel finds it reasonable for there to be differences in BC severity compared to the average for MPI for a variety of reasons including the mix of business, the age of injured drivers, and urban verses rural driving environments. In addition, ICBC did not adequately explain why it is reasonable that its proposed average severity for Enhanced Accident Benefits would be less than Ontario's experience, especially in light of Ontario's distinctly lower benefit levels. ICBC forecasts BC severity at $18,614 using MPI data, which is roughly 45 percent less than that of Ontario's severity ($31,735) even though ICBC agrees that Enhanced Care provides more generous coverages than Ontario's.[141] While not determinative, the Panel considers that differences between Ontario and BC illustrate that different provinces are likely to have different severity experience. Since ICBC has used the MPI severity data without adjustment, the Panel is concerned that ICBC's severity estimates may not accurately reflect all significant influences that may contribute to greater Enhanced Accident Benefits severity in BC than in Manitoba or Ontario.

As a result of ICBC's statement that the data required to adjust MPI data is either not available or that the work effort outweighs the potential benefit of incorporating such adjustments,[142] the Panel is left with the lack of evidence to assess ICBC's conclusion that any differences would have a minimal impact on severity.[143] Further, even though ICBC submits the consistent application of AAP should provide the BCUC with comfort as to the reasonableness of its estimates, there is significant uncertainty related to the estimated savings associated with the Loss Costs because of the limited information available to support certain assumptions used in the actuarial estimates.

[136] ICBC Final Argument, p. 10.
[137] Exhibit B-1, Chapter 3, Appendix C.4.0, p. 14, Footnote 145.
[138] Exhibit B-5, BCUC IR 8.2.
[139] ICBC Reply Argument, p. 5.
[140] Exhibit B-1, Chapter 3, Appendix A.0, p. 4.
[141] Exhibit B-8, BCUC IRs 72.1, 72.4.
[142] Exhibit B-5, BCUC IR 8.1.
[143] Exhibit B-5, BCUC IR 8.1.

The inherent uncertainty in the actuarial estimates, compounded with the introduction of Enhanced Care for which there is no previous ICBC data or analysis, means it is reasonable that there are possible alternate assumptions and judgments that would comply with AAP. Such alternative assumptions could result in rate level indications that are either higher or lower than the rate indication proposed by ICBC. While some possible alternate selections may have a minimal impact, it is also reasonably possible that alternate assumptions associated with average severity could materially impact the proposed rate level indication. As noted above, +/-10 percent change in severity of Enhanced Care Loss Costs would result in an approximate +/-3.5 percentage point change in the indicated rate change.

Despite the Panel's concerns about the reliability of the estimate of the Loss Cost component of the proposed PY 2021 indicated rate change, the only evidence that the rate indication is in accordance with AAP is that presented by ICBC in this Application. Seeking further evidence would result in further cost and delay and may not result in a better estimate because Enhanced Care is a fundamentally different product. The Panel agrees with TREAD and MoveUP that it is not appropriate for the Panel to reject or modify ICBC's proposal, especially given the lack of historical data associated with Enhanced Care. Actual claims data will emerge over the 23-month policy year and for PY 2021 it is appropriate for estimation differences, even if they were material differences, to be captured in the closed system and to impact future rate applications. As ICBC states, more information will become available on the costs associated with the new model over the next few years as BC transitions to the new Enhanced Care model, including information about changes in customer behaviour and cost pressures that are unique to BC.[144] Accordingly, the Panel finds the claims costs component reasonable for the purpose of determining the PY 2021 Indicated Rate Change.

3.1.2 The Impact of the COVID-19 Pandemic on Claims Costs

While the COVID-19 pandemic has had significant impacts on ICBC's claims costs and premium revenues since March 2020, ICBC's actuaries assume for PY 2021 that costs and premium revenues from May 1, 2021 onwards will have returned to pre-COVID-19 expected trends. ICBC states that any historical data that may have been influenced by the pandemic has been removed from any trending analysis. Therefore, COVID-19 has no impact or a zero percentage point on the PY 2021 rate indication.[145]

ICBC submits that its selection of a claims cost trend based on a return to pre-COVID-19 levels was a best estimate that accorded with AAP and remains reasonable subsequent to the date of the actuarial analysis.[146] ICBC considers that the COVID-19 pandemic is a unique event for which no prior data is available to model, and for which there are many views on how driving behavior will change as a result of the pandemic.[147] ICBC states that its assumed zero percentage point impact should not be interpreted as a "placeholder" or an assumption that the COVID-19 pandemic is having no impact on ICBC's claims costs. Rather, ICBC submits that it is an assumption based on information available at the time of the actuarial analysis and reflects the high degree of uncertainty regarding the estimated direction, extent and timing of COVID-19 pandemic impacts after May 1, 2021.[148] These uncertainties included, for instance, the length of time it will take for vaccines to be mass distributed, and how COVID-19 will impact customers' driving behaviour over the long term.[149]

[144] Exhibit B-1, p. 3-26.
[145] Exhibit B-1, p. 3-3.
[146] ICBC Final Argument, p. 27.
[147] Exhibit B-1, Chapter 3, Appendix E.0, p. 6.
[148] ICBC Final Argument, pp. 27–28.
[149] ICBC Final Argument, pp. 27–28.

The favourable financial impact from COVID-19 since the end of March 2020 has resulted from the travel and social restrictions that have been in place (at varying levels) in British Columbia. ICBC states there is a "a greater likelihood" that some level of favourable impacts on crash frequency will continue over the short term. However, ICBC considers that these impacts are likely to decrease over time as more British Columbians are fully vaccinated, active COVID-19 cases and hospitalizations continue to drop, and BC gradually reopens. Accordingly, for PY 2021, ICBC submits that the short-term changes in crash frequency noted above are expected to have minimal impact since PY 2021 covers polices written between May 1, 2021 to March 31, 2023. Of the claims within the first 3 months after May 1, 2021, ICBC estimates that only approximately 12.5 percent are from policies written in PY 2021 with the remainder attributed to policies written in the prior policy year. Since PY 2021 stretches over 23 months, ICBC submits it will be more influenced by any longer-term driving behavioural changes instead of short-term changes.[150]

ICBC calculated the potential range of impacts from a change in short-term crash frequency on PY 2021. ICBC constructed a scenario assuming crash frequency for policies written in PY 2021 will remain at the same level as experienced in March 2021, from May 1, 2021 through to September 7, 2021 (the earliest start date for Step 4 of BC's Restart Plan.[151]) For the purposes of this scenario, ICBC's long-term crash frequency assumption is unchanged from the frequency trends provided in the Application. ICBC states that the scenario has a favourable +0.3 percentage point impact on the PY 2021 indicated rate change.[152]

ICBC states, based on new information since the actuarial analysis was completed, it is not expected that claims severity and exposure trends will vary significantly compared to the assumptions used in the Application. Nevertheless, this information indicates that crash frequency for the first few months of PY 2021 would likely be more on the favourable side of the range of possible outcomes compared to the assumptions set out in the Application.[153]

Positions of the Parties

MoveUP agrees with ICBC that the longer-term impacts of COVID-19 developments are too uncertain to provide a basis to adjust the claims and other financial projections.[154]

However, BCOAPO disagrees. BCOAPO submits ICBC's insistence on a zero percentage point best estimate for PY 2021 is "nonsensical" and the occasional, justifiable adjustment to an assumption after the Application is filed is reasonable under AAP.[155]

TREAD submits that the BCUC needs to ensure that any resulting cost savings from reduced frequency of crashes or other factors that may accrue to ICBC as a result of COVID-19 impacts are passed on to its customers through reduced or refunded premiums and capital accumulation that may offset a future need for rate increases.[156]

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[150] Exhibit B-8, BCUC IRs 69.1–69.2.
[151] Retrieved from: https://www2.gov.bc.ca/gov/content/covid-19/info/restart
[152] Exhibit B-8, BCUC IRs 69.1–69.2.
[153] Exhibit B-5, BCUC IR 3.2.1.
[154] MoveUp Final Argument, p. 4.
[155] BCOAPO Final Argument, p. 8.
[156] TREAD Final Argument, p. 5.

In reply, ICBC submits that BCOAPO's argument is based on short-term impacts rather than long-term impacts. ICBC considers that the impacts of short-term changes in crash frequency are likely small and that the short-term impacts are being addressed through rebates. In contrast, ICBC submits that PY 2021 will be more influenced by any longer-term driving behavioural changes as the 23-month PY 2021 stretches "well beyond" the first half of calendar year 2021. ICBC believes that these longer-term impacts remain uncertain.[157]

Panel Determination

The Panel accepts ICBC's assertion that at the time the actuarial calculation was prepared, assuming a return to a return to pre-COVID-19 levels early in the 23-month policy year was reasonable. However, developments after the estimate was prepared indicate that a zero impact from COVID 19 may no longer be likely, depending on the duration of the impact on the 2021 policy year. While there continues to be considerable uncertainty about how the 2021 policy year will be impacted by continuing pandemic conditions, the Panel notes that if conditions from May 1, 2021 through to the earliest start date for Step 4 of BC's Restart Plan (September 7, 2021) were to be similar to those in March 2021, this would have an immaterial favourable impact of 0.3 percentage points on the PY 2021 indicated rate change.

Further, as noted in Subsection 2.3, any update to the actuarial estimates for subsequent changes in the impacts of COVID-19, would require ICBC to revisit all assumptions within its analysis to assess the reasonableness of assumptions in the aggregate, as required under AAP. Given the initial estimates indicate the impact may not be material and that ICBC would require several months to prepare a full update to the actuarial estimates, the Panel sees no benefit in directing an update for ongoing changes in pandemic conditions. As pointed out by ICBC, the impacts of COVID 19 have been addressed through Government directed rebates. In addition, any savings experiences will be captured in the closed system and will impact future rate applications. Accordingly, the Panel finds ICBC's assumptions related to the impact of COVID-19 reasonable for the purpose of determining the PY 2021 Indicated Rate Change.

3.2 Operating Expenses

The determination of the Basic insurance indicated rate change includes a forecast of the corporate operating expenses allocated to the Basic insurance line of business for PY 2021. As policies issued during PY 2021 remain in force until March 31, 2024, ICBC explains that the forecast includes fiscals 2021/22, 2022/23 and 2023/24 costs.[158] For PY 2021, ICBC submits that corporate operating expenses represent approximately 11 percent of ICBC's total costs, which continues to be a small percentage.[159]

Total corporate operating expenses are all costs to run ICBC's Insurance and Non-insurance business, excluding claims payments, broker commissions and premium taxes. Operating Expenses are allocated to Basic insurance in accordance with the BCUC-approved financial allocation methodology.[160] According to Table 2 in Section 3 of

[157] ICBC Final Argument, p. 4.
[158] Exhibit B-1, p. 6-4.
[159] Exhibit, B-1, p. 6-1.
[160] Exhibit B-1, p. 6-5.

this Decision, the Basic insurance portion of operating expenses contributes a +0.2 percentage point increase to the PY 2021 indicated rate. ICBC submits that it continues to manage its controllable operating expenses, while making the necessary investments to ensure a successful transition to Enhanced Care. According to ICBC's expectations, the new care-based insurance system will provide significant savings in claims costs that will be passed on to ICBC customers through lower insurance rates and enhanced care and recovery benefits.[161]

Table 5 below presents ICBC's total corporate operating expenses by expense category for fiscal 2019/20 actual, fiscal 2020/21 outlook, and fiscal 2021/22, 2022/23 and 2023/24 forecast. All expenses in the table are expressed as total amounts in line with ICBC's fiscal year (which runs from April 1 through March 31) before allocation to Basic insurance in accordance with the BCUC-approved financial allocation methodology.

Table 5: Total Corporate Operating Expenses by Expense Category[162]

($ Millions)[1]	2019/20 Actual	2020/21 Outlook	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
Net Compensation	$451	$454	$493	$492	$497
Professional, Administrative, and Other Expenses	144	134	146	152	158
Project and Depreciation Expenses	50	58	59	60	59
Merchant Fees	43	45	32	33	35
Road Improvements and Traffic Safety	32	32	33	35	36
Controllable Operating Expenses	**$719**	**$723**	**$763**	**$771**	**$784**
Pension and Post-Retirement Benefit Expense	92	68	126	126	126
ACE, RAAP, Expense Pre-OIC[2]	7	1	1	1	1
Total Corporate Operating Expenses	**$818**	**$792**	**$891**	**$899**	**$912**

[1] Rounding may affect totals.
[2] In 2019/20, this line item represents project expenses and depreciation on capital spent prior to Order in Councils (OICs) 084/18 and 046/20 issued by the Government Directive to fund RAAP and ACE and expenses from Optional Insurance. In 2020/21 and forecast years, it represents depreciation expense on capital spent prior to OIC.

In the subsections that follow, the Panel addresses the key drivers of change in total corporate operating expenses including, net compensation, project and depreciation expenses, merchant fees and pension and post-retirement benefit expense.

3.2.1 Net Compensation

The net compensation expense line item submitted in the Application is the largest component of ICBC's operating expenses. It includes salaries and employee benefits, excluding pension and post-retirement benefit

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

[162] Exhibit B-1, Figure 6.3, pp. 6-10–6-11; Exhibit B-1, p. 6-1: In accordance with Order in Council (OIC) 46/20 and 84/18, Autoplan Care Enhancements (ACE) and Rate Affordability Action Plan (RAAP) programs are each 100 percent funded by Optional insurance.

expense. Changes in ICBC's compensation costs are attributable to a combination of factors including the number of full-time equivalents (FTEs), negotiated wage increases for unionized employees, the mix of employees (i.e., Management, Bargaining Unit, professional, administrative, etc.), and changes in employee benefits costs or compensation levels in a particular year.[163]

ICBC submits that the 2021/22 forecast for net compensation is $493 million, a $39 million increase over the 2020/21 outlook of $454 million. However, net compensation is expected to remain consistent with the 2021/22 forecast from 2022/23 forecast though 2023/24 forecast. It is mainly due to negotiated increases pursuant to the Collective Agreement and other increases are expected to be offset with the decrease in average FTEs over this period. ICBC outlines the overall increase from the 2020/21 outlook to 2021/22 forecast is driven by several factors, including:

- In the 2021/22 forecast, staffing is expected to increase by 401 FTEs to 5,750 FTEs, over the 2020/21 outlook of 5,349 FTE. As such, total wages and salaries are expected to increase by approximately $26 million. ICBC submits that the additional FTEs are needed to support the transition to Enhanced Care and the resumption of recruitment to support the increase in claims as traffic volume returns to levels that existed prior to the COVID-19 pandemic.
- General wage increases as negotiated under the Collective Agreement and reported and approved by the Public Sector Employers' Council (PSEC) Secretariat, and individual length of service increases are expected to increase costs by approximately $10 million.
- Other increases include net compensation increase due to changes in staff mix, individual job progression, promotion, and other factors.[164]

Number of FTEs

The following table summarizes ICBC's total actual FTEs and contractors from 2019/20 actual to 2023/24 forecast and provides a breakdown of the FTE count by employee group for 2019/20 actual and 2020/21 outlook. FTEs are expected to increase on average year over year by 0.6 percent between 2019/20 actual to 2023/24 forecast.[165]

Table 6: Average FTEs by Employee Group[166]

Average[1] FTEs by Employee Group[2]	2019/20 Actual	2020/21 Outlook	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
Bargaining Unit	4,287	4,168			
Management and Confidential	1,174	1,180			
Total ICBC FTEs	**5,461**	**5,349**	**5,750**	**5,668**	**5,590**
Contractors	22	9	18	39	39
Total FTEs	**5,482**	**5,358**	**5,768**	**5,707**	**5,629**

[163] Exhibit B-1, p. 6-12.
[164] Exhibit B-1, pp. 6-13–6-15.
[165] Exhibit B-1, p. 6-14.
[166] Exhibit B-1, Figure 6.5, p. 6-15.

ICBC explains that the 2020/21 outlook for the Bargaining Unit of 4,168 FTEs is lower than 2019/20 actual of 4,287 FTEs by 119 FTEs mainly due to more resources being assigned to support the Autoplan Care Enhancements (ACE) project. Pursuant to Government direction, ACE project costs are funded by Optional insurance. Therefore, ICBC outlines that staff assigned to ACE are excluded from total ICBC FTEs presented in Table 6.[167] Staffing in the 2020/21 outlook is also lower due to delays in recruiting and filling vacancies in response to lower claims volume because of the COVID-19 pandemic.[168]

In 2021/22, ICBC submits that staffing is expected to increase by 401 FTEs to 5,750 FTEs, over the 2020/21 outlook of 5,349 FTEs. Out of the total staffing increase, 312 FTEs are expected to be new FTEs, 84 FTEs are expected to return to their "home" division from the ACE project, and the remaining five FTEs are expected to return from the Rate Affordability Action Plan project to their home division.[169] This staffing increase is primarily due to claims-related hiring to support the transition to Enhanced Care and the resumption of recruitment to support the increase in claims as traffic volume returns to pre-pandemic levels, while continuing to manage and progressively wind down full tort (pre-April 1, 2019 claims) and modified tort (April 1, 2019 to April 30, 2021) claims. The FTE increase also reflects FTEs returning to their "home" division from the ACE and RAAP projects.[170] During this period, many of ICBC's resources have had their work prioritized to focus on the delivery of RAAP and ACE. ICBC explains that work that these individuals were doing previously had been managed in the interim by prioritizing and allocating their workload to existing teams, as well as through the use of overtime and temporary help. ICBC considers that this approach to administering work is not ideal for employee productivity and engagement and is not sustainable in the long term. As such, reassigned FTEs are expected to return to similar work they were performing prior to both RAAP and ACE or to fill new roles created to support Enhanced Care coverage operations.[171]

The additional staffing requirements attributed to the transition to Enhanced Care is expected to gradually reduce as injury claims that occurred prior to the implementation of Enhanced Care continue to settle and as experience is gained under Enhanced Care. Hence, FTEs are forecast to reduce to 5,668 in 2022/23 and 5,590 in 2023/24.[172]

3.2.2 Project and Depreciation Expenses

Project expenses reflect ICBC project costs, which are primarily information technology and facilities related projects, excluding Transformation Program (TP), RAAP, and ACE projects. It includes internal costs (e.g., compensation costs associated with FTEs charged to the projects) and external costs, such as professional fees and computer costs.[173]

To explain depreciation expenses, ICBC states these are expenses associated with capital expenditures from current and prior years. ICBC's capital expenditures comprise infrastructure required to meet business

[167] Exhibit B-1, p. 6-15.
[168] Exhibit B-1, p. 6-15.
[169] Exhibit B-5, BCUC IR 55.1.
[170] Exhibit B-1, p. 6-15.
[171] ICBC Final Argument, p. 49–50.
[172] Exhibit B-1, p. 6-15.
[173] Exhibit B-1, p. 6-18.

objectives, replacement of assets that have reached the end of their useful lives, and regular cyclical replacement of information technology and facility improvements.[174]

ICBC explains in 2020/21, projects and depreciation expenses are expected to increase by $8 million from $50 million to $58 million. Of the $8 million increase, $4 million is due to a number of projects started in the prior fiscal year to support ICBC's 2025 strategy.[175] These projects have partial year costs in fiscal year 2019/20 and full year costs in 2020/21. ICBC further explains that the remaining $4 million increase is due to higher depreciation expense. As ICBC presents in Table 5, project and depreciation expenses in 2021/22, 2022/23 and 2023/24 forecast are expected to be consistent with the 2020/21 outlook.[176]

3.2.3 Merchant Fees

ICBC explains merchant fees, or "interchange fees" as the term is used in the banking industry, are amounts paid for debit or credit card transactions associated with the issuance of policies. The fees are determined by the transaction volume, type of credit or debit card product, and the financial institution. ICBC submits merchant fees are expected to decrease by $13 million, from $45 million in 2020/21 to $32 million in 2021/22, primarily due to a decrease in insurance premiums, resulting from the implementation of Enhanced Care. Thereafter, ICBC presents in Table 5that merchant fees are expected to grow by approximately $1 million - $2 million each year in 2022/23 and 2023/24, in line with anticipated growth in premium revenue.[177]

3.2.4 Pension and Post-Retirement Benefit Expense

ICBC's pension and post-retirement benefit expense is heavily influenced by the discount rate as of the pension actuarial valuation date, which is influenced by market factors beyond ICBC's control. The change in this discount rate is the primary driver of the change in pension and post-retirement benefit expense over the forecast period.[178] The forecast pension and post-retirement benefit expense is determined by ICBC's external pension actuary, Aon, at the beginning of each fiscal year based on the assumptions and financial position at the prior year's end.[179]

ICBC further states that the 2020/21 outlook for pension and post-retirement benefit expense is $68 million, which is $24 million lower than the 2019/20 actual of $92 million. The change in the outlook is due to the following main factors:

- A decrease of $19 million due to a 60-basis-point increase in the discount rate, from 3.3 percent in 2019/20 to 3.9 percent in 2020/21.
- A decrease of $5 million due to an improvement in the net deficit position from $318 million to $156 million.[180]

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[174] Exhibit B-1, p. 6-18.
[175] Exhibit B-1, pp. 6-18–6-19; ICBC's 2021/21 Annual Service Plan indicates that the 2025 strategy is ICBC's five-year corporate strategy, commencing in 2020, which defines the specific priorities ICBC needs to focus on to 2025. ICBC's 2021/21 Annual Service Plan retrieved from: https://www.icbc.com/about-icbc/company-info/Documents/ar-21.pdf.
[176] Exhibit B-1, pp. 6-18–6-19.
[177] Exhibit B-1, p. 6-19.
[178] Exhibit B-1, p. 6-19.
[179] Exhibit B-1, p. 6-20.
[180] Exhibit B-1, p. 6-20.

Additionally, the pension and post-retirement benefit expense is estimated to further increase by $58 million in the 2021/22 forecast. Table 7 provides a breakdown of the major factors that make up the $58 million increase.

Table 7: Factors Contributing to Increase in Estimated 2021/22 Pension Cost ($ millions)[181]

Item	Increase (Decrease)
2020/21 Pension Cost	68
Discount rate decreasing from 3.9% to 2.7%	
• Higher employer cost of pension accrual for active employees	39
• Higher overall financing cost on a larger net deficit	15
Other assumption changes[1]	1
Plan experience stemming from the funding valuations	(2)
Increase in forecasted payroll	5
2021/22 Estimated Pension Cost	**126**

[1] Includes changes for the Bargaining Unit Employee's Pension Plan assumptions for salary increases, termination rates, and disability rates.

Aon (ICBC's external pension actuary) states that the key factor and assumption contributing to the increase in the annual pension cost is the decrease in discount rate from 3.9 percent to 2.7 percent. It results in a higher cost of accruing benefits for active employees and results in a much higher net deficit position leading to a higher overall financing cost.[182]

ICBC then explains, as the pension and post-retirement benefit expense is based on a number of long-term assumptions at a point in time, the 2021/22 forecast expense of $126 million is held constant for the 2022/23 and 2023/24 forecasts.[183]

Positions of the Parties

TREAD states that the 11 percent figure (the corporate operating expense component of ICBC's total costs), can appear deceptively small and highly efficient but it is crucial to keep in mind that the nature of an insurance business necessarily requires payment of most revenue to resolve customers' claims. Perhaps even more importantly one must recognize that ICBC's monopoly Basic insurance business is massive, and that "even 11 % of its huge Projected PY 2021 Premium at Current Rate Level of $7.098.7 million is itself a very large number." Further, TREAD states that PY 2021 Total Corporate Operating Expenses "just shy of $1 billion" certainly leaves plenty of room for ICBC to find efficiencies and seek out reductions and savings. TREAD will look to ICBC's next RRA for proof that such efficiencies and savings have been properly pursued and realized.[184]

MoveUP submits that the main driver behind the increase in operating expenses of ICBC is the impact of a decrease in the applicable discount rate on pension and post-retirement benefit costs. Hence, MoveUP did not find any basis to challenge the appropriateness of this element of ICBC's revenue requirements. Overall,

[181] Exhibit B-8, BCUC IR 82.2.

[182] Exhibit B-8, BCUC IR 82.2.

[183] Exhibit B-1, p. 6-20.

[184] TREAD Final Argument, pp. 3–4.

MoveUP submits that in this Application ICBC has demonstrated it has applied appropriate discipline to its operating expenses.[185]

BCOAPO submits based on the operating expenses information presented throughout the proceeding, it is unable to conclude that ICBC is actively managing operating costs, as ICBC asserts. In BCOAPO's opinion, an overall policy of setting operating cost budgets based on using a cost driver approach of inflationary salary increases, plus length of service adjustments, plus strategic initiatives, plus other cost drivers, does not constitute active cost management by ICBC. This approach is inherently a bottom-up and passive form of cost management and results in operating cost forecasts that simply follow the cost curve on an upward sloping basis.[186]

BCOAPO also submits that ICBC did not provide any information to justify the increase of 241 FTE's or 4.3 percent over the three-year forecast period. Further, BCOAPO states ICBC has not considered any options to reduce the volatility of an 84 percent increase in pension and post-retirement and other miscellaneous expense for rate-setting purposes, simply citing International Financial Reporting Standards (IFRS) as a rationale.[187]

In its reply argument on overall operating expenses, ICBC states it is not saying that operating expenses are "unimportant," but the composition of Basic insurance costs gives rise to different considerations than those of utility companies:

- First, the fact that claims costs dwarf operating expenses means that, other things being equal, it takes relatively large changes in operating expense to materially affect the rate indication.
- Second, reducing operating expenses does not necessarily mean policyholders will experience lower premiums; cuts to operating expenses can be counterproductive if they impair ICBC's ability to handle claims efficiently and effectively.[188]

Further, ICBC in response to TREAD's final argument has provided evidence of the high degree of oversight that it exercises over its controllable operating expenses. ICBC outlined a number of initiatives underway to control costs, which are discussed in greater detail below. TREAD has also not considered ICBC's performance metrics, which provide an objective indicator of ICBC's efficiency when it comes to operating expenses: ICBC falls 14.1 percentage points below (i.e., favorable) the industry insurance expense ratio benchmark.[189]

ICBC also points out that contrary to BCOAPO's submission, ICBC management actively evaluates ICBC's performance against the measures set out in its Service Plan to ensure that ICBC is operating efficiently in comparison to industry. The Insurance Expense Ratio and Loss Adjustment Expense Ratio provide indications of efficiency. The property and casualty industry insurance expense ratio benchmark for 2019 was 31.2 percent. As mentioned above, ICBC's 2019/20 result of 17.1 percent (14.1 percentage points more favorable than the industry standard) demonstrates ICBC's ongoing operational efficiency.[190]

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[185] MoveUP Final Argument, p. 5.
[186] BCOAPO Final Argument, p. 21.
[187] BCOAPO Final Argument, p. 21.
[188] ICBC Reply Argument, p. 11.
[189] ICBC Reply Argument, p. 12.
[190] ICBC Reply Argument, p. 12.

Further, ICBC states volatility in pension and post-retirement benefit expense is primarily due to the discount rate, which is ultimately market driven and beyond ICBC's control. ICBC reports its pension and post-retirement benefits expense by applying IFRS, which do not allow for any smoothing mechanism. While IFRS does not strictly adhere to the rate setting process, the rate setting process uses inputs such as the expense forecast including pension and post-retirement benefits expense (which is subject to IFRS).[191] Moreover, in ICBC's observation, the BCUC has twice rejected requests (in the context of BC Hydro) to use a rolling average of pension costs when setting rates in favor of reflecting the forecast pension expenses associated with the specific year in question. Hence, ICBC states BCOAPO's request here should be similarly rejected.[192]

Panel Determination

The Panel finds that the forecasted operating expenses for PY 2021 reasonable for the purpose of determining the PY 2021 indicated rate change. In doing so, the Panel has examined the various elements of the operating expenses and any commentary on them by interveners.

Net Compensation

Both TREAD and BCOAPO express concerns over the projected staffing increases and management of operating expenses even though both recognize that operating expenses only amount to 11 percent of the total budget. Despite this fact, both parties submit that ICBC could better manage these costs even though there may be a potentially small impact on ICBC's overall expenditures. ICBC argues that operating expenses are a small portion of the total expenditures and that it works at managing its expenses. The Panel is persuaded by ICBC's argument that the increased staffing in the 2021/22 forecast is necessary to deal with a lack of hiring during the period of the COVID-19 pandemic, as well as having to manage multiple insurance models in parallel, namely, Enhanced Care, modified tort, and full tort. The Panel also accepts ICBC's argument that future staffing increases will be mitigated as the modified tort and full tort models are phased out. That said, **ICBC is directed to provide an analysis of the expected savings that will be achieved and the forecast versus actual savings achieved in 2022/23 and 2023/24 related to phasing out the modified tort and full tort insurance models, as part of its next general rate change application for PY 2023, which is scheduled to be filed by December 15, 2022.**

Project and Depreciation Expenses and Merchant Fees

Little change is projected for Project and Depreciation Expense of the forecast period. As indicated by ICBC, most of the projects and associated costs are related to IT projects undertaken to support the Basic insurance part of ICBC's operations. Nothing in the IT project reports filed by ICBC to date would signal any significant increase in Project Costs or Depreciation Expenses.

As for merchant Fees, ICBC argues that reduced insurance rates will cause merchant Fees to decline. As merchant fees are based on the dollar value and transaction volume of insurance policies issued. With the requested 15 percent decrease in the insurance rates, it is logical to assume that merchant fees will decrease.

The Panel accepts ICBC's arguments on these two expense line items and finds them reasonable.

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[191] ICBC Reply Argument, p. 14.

[192] ICBC Reply Argument, p. 15.

Pension and Post-Retirement Benefit Expense

Both TREAD and BCOAPO express concern over the projected increases in the Pension and Post-Retirement Benefit Expenses. ICBC points out that this expense item is largely out of its control with the main drivers being the changes in the discount rates and the net deficit position of this expense account.

These expenses are projected by ICBC's external pension actuary and are based on ICBC's financial position at the previous year end. ICBC's forecast reflects the advice on its external pension actuary. The assumptions used by the pension actuary are also driven by the year-end position of the account and reflect current market conditions with the single largest contributor to change being the change in the discount rate. The Panel accepts the pension actuarial projections and the factors used in projecting the Pension and Post-Retirement Benefit Expense with the full knowledge that market conditions and other factors can cause this expense to fluctuate from year to year based on the analysis performed by the external pension actuaries.

3.3 Capital Provisions

As stated in Subsection 1.2 of this decision, the regulatory framework requires that the capital maintenance provision for PY 2021 must be calculated such that it has no impact on the indicated rate change. Therefore, ICBC has maintained the same $21 contribution to the average required premium for capital maintenance, unchanged since the previous policy year (as shown in Table 3) and there is a 0.0 percentage point impact on the PY 2021 rate indication from capital maintenance (as shown in Table 2).[193]

The capital build provision is a previously suspended[194] provision included in the PY 2021 rate indication to build up Basic capital available from where it stands today.[195] For PY 2021, ICBC states that the capital build provision contributes $116 to the average required premium, compared to PY 2020 and PY 2019 in which there was no capital build included in the required premium for those policy years.[196]

ICBC submits that replenishing Basic capital available provides a "buffer" to absorb any unexpected unfavourable changes in costs or revenues that are not included in the premiums collected (e.g. if Enhanced Care costs emerge higher than estimated or if claims frequency is higher than expected). ICBC states this "buffer" helps to maintain more stable insurance premiums and financial stability for the benefit of customers in future years.[197] While the capital build provision increases the amount of Basic capital available, ICBC explains that the calculation of the PY 2021 capital build itself does not rely on the current level of capital available.[198]

Instead, ICBC submits that the PY 2021 capital build provision is determined in accordance with Special Direction IC2. As set out in Subsection 1.2 of this Decision, ICBC's minimum MCT ratio requirement and capital build provision in the May 27, 2016 Capital Management Plan are suspended for PY 2021.[199] For PY 2021, Special

[193] Exhibit B-1, pp. 3-9–3-10; Exhibit B-1, Appendix G.0, p. 2.

[194] The capital build provision had previously been suspended up to and including PY 2020 in Special Direction IC2.

[195] Exhibit B-1, p. 3-10; Exhibit B-5, BCUC IR 12.1.

[196] Exhibit B-1, pp. 3-7, 3-10; Figure 3.3.

[197] Exhibit B-1, p. 3-10.

[198] Exhibit B-5, BCUC IR 12.1.

[199] ICBC Final Argument, p. 12.

Direction IC2 states, rather, that the capital build provision must result in the addition of 11.5 percentage points on the rate indication, after accounting for the effect on investment income and expenses that vary with the amount of premium collected from a policyholder.[200] ICBC submits that the PY 2021 capital build is $793.8 million, as shown in the following table (reproduced from Figure 3.1):

Table 8: Summary of the Components of Required Premium ($000's)[201]

Description		Required Premium PY 2021 (updated)
A.	Claims and Related Costs	
(a)	Loss and ALAE Payments	4,819,454
(b)	Claims Services Expenses (ULAE)	436,359
(c)	Road Safety and Loss Management (RSLM)	96,193
(d)	Total Claims and Related Costs	5,352,006
B.	Expenses	
	General Expense	
(e)	Administration and Other	141,977
(f)	Insurance Services	127,614
(g)	Non-Insurance Expense	245,443
(h)	Total General Expense	515,034
(i)	Per Policy Broker Fee	207,231
(j)	Variable Broker Fee	4,662
(k)	Premium Tax	265,432
(l)	Total Expenses	992,359
(m)	Total Claims and Expenses	6,344,365
C.	Capital Provision	
(n)	Capital Maintenance	145,756
(o)	Capital Build	793,848
(p)	Total Capital Provision	939,604
(q)	Total Projected Costs	7,283,969
D.	Miscellaneous Revenue and Investment Income	
(r)	Net Payment Plan Finance Fees	101,904
(s)	Short Term Surcharge	36,129
(t)	Driver Penalty Point & Driver Risk Penalty Premiums	59,769
(u)	Unlisted Driver Accident Premium & Graduated License Plan Fee	14,095
(v)	Income Transfer from Optional	-
(w)	Investment Income on Basic Equity	34,757
(x)	Investment Income on Policyholder Supplied Funds	1,004,774
(y)	Total Miscellaneous Revenue and Investment Income	1,251,428
(z)	Required Premium	6,032,541

ICBC states that the capital build provision, as directed by Government, will provide "a significant contribution to rebuilding capital levels over the 23-month term of Policy Year 2021."[202] ICBC's forecast Basic capital available for fiscal 2019/20 actual, 2020/21 outlook and fiscal years applicable to PY 2021 is summarized in the following table:

Table 9: Basic capital available[203]

	2019/2020 Actual	2020/21 Outlook	2021/22 Forecast	2022/23 Forecast
Capital available	(353)	87	319	480

200 Exhibit B-1, p. 3-10.

201 Exhibit B-1-2, Figure 3.1, Attachment A, p. 2.

202 Exhibit B-6, MoveUP IR 1.4.h.

203 Exhibit B-5, BCUC IR 2.3.

ICBC states the capital build provision in the PY 2021 rate change contributes approximately $373 million in fiscal 2021/22 and $421 million in fiscal 2022/23 to the Basic capital available shown in the above table.[204] ICBC explains the forecast Basic capital available has been adjusted downward to reflect risk provisions to account for uncertainty in the estimates and unforeseen adverse events. ICBC includes risk provisions to recognize the ongoing risks to its forecasts such as the emergence of claims costs that are above and beyond the forecast, as experienced the last few years. More recently, these risk provisions are not specific to, but continue to account for the risk of unfavourable emergence in large bodily injury claims, the constitutional challenge regarding legislative amendments in respect of Product Reform, Enhanced Care coverage product change risk, COVID-19, and volatility in the global investment markets. If risks and adverse events do not manifest and these risk provisions are not required, the Basic amount of capital available will improve from the amount shown above.[205] The risk provisions included in the 2020/21 to 2022/23 forecasts are as follows: $497 million, $422 million and $449 million.[206]

For future policy years, ICBC states it is planning to file a new capital management plan to the BCUC for approval by December 2022, once there has been some experience with Enhanced Care. ICBC submits that the new capital management plan will consider the regulatory minimum MCT in effect at that time and the need for changes to existing capital management targets. ICBC will also consider the pace of building capital, balancing risk and the desirability of stable premiums.[207] At present, ICBC submits there is no specific objective or set timeline to reach a specified target Basic MCT level or ratio.[208]

Positions of the Parties

Landale submits that the PY 2021 capital build should be approximately $729.3 million, calculated as ICBC's total claims and expenses of $6,342,136,000[209] [Figure 3.1, line (m)] multiplied by 11.5 percent.[210]

McCandless expresses concern that ICBC has a low amount of Basic capital and that PY 2021 extends over a 23-month term. McCandless submits that an effective capital management plan and capital management target are necessary to reflect the new risk environment of Enhanced Care. As a regulator, McCandless recommends that the BCUC focus on these items to ensure the long-term financial viability of Basic insurance and submits that the BCUC should review ICBC's new capital management plan in Fall 2021 rather than December 2022 as proposed. In future rate changes, McCandless states that addressing the variance between actual and target MCT requirements will be a key factor and considers that finalizing ICBC's new capital management plan prior to ICBC developing the rate request for 2023/24 will be more efficient.[211]

BCOAPO also expresses concern about the challenges that the BCUC and interveners may face in evaluating the new capital management plan in December 2022 (presumably as part of ICBC's 2023/24 RRA), stating that

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[204] Exhibit B-5, BCUC IR 2.3.
[205] Exhibit B-5, BCUC IR 2.3.
[206] Exhibit B-8, BCUC IR 84.3.
[207] ICBC Final Argument, p. 35.
[208] Exhibit B-6, IBC IR 2.3; MoveUP IR 1.4.h; McCandless IRs 3.2, 3.3.
[209] The Panel makes no adjustment to the total claims and expenses in Landale's Final Argument for the difference with the updated forecast total claims and expenses of $6,344,365 in the Application errata (Exhibit B-1-2).
[210] Landale Final Argument, p. 5.
[211] McCandless Final Argument, pp. 4, 8.

reviewing a new capital management plan at the same time as the rest of an RRA would likely result in compromises to both the review of the RRA and the capital management plan in a “mega-hearing” with a wide scope.[212] BCOAPO recommends that the BCUC direct ICBC to file the new capital management plan for a separate regulatory review in advance of the 2023/24 RRA in order to make the RRA more manageable in its scope and to contribute to regulatory efficiency.[213]

In reply, ICBC submits that there is an error in Landale’s calculation. ICBC states that the correct calculation of the capital build should be to use ICBC’s “Projected Premium at Current Rate Level,” and not the total claims and expenses, multiplied by 11.5 percent.[214]

ICBC responds to McCandless arguing that the rate setting approach specified in Special Direction IC2 requires, among other things, rate setting based on specified capital provisions and adherence to AAP. Under the legislative framework applicable to PY 2021, ICBC states that the rate indication is “not predicated on” any assumption or determination related to the “optimal size” of Basic capital. ICBC submits, in future years, that a BCUC-approved capital management plan will be a key determinant of Basic capital because it will determine the capital provisions to be included in the rate indication.[215]

With respect to when ICBC should file the next capital management plan, ICBC submits that its proposed timing, by December 2022, is reasonable. ICBC considers that an earlier filing would be “impractical and counterproductive,” stating that a capital management plan is risk-based and also dependent on Government policy as reflected in the regulatory framework. ICBC submits that it needs experience under Enhanced Care in order to assess potential changes in the capital requirements as the claims liability risk and the investment portfolio evolve. The assessment will also be affected by the regulatory minimum MCT in effect at that time, pursuant to Special Direction IC2.[216] ICBC submits that it plans to hold an information session for interveners and BCUC staff on the design of the capital management plan prior to filing and it expects the session will occur no sooner than the summer of 2022, once it has had some experience under Enhanced Care.[217]

Panel Discussion

As already noted, for PY 2021, Special Direction IC2 states that the capital build provision must result in the addition of 11.5 percentage points on the rate indication, after accounting for the effect on investment income and expenses that vary with the amount of premium collected from a policyholder. That Special Direction is a direction to the BCUC that binds the BCUC in the exercise of its rate-setting authority over ICBC. Absent any manifest error in calculation of the capital build provision, the BCUC has no authority to change that amount provided that it results in the addition of 11.5 percentage points on the rate indication after adjustments.

The Panel notes that Landale’s calculation of the capital build using the total claims and expenses multiplied by 11.5 percent for PY 2021 neglects to take into account the amounts attributable to capital maintenance and

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212 BCOAPO Final Argument, p. 12.
213 BCOAPO Final Argument, p. 13.
214 ICBC Reply Argument, p. 5.
215 ICBC Reply Argument, p. 7.
216 ICBC Reply Argument, pp. 7–8.
217 ICBC Reply Argument, pp. 8–9.

capital build of $145.8 million and $793.8 million, respectively,[218] which are required pursuant to Special Direction IC2 to form part of the total projected costs that the required premium must cover in PY2021. The premium is not limited to recovery of only the claims cost and related expenses. As a result of Special Direction IC2, the premium in the PY 2021 must be sufficient to also cover the amounts attributable to capital maintenance and the new capital build. Therefore, the Panel agrees with ICBC that the correct calculation of the capital build is to use the Projected PY 2019 Premium at Current Rate Level of $7,098,736 million multiplied by 11.5 percent to arrive at a total capital build of $793,848 million for PY 2021 after adjustments. Accordingly, no adjustments are needed to the capital build as calculated by ICBC.

With respect to McCandless' and BCOAPO's submissions on the timing of the filing and review of ICBC's capital management plan currently planned for filing in December 2022, for the reasons stated below, the Panel views that advancing the timing and review of that plan in a separate proceeding prior to the next RRA is not warranted, nor is it in the interest of regulatory efficiency. Considering the recency in implementation of the Enhanced Care program, the Panel agrees with ICBC that more time is needed for ICBC to assess the impacts of the new model on its capital requirements as its claims liability risk and investment portfolio evolve before ICBC can reasonably reflect any required changes in the design of its new capital management plan. Hence, advancing the timing of review of the new capital plan would not provide sufficient opportunity for ICBC to gather the necessary data related to the impacts of the changes and incorporate it in the design of a new capital management plan. Additionally, reviewing the new capital management plan in a separate proceeding prior to ICBC's next RRA would not provide any context for how the plan affects ICBC's revenue requirements and would simply add to regulatory costs.

As for BCOAPO's concern about the inclusion of the review of the capital management plan in ICBC's next RRA leading to a "mega-hearing" with a wide scope, the Panel notes that the existing capital management plan was reviewed and established as part of the ICBC 2013 Revenue Requirements Application. We are satisfied that the review can be dealt with efficiently in ICBC's next RRA hearing.

While the Panel agrees with ICBC that a capital management plan is risk based and should reflect Government direction, the Panel considers that setting target MCT requirements as part of ICBC's new capital management plan merits consideration. Given interveners' desire to have input into design elements of this new capital management plan, and ICBC's stated willingness to hold an information session for interveners and BCUC staff prior to filing that plan, the Panel expects and encourages ICBC to do so by the summer of 2022 before finalizing that plan for filing with the BCUC.

3.4 Miscellaneous Revenue and Investment Income

We now review the appropriateness of the various positive offsets to the rate indication. As shown in Table 3 – Average Required Premium per Policy above, certain miscellaneous revenue and investment income serve to reduce ICBC's Basic insurance costs. Miscellaneous revenue includes service fees for financing plans, Driver Risk Premium and Driver Penalty Point premium, short-term surcharges, Graduated Licensing Program Road Test fee, and Unlisted Driver Accident Premium[219] and investment income is derived from earnings on new premiums collected and Basic equity.[220]

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[218] Exhibit B-1-2, Attachment A, p. 2, Figure 3.1, Lines (n) and (o).
[219] Exhibit B-1, Chapter 3, Appendix H.0, p. 2.
[220] Exhibit B-1, p. 3-4.

ICBC states that miscellaneous revenue has a lower impact on the PY 2021 Required Premium compared to 2020 primarily due to lower payment plan finance fees as a result of the decrease in Basic insurance rates proposed in this Application. As such, there is an unfavourable 0.6 percentage point impact on the indicated rate change from miscellaneous revenue.[221]

For PY 2021, investment income has a favourable -3.4 percentage point impact on the indicated rate change.[222] ICBC explains that investment income is influenced by the following elements:

i) expected investment returns forecasts;
ii) interest rate movements;
iii) changes in the ICBC investment portfolio's strategic asset mix; and
iv) the timing of when and for how long claims costs will be paid.[223]

The favourable rate impact is mainly because of additional investment income on policy holder supplied funds that will be earned in the PY 2021.[224] ICBC explains that claims payments under the Enhanced Care will be spread out over a longer period of time compared to the previous Basic insurance models under which most injury payments have been made on a lump sum basis.[225] This means that ICBC will be able to hold and invest premiums over a longer period of time, generating additional investment income which is returned to policyholders through an offset to the rate indication and contributes to a smaller required premium.[226]

ICBC further explains that interest rate movements, expected investment return forecasts and changes in the ICBC investment portfolio's strategic asset mix also affect the rate indication.[227] This impact is made through the New Money Rate, which affects income earned on Policyholder Supplied Funds, and the Yield on Basic Equity, which affects income earned on Basic equity.[228]

ICBC seeks approval to change the formula for the New Money Rate and Yield on Basic Equity to reflect the adoption of Enhanced Care and ICBC's relationship with its new investment manager, the British Columbia Investment Management Corporation (BCI).[229] In 2019, ICBC's Board of Directors (Board) approved the transition of the management of ICBC's investments to BCI with most of ICBC's investment assets transitioned as of November 1, 2019.[230]

The following sections will review ICBC's proposed changes to the New Money Rate and Yield on Basic Equity Formulas and proposed update to its Investment Management Strategy determine whether the changes are appropriate in light of the transition of management of ICBC's investments to BCI.

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221 Exhibit B-1, p. 3-10.
222 Exhibit B-1. Chapter 3, Appendix F.0, p. 1.
223 Transcript Volume 1 dated February 18, 2021, p. 38; Exhibit B-1, Chapter 5, p. 5-1.
224 Exhibit B-1. Chapter 3, Appendix F.0, p. 1-2.
225 Exhibit B-1, p. 3-11.
226 Exhibit B-1, p. 3-11.
227 Exhibit B-1, p. 5-1.
228 Exhibit B-1, p. 5-1.
229 Exhibit B-1, p. 1-7.
230 Exhibit B-1, p. 5-1; Exhibit B-1, BCUC IR 28.1.

3.4.1 Change to the New Money Rate Formula

The New Money Rate represents the investment yield expected to be achieved on future customer premiums, between the time they are received, and the time costs related to those premiums are paid out.[231]

ICBC states the design of the New Money Rate formula should account for both the strategic mix of investment portfolio assets as well as the best estimate of the total returns the portfolio is expected to generate between the time premiums are received and the time the associated costs for a specific policy year period are paid out.[232] ICBC states the change to Enhanced Care is expected to result in a significantly longer time horizon between when Basic insurance premiums are collected and when benefits are paid out lengthening the corresponding investment horizon of Basic insurance premiums.[233] This change, together with the additional investment capabilities gained through ICBC's relationship with BCI have been key factors in ICBC's review of the New Money Rate formula.[234]

ICBC explains the current formula relies on short-term interest rate forecasts as the basis for determining long-term portfolio returns.[235] Due to the sensitivity of the actuarial rate indication to the New Money Rate, changes in the short-term multi-dealer survey forecast from quarter-to-quarter can have a significant impact on the overall rate change to cover costs.[236] Under Enhanced Care, sensitivity to changes in the interest rate forecasts is higher due to the longer payout patterns. As a result, ICBC submits that short term interest rate forecasts are no longer appropriate.[237] ICBC believes a 15-year investment return horizon is more appropriate under Enhanced Care compared to utilizing 12-month bank forecasts of risk-free rates and inflation and projecting them over the full investment horizon in the current method.[238] ICBC proposes to utilize BCI's 15-year return forecast for each asset class for calculating the New Money Rate, as it aligns with the longer-term investment horizon expected under Enhanced Care. The current and proposed New Money Rate formula are shown in Tables 10 and 11 below.

[231] Exhibit B-1, p. 5-3.
[232] Exhibit B-1, p. 5-3.
[233] Exhibit B-1, p. 5-3.
[234] Exhibit B-1, p. 5-4.
[235] Exhibit B-1, p. 5-5.
[236] Exhibit B-1, p. 5-5.
[237] Exhibit B-1, p. 5-5; Exhibit B-5, BCUC IR 37.1.
[238] Exhibit B-1, p. 5-8.

Table 10: Current New Money Rate Formula[239]

Component	Weighting	Forecast Element	Risk Premium (Added to Forecast Element)
Risk-free assets	Strategic mix weight as % of the portfolio	Forecast four-year Government of Canada bond yield calculated from multi-dealer survey.	N/A
Credit assets	Strategic mix weight as % of the portfolio	Forecast four-year Government of Canada bond yield calculated from multi-dealer survey.	20-year weighted average credit spread over the four-year Government of Canada bond
Equity assets	Strategic mix weight as % of the portfolio	Forecast 30-year Government of Canada bond yield calculated from multi-dealer survey.	BCUC-approved equity risk premium of 6.40%[3]
Real Estate and Infrastructure assets	Strategic mix weight as % of the portfolio	Forecast Canadian CPI from multi-dealer survey.	4.25%

Table 11: Proposed New Money Rate Formula[240]

Asset Group Return		Weighting		Forecast
Fixed Income Return [A]	=	Strategic mix weight as % of the portfolio	x	Weighted average of BCI 15-year total return forecast for fixed income assets
Equity Return [B]	=	Strategic mix weight as % of the portfolio	x	Weighted average of BCI 15-year total return forecast for equities assets
Real Estate Return [C]	=	Strategic mix weight as % of the portfolio	x	Weighted average of BCI 15-year total return forecast for real estate assets
Infrastructure Return [D]	=	Strategic mix weight as % of the portfolio	x	Weighted average of BCI 15-year total return forecast for infrastructure assets
Sum of Asset Group Returns [E]=([A]+[B]+[C]+[D])				
Diversification & Rebalancing Premium [F]				
New Money Rate = [E]+[F]				

ICBC notes that the changes between the current formula and the proposed formula include the replacement of estimating future returns using a forecast element and risk premium with BCI's capital market return forecasts; and the addition of a Diversification and Rebalancing Premium to the sum of the asset group returns.[241]

ICBC states BCI develops a Long-Term Capital Market Expectations report on an annual basis as a normal course of business to help clients select strategic asset mixes and support actuarial valuations.[242] ICBC states it consulted internally and with BCI regarding the appropriateness of the various time horizons and came to the conclusion that the 15-year time horizon was most appropriate for all the asset classes, given that it captures the investment horizon for longer-tail claims that may be payable for 20 or more years under the Enhanced Care model.[243]

239 Exhibit B-1, Figure 5.1, p. 5-4.
240 Exhibit B-1, Figure 5.2, p. 5-6.
241 Exhibit B-1, p. 5-6.
242 Exhibit B-1, p. 5-7; Exhibit B-8, BCUC IR78.2.
243 Exhibit B-5, BCUC IR 33.4.

ICBC explains the Diversification and Rebalancing Premium accounts for the incremental return realized by diversified investment portfolios that are systematically rebalanced to maintain the weights of the strategic asset mix.[244] ICBC confirms the primary factor in the introduction of this premium is the expected increase to ICBC's investment horizon under Enhanced Care as ICBC believes the benefit the premium produces can be more consistently estimated over longer investment periods.[245] ICBC further describes that these premiums have been applied to calculate discount rates in the BC public sector in both pension and non-pension settings and have a recognized benefit in academic financial literature.[246] ICBC noted it regularly rebalances its investment portfolio prior to the introduction to the premium and will continue to at the same intervals as before the transition to BCI.[247] ICBC states the specific premium is determined based on, among other things, the asset mix of the portfolio.[248] ICBC is proposing to use a 25 basis points Diversification and Rebalancing Premium, estimated using ICBC's current strategic asset mix weights after consultation with BCI.[249]

ICBC anticipates that the proposed formula will result in more stability in the New Money Rate year to year due to the use of longer-term asset class return forecasts, which tend to be more stable over time compared to short-term forecasts that are influenced by recent financial market movements.[250] Table 12 provides a comparison of the New Money Rate under Current and Proposed Formula including the asset weightings.

Table 12: Comparison of the New Money Rate under Current and Proposed Formula[251]

Asset Group	Currently Approved Formula			Currently Approved Formula			Proposed Formula		
	Weight (%)	Forecast Yield (%)	Weighted Yield (%)	Weight (%)	Forecast Yield (%)	Weighted Yield (%)	Weight (%)	Forecast Yield (%)	Weighted Yield (%)
	PY 2019			PY 2021			PY 2021		
Risk-free	17.35	2.60	0.45	16.60	0.62	0.10	-	-	-
Credit	50.65	3.93	1.99	50.40	2.14	1.08	-	-	-
Fixed Income	68.00	3.59	2.44	67.00	1.76	1.18	67.00	2.00	1.34
Equities	23.00	9.34	2.15	23.00	7.80	1.79	23.00	6.26	1.44
Real Estates	-	-	-	-	-	-	8.00	6.60	0.53
Infrastructures	-	-	-	-	-	-	2.00	6.30	0.13
Real Estate & Infrastructure	9.00	6.41	0.58	10.00	6.10	0.61	10.00	6.54	0.65
Diversification & Rebalancing Premium	-	-	-	-	-	-	-	-	0.25
New Money Rate1	100.00		5.16	100.00		3.59	100.00		3.68

[1] Differences between the New Money Rate and the sum of the asset group weighted yields are due to rounding.

The New Money Rate for PY 2021 (3.68 percent) is lower than PY 2019 (5.16 percent). The proposed change to the New Money Rate formula has a modest favourable impact (0.09 percent) on the rate change to cover costs

244 Exhibit B-1, p. 5-8.
245 Exhibit B-1, p. 5-8.
246 Exhibit B-1, p. 5-8.
247 Exhibit B-5, BCUC IR 36.1, 36.2.
248 Exhibit B-8, BCUC IR 78.5.
249 Exhibit B-1, p. 5-9.
250 Exhibit B-1, p. 5-9.
251 Exhibit B-5, BCUC IR 37.1.

compared to the currently approved formula for PY 2021 (3.59 percent).[252] The decrease in the New Money Rate when compared to PY 2019 is mainly attributable to a lower forecast yield on fixed income assets and a lower forecast yield on equity assets.[253] This decrease is partially offset by the inclusion of the Diversification and Rebalancing Premium of 0.25 percent to the formula and mitigated by the longer expected payout period which allows ICBC to hold and invest premiums for longer periods to generate higher investment income.[254] ICBC confirmed the asset weightings in this calculation are based on the Statement of Investment Policy and Procedures (SIPP) dated October 29, 2020 but provided the New Money Rate for PY 2021 if the SIPP dated April 22, 2021 had been used and notes this would result in a rate of 4.12 percent as the fixed income and equity weights would be higher.[255]

ICBC provided a calculation showing that the removal of the Diversification and Rebalancing Premium of 0.25 percent from the proposed formula, would decrease the New Money Rate from 3.68 percent to 3.43 percent. This change in the proposed formula would result in a +$51.1 million impact on the PY 2021 required premium, and +0.7 percentage point impact on the PY 2021 rate change, with all other assumptions unchanged.[256]

3.4.2 Change to the Yield on Basic Equity Formula

The Yield on Basic Equity represents the investment yield expected to be achieved on ICBC's basic equity capital. The Yield on Basic Equity is estimated based on the holdings and return characteristics of ICBC's existing portfolio and is calculated as the sum of the product of the current weighting and the current yield of each individual asset class.[257]

The yield on equity assets under the currently approved formula is determined as the sum of the actual yield on the 30-year Government of Canada bond and the same equity risk premium used in the calculation of the New Money Rate.[258] To be consistent with the proposed changes to the New Money Rate, ICBC proposes that the formula for the yield on equity assets in the Yield on Basic Equity calculation be replaced with the equity return component of the New Money Rate.[259] ICBC states the advantages of utilizing BCI's capital market forecasts to determine the expected yield are that they account for the diversification of strategies within ICBC's equity portfolio and leverage BCI's knowledge which is incorporated into their return forecasts.[260]

[252] Exhibit B-1, p. 5-2.
[253] Exhibit B-1, p. 5-13.
[254] Exhibit B-1, pp.5-2, 5-13.
[255] Exhibit B-8, BCOAPO IR 32.1.
[256] Exhibit B-5, BCUC IR 36.4.
[257] Exhibit B-1, p. 5-9.
[258] Exhibit B-1, p. 5-10.
[259] Exhibit B-1, p. 5-10.
[260] Exhibit B-1, p. 5-11.

Table 13: Proposed Formula for the Yield Basic Equity[261]

	Asset Class Weight Component		Yield Component
	Current Weighting of Money Market Assets as % of portfolio	x	Current Yield at Cost
+	Current Weighting of Canadian Bonds as % of portfolio	x	Current Yield at Market
+	Current Weighting of Mortgages as % of portfolio	x	Current Yield at Cost / Market
+	Current Weighting of Mezzanine Debt as % of portfolio	x	Current Yield at Market
+	Current Weighting of Equities as % of portfolio	x	Weighted average of BCI 15-year annualized total return forecast
+	Current Weighting of Real Estate as % of portfolio	x	Current Yield at Cost / Market
+	Current Weighting of Infrastructure as % of portfolio	x	Current Yield at Market
-	Fees for managing investment portfolio as % of portfolio value		

A different value of the Yield on Basic Equity is used for the first 11-month period of PY 2021 compared to the second 12-month period.[262] This is a result of an expected change in the weighting of the asset classes for the second 12-month span as assets shift to a lower weighting on money market, bonds, and equities and a higher weight on mortgages, mezzanine debt, real estate and infrastructure assets.[263]

Table 14: Comparison of the Yield on Basic Equity (%) under Current and Proposed Formula

Currently Approved Formula[264]		Proposed Formula[265]	
11-Month Policy Period	12-Month Policy Period	11-Month Policy Period	12-Month Policy Period
3.06	3.30	2.75	3.01

The Yield on Basic Equity for the first 11-month period is 2.75 percent, 151 basis points lower than the Yield on Basic Equity of 4.26 percent from the 2019 RRA. The decrease is largely attributable to lower market interest rates since PY 2019 and a lower expected yield on equity assets. The Proposed Formula for the Yield on Basic Equity is 31 basis points lower than the Currently Approved Formula for the Yield on Basic Equity attributable to a lower expected return on equities.[266]

The Yield on Basic Equity for the second 12-month period using the proposed formula is 3.01 percent, 26 basis points higher than the Yield on Basic Equity calculated for the first 11-month period. The increase is attributable to the shifts in the weighting to the strategic asset mix mentioned before. The Yield on Basic Equity using the

[261] Exhibit B-1, Figure 5.3, p. 5-10.
[262] Exhibit B-1, p. 5-13.
[263] Exhibit B-1, p. 5-13, 5-15.
[264] Exhibit B-1, Chapter 5, Appendix 5C, pp. 5C-3–5C-4.
[265] Exhibit B-1, pp. 5-14–5-15.
[266] Exhibit B-1, p. 5-14.

proposed formula is 29 basis points lower than the value of the equivalent Yield on Basic Equity as calculated by the currently accepted formula.[267]

ICBC states the combined decrease in the New Money Rate and the Yield on Basic Equity compared to PY 2019 would result in lower estimated investment income for the current policy period if other assumptions were unchanged. However, this unfavourable impact is offset by the longer expected payout period for policyholder supplied funds under Enhanced Care, which as previously described, enables ICBC to hold and invest premiums collected over a longer period of time compared to prior years and generate higher investment income as a result. Overall, the combined impact of these changes is favourable for customers.[268]

3.4.3 ICBC's Investment Management Strategy

ICBC explains the transition to BCI was to mitigate a significant operational risk that could ultimately impact investment risk, which was the recruitment, retention, and succession of qualified senior investment management staff.[269] ICBC notes that as a Crown corporation, it is subject to the BC Public Sector Compensation Framework, mandated by the Public Sector Employers' Council Secretariat (PSEC), which imposes limitations on compensation that can be paid to Investment Division staff.[270] In addition to mitigating this risk, ICBC states outsourcing the management of the investment portfolio would provide access to a greater depth and expertise of investment knowledge and experience, a diversified selection of investment products and one-stop shop for strategic investment services.[271]

ICBC acknowledges that the cost to manage ICBC's investment portfolio is now higher, in part, due to the outsourcing to BCI, but confirms the primary reason for the transition was to mitigate the risk of recruiting and retaining qualified senior investment staff while recognizing the potential for higher returns.[272]

Table 15 below shows the historical and forecasted costs for managing ICBC's investment portfolio

Table 15: ICBC Investment Portfolio's Management Expense[273]

[267] Exhibit B-1, p. 5-15.
[268] Exhibit B-1, p. 5-2.
[269] Exhibit B-5, BCUC IR 27.1.
[270] Exhibit B-5, BCUC IR 27.1.
[271] Exhibit B-5, BCUC IR 27.1.
[272] Exhibit B-5, BCUC IR 28.3.
[273] Exhibit B-5, BCUC IR 28.3.1.

ICBC Investment Portfolio - Management Expenses For Year ending March 31							
(Total Costs $000s)	Actuals 2017/18	Actuals 2018/19	Actuals 2019/20	2020/21 Outlook	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
ICBC in-house costs	5,871	4,908	3,708	1,709	1,266	1,266	1,266
Investment manager fees	6,844	12,140	21,763	25,881	45,300	47,300	49,300
BCI /QuadReal's segregated asset management fees and costs for legacy assets	-	-	3,565	7,762	9,000	9,000	6,000
Total	**12,715**	**17,048**	**29,036**	**35,352**	**55,566**	**57,566**	**56,566**

ICBC states the transition of ICBC's investment management functions to BCI resulted in a reduction in in-house FTEs from 24 to 5.5.[274] The Chief Investment Officer position was eliminated, and staff employed to manage the internal portfolios were no longer required.[275] The remaining Investment Division positions are focused on strategy, investment accounting, governance, compliance and handling the relationship with BCI.[276]

ICBC states the BCI/QuadReal segregated asset management fees are expected to decrease to zero once all the legacy investments are redeployed to BCI pooled funds or programs.[277] For the fiscal years ending 2022 and 2023, the BCI/QuadReal fees increase due to the cost associated with disposing of ICBC's legacy investment properties.[278]

ICBC clarifies the significant forecast increase in investment manager fees starting in fiscal year 2021/22 is due to the transition to higher yielding asset classes which are more expensive to manage and not due to the transition to BCI.[279]

ICBC explains the expected yields on existing investments should not be impacted by the transition to BCI as the underlying assets remain unchanged.[280] ICBC states new investments entered into post-transition have the potential to generate slightly higher yields as a result of BCI's scale and broader range of available investment options.[281] BCI can only invest in pooled funds that have been reviewed by ICBC management, approved by the Board, and specifically included in the SIPP within the context of the approved strategic asset mix.[282]

ICBC investment portfolio's investment strategy, which sets target allocations to individual investment asset classes, is governed by ICBC's SIPP, and is approved by the Board.[283] The SIPP dated October 29, 2020 (October 2020 SIPP) incorporates changes to the roles and responsibilities to reflect the transition of the management and governance of the investment assets to BCI.[284]

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274 Exhibit B-5, BCUC IR 28.2.
275 Exhibit B-5, BCUC IR 28.2.
276 Exhibit B-5, BCUC IRs 28.2, 31.1.
277 Exhibit B-5, BCUC IR28.3.1.
278 Exhibit B-5, BCUC IR28.3.1.
279 Exhibit B-5, BCUC IR 28.3.1.
280 Exhibit B-5, BCUC IR 28.5.
281 Exhibit B-5, BCUC IR 28.5.
282 Exhibit B-5 BCUC IR 27.4.
283 Exhibit B-1, p. 5-1.
284 Exhibit B-1, p. 5-1.

ICBC explains that BCI is available as a resource for ICBC in developing changes to the SIPP, and as a consultant on specific areas of the SIPP. BCI may also recommend specific pooled funds for inclusion that they deem would be beneficial to ICBC's investment strategy.[285] However, any additions contained in the SIPP are subject to ICBC management's due diligence and recommendation to the Board for their ultimate approval.[286]

ICBC clarifies that the SIPP will continue to be reviewed at least annually and the October 2020 SIPP does not reflect a change to ICBC's risk tolerance.[287] ICBC states it expects longer-term investment horizon under Enhanced Care, which decreases the amount of volatility in claims due to the elimination of litigated lump sum settlements.[288] Due to this, ICBC anticipates it can increase the allocation within the investment portfolio to less liquid assets with higher expected returns.[289] During the IR process, ICBC stated the SIPP was revised in April 2021 (April 2021 SIPP) and Risk Tolerance Statement was updated to include a requirement that the portfolio maintain a Liquidity Coverage Ratio of at least 1.5x under a stressed financial market or claims liability scenario.[290] ICBC comments the main benefit of this change is to focus on the key risk factor for the ICBC Investment Fund over the coming years as excess liquidity is strategically reduced to enhance investment returns and ICBC experiences negative operational cash flows during the transition to the Enhanced Care model as legacy claims are settled.[291]

ICBC states the April 2021 SIPP also contains an updated Strategic Asset Mix which includes emerging market and private equities and portfolio leverage.[292] However, ICBC states the transition to the new asset mix will be gradual and is expected to take seven to eight years to complete and to be minimal during the period covered by the Application as the portfolio focus is to address payment of legacy claims.[293] ICBC confirms that the New Money Rate used in the Application was based on the October 2020 SIPP.[294]

3.4.4 Subsequent Events Impacting Investment Income

Apart from the changes to the New Money Rate and the Yield on Basic Equity, there are three subsequent events that could affect the rate indication presented in the Application, as follows:

- The CRT decision[295] in March 2021. As of April 17, 2021, the British Columbia Court of Appeal has granted a temporary and partial stay of the CRT decision to allow claimants to choose which forum to proceed in, either a tribunal or the court system;[296]

[285] Exhibit B-5 BCUC IR 31.2.
[286] Exhibit B-5 BCUC IR 31.2.
[287] Exhibit B-5, BCUC IRs 44.2, 33.6, 33.1.6.
[288] Exhibit B-5, BCUC IR 33.6; Exhibit B-6, BCOAPO IR 13.1.
[289] Exhibit B-5, BCUC IR 33.6; Exhibit B-6, BCOAPO IR 13.1.
[290] Exhibit B-8, BCOAPO IR 32.1.
[291] Exhibit B-8, BCOAPO IR 32.1.
[292] Exhibit B-8, BCOAPO IR 32.1, Attachment A, ICBC SIPP – April 2021, p. 24.
[293] Exhibit B-8, BCOAPO IR 32.1.
[294] Exhibit B-8, BCOAPO IR 32.1.
[295] March 2, 2021 Decision on the Constitutional Challenge of the jurisdiction of the Civil Resolution Tribunal.
[296] Exhibit B-8, BCUC IR 84.2, TV News, Court of Appeal grants partial stay in ruling on B.C. auto injuries, dated April 17, 2021; Retrieved May 26, 2021, from https://vancouverisland.ctvnews.ca/court-of-appealgrants-partial-stay-in-ruling-on-b-c-auto-injuries-

- On February 26, 2021 by Order G-55-21, the BCUC approved ICBC's COVID-19 Basic insurance rebate application as directed by Government (first COVID-19 rebate);[297] and
- Subsequent to ICBC filing the Application, on June 24, 2021 by Order G-191-21, the BCUC approved ICBC's second COVID-19 rebate application for Basic insurance policyholders effective July 5, 2021 as directed by Government (second COVID-19 rebate).[298] This second COVID-19 rebate relates to the period from October 1, 2020 to March 31, 2021. The total Basic insurance portion of the rebate to be returned is $188 million.

ICBC states the first and second COVID-19 rebate along with the CRT decision impact ICBC's current Basic capital level for fiscal 2020/21, and as a result there could be a small impact on the PY 2021 rate indication from investment income on Basic equity. ICBC states the unfavourable CRT decision and the two COVID-19 rebates could reduce Basic net income by as much as $390 million and $518 million[299] respectively.[300] ICBC did not provide a calculation of the impacts on the Basic Equity and the resulting impact on the rate indication from the investment income on Basic equity.[301] ICBC submits, however, the impact is expected to be minimal given investment income on Basic equity is a small component of the total required premium.[302] Investment income currently has a favourable 3.4 percentage point impact on the rate indication, which decreases the average premium by $152.[303]

Positions of The Parties

No interveners commented on investment income and the changes to the New Money Rate and Yield on Basic Equity in their final arguments other than BCOAPO. McCandless expresses concern over the impact of subsequent events on Basic capital.

BCOAPO submits the April 2021 SIPP and Asset Liability Management (ALM) study demonstrate policy considerations and changes can have just as much or more impact on the investment return rates included in the RRA than changes to the formula to calculate the expected investment return forecast.[304] As demonstrated in the 0.44 percent increase (4.12 percent less3.68 percent) in the New Money Rate if the asset mix from the April 2021 SIPP was used instead of the October 2020 SIPP strategic asset mix.[305]

1.5391640.

[297] ICBC Application in Support of a COVID-19 Basic Insurance Rebate G-55-21 dated February 26, 2021.

[298] ICBC Application in Support of a Second COVID-19 Basic Insurance Rebate G-191-21 dated June 24, 2021.

[299] $330 million from the first COVID-19 rebate plus $188 million from the second COVID-19 rebate.

[300] Exhibit B-6, Move UP IR 1.4b; Exhibit B-8, BCUC IRs 84.1.1, 84.3; ICBC Application in Support of a Second COVID-19 Basic Insurance Rebate Order G-191-21 dated June 24, 2021.

[301] Exhibit B-8, BCUC IR 84.5; ICBC Application in Support of a Second COVID 19 Basic Insurance Rebate, Exhibit B-2, BCUC Staff Question 4.2.

[302] Exhibit B-8, BCUC IR 84.5; ICBC Application in Support of a Second COVID 19 Basic Insurance Rebate, Exhibit B-2, BCUC Staff Question 4.2.

[303] ICBC Final Argument, Figure 3.3, p. 16.

[304] BCOAPO Final Argument, p. 16.

[305] BCOAPO Final Argument, p. 16.

BCOAPO recommends that the BCUC direct ICBC to provide information on its ALM studies and the implications for the strategic asset mix as part of its minimum filing requirements and that information be updated during an RRA proceeding for any subsequent release of a revised SIPP.[306]

Conceptually, BCOAPO does not have any substantial concerns over the changes to the New Money Rate, Yield on Basic Equity or the use of BCI forecasts and submits that the changes appear reasonable and "is an improvement compared to the current BCUC approved formula based on forecasted returns using a risk premium proxy and short-term financial forecasts from six financial institutions."[307] Nonetheless, BCOAPO suggests the BCUC could request ICBC replicate the results of the prior approved formula for a transition period to ensure there is no systematic bias in the proposed formulas.[308]

BCOAPO's primary concern relates to the timing of the preparation of the BCI long-term financial returns forecast and the potential for this information to be outdated by the time of preparation of the ICBC RRA. As ICBC will use BCI investment return forecast from December of the prior year to prepare RRAs to be filed in December of the current year (a full 12 months old), BCOAPO is concerned this will result in potential for outdated investment return information for rate-setting purposes as ICBC previously used financial return forecasts that were only three-months old in its preparation of its RRA. Accordingly, BCOAPO recommends that the BCUC direct ICBC to:

(1) consider the potential of outdated BCI investment return forecasts during the preparation of its rate indication and RRA; and

(2) provide information in its minimum filing requirements to justify its decision to either request updated forecasts from BCI for the required asset classes or to continue to use the BCI forecasts from the prior December.[309]

McCandless submits that subsequent events like the government-ordered COVID-19 rebates CRT decision cannot be ignored. While the impacts may not affect the requested rate change, McCandless submits that the BCUC needs to review the implications on the future level of Basic capital.[310]

In response to BCOAPO, ICBC submits that the ALM studies and the implications for the strategic asset mix already provided are appropriate and sufficient.[311] An ALM study is only required once every four years, and the results of the ALM study are captured in publicly available governing policies and procedures (i.e., the Statement of Investment Policy and Procedures). ICBC states it provided appropriate information in this proceeding in a manner that recognizes the investment strategy is a matter for ICBC management in conjunction with its investment advisor and respects BCI's commercial sensitivity.[312]

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306 BCOAPO Final Argument, p. 17.
307 BCOAPO Final Argument, p. 17.
308 BCOAPO Final Argument, p. 18.
309 BCOAPO Final Argument, p. 18.
310 McCandless Final Argument, p. 7.
311 ICBC Reply Argument, p. 10.
312 ICBC Reply Argument, p. 10.

ICBC submits BCOAPO's reservations about data currency for rate setting purposes are not an issue. ICBC states it explained 15-year forecasts reduce the potential for short-term events to influence forecasts, with the result that "BCI's long-term expected returns do not typically change much year over year"[313] and "[f]or this reason, BCI has historically determined its capital market expectations once per year."[314]

Panel Determination

Consideration of BCOAPO's Submissions

As already noted, BCOAPO is the only intervener to comment on these proposed changes to forecasting investment income as a result of the transition of investment management responsibilities to BCI. However, its reservations are only with respect to two areas, namely, the desire for further information on ALM studies and uncertainties about the currency of BCI's data for ICBC's rate-setting purposes. With respect to BCOAPO's first concern, the Panel finds that the current schedule of timing for submission of ALM studies (once every four years) to be sufficient such that no change is warranted at this time. As ICBC points out, the results of those studies are captured in ICBC's Statement of Investment Policy and Procedures, which is reviewed on an annual basis. In the absence of any evidence of imprudence, the Panel views that the choice of investment strategy is a matter for ICBC management in conjunction with its investment advisor, BCI, provided that the basis for such investments is clearly defined in ICBC's Statement of Investment Policy and Procedures and reviewed regularly.

As for BCOAPO's suggestion that BCI should be required to provide updated forecasts from its forecasts from the prior December for rate-setting purposes, the Panel does not consider this to be necessary or appropriate. The Panel considers that generally, updates to long-term expected returns are not required given the low likelihood of major changes in those forecasts occurring between annual forecasts. Furthermore, the Panel notes that for 2020, which was an exceptional year due to the financial effects of the COVID-19 pandemic that caused interest rates to plummet in the first quarter followed by financial markets recovering quicker than anticipated in the second quarter, BCI provided on its own volition two updates to its forecasts on March 31, 2020 and June 30, 2020, respectively.[315] In short, the Panel expects that should updates be required by unanticipated or major changes in market conditions, BCI would provide such updates to ICBC as and when they occur. Accordingly, the Panel does not see a need to direct ICBC to justify its decision to use BCI's most recent forecasts from the prior December as the most current information for calculation of its New Money Rate.

New Money Rate Formula

In reviewing ICBC's proposed New Money Rate formula, the Panel notes that these changes arise from:

- The use of BCI's data to forecast return for investment and fixed income assets in its annual Long-Term Market Expectations report which is prepared for use by BCI and its clients, in order to match the anticipated longer time horizon between when Basic insurance premiums are collected and when benefits are paid out under Enhanced Care; and

[313] ICBC Reply Argument, p. 10.
[314] ICBC Reply Argument, p. 10.
[315] ICBC Reply Argument, p. 11.

- The addition of a new Diversification and Rebalancing Premium by 25 basis points to the forecasted New Money Rate.

With respect to the first noted change to the New Money Rate calculation methodology, as ICBC explained in its evidence, the current New Money Rate formula relies on short-term interest rate forecasts as the basis for determining long-term portfolio returns.[316] Due to the sensitivity of the actuarial rate indication to the New Money Rate, changes in the short-term multi-dealer survey forecast from quarter-to-quarter can have a significant impact on the overall rate change to cover costs.[317] Under Enhanced Care, sensitivity to changes in the interest rate forecasts is exacerbated due to the longer payout patterns. As a result, ICBC submits that short term interest rate forecasts are no longer appropriate,[318] and instead a 15-year investment return horizon is more appropriate under Enhanced Care, compared to utilizing 12-month bank forecasts of risk-free rates and inflation and projecting them over the full investment horizon under the current method.[319] The Panel notes that the 15-year investment return horizon was determined to be appropriate by ICBC following consultation with BCI and review of various time horizons which led them to conclude that the 15-year time horizon was most appropriate for all the asset classes, given that it captures the investment horizon for longer-tail claims that may be payable for 20 or more years under the Enhanced Care model.[320]

The Panel is persuaded that ICBC's rationale for the change from using proxy returns to using BCI's data to forecast returns based on the specific risk and return profile of ICBC's investment programs is reasonable in light of the expected longer payout periods and the resulting longer-term investment horizon under Enhanced Care. The Panel further notes that ICBC proposes to file a summary report in future RRAs outlining the expected returns on asset classes as support for the calculation of the proposed New Money Rate. ICBC has further committed to filing a detailed report if there are material changes to the BCI methodology or asset classes that would require explanation.[321]

With respect to the addition of a Diversification and Rebalancing Premium to the forecasted New Money Rate, ICBC acknowledges that this is not as a result of new or additional investment rebalancing activities undertaken.[322] However, the Panel accepts ICBC's evidence, which is not disputed, that such premiums have been applied to calculate discount rates in the BC public sector in both pension and non-pension settings for diversified investments portfolios with long investment horizons (as are anticipated in the case of ICBC's investments under Enhanced Care) and are grounded on sound financial theory.[323] The Panel notes that in assessing the appropriateness of the size of the proposed premium, BCI performed a historical analysis of ICBC's investments results as at July 31, 2020 to compare the actual historical benefit to a forward looking simulation, which showed that the diversification and rebalancing benefit ranged between 14 and 36 basis points depending on the investment horizon chosen.[324] In light of those results and given that ICBC's current portfolio contains more fixed income investments of shorter duration than most other public pension examples provided as a reference, the Panel finds ICBC's proposed Diversification and Rebalancing Premium of 25 basis points to be

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[316] Exhibit B-1, p. 5-5.
[317] Exhibit B-1, p. 5-5.
[318] Exhibit B-1, p. 5-5; Exhibit B-5, BCUC IR 37.1.
[319] Exhibit B-1, p. 5-8.
[320] Exhibit B-5, BCUC IR 33.4.
[321] Exhibit B-8, BCUC IR 78.3.
[322] Exhibit B-5, BCUC IRs 36.1, 36.2, 36.3.1.1.
[323] Exhibit B-1, p. 5-8.
[324] Exhibit B-5, BCUC IRs 36.3.1.1., 36.5, 36.5.1.

reasonable**.** In sum, the Panel finds the proposed changes to the New Money Rate formula to be appropriate following the transfer of ICBC's investment management to BCI and **approves the changes to ICBC's New Money Rate formula as proposed.**

Yield on Basic Equity Formula

Having determined that the proposed changes to the New Money Rate are appropriate, we now review the changes to the Yield on Basic Equity. The yield on equity assets under the currently approved formula for determining the Yield on Basis Equity is calculated as the sum of the actual yield on the 30-year Government of Canada bonds and the same equity risk premium used in the calculation of the currently approved New Money Rate.[325] To be consistent with the proposed changes to the New Money Rate, however, ICBC proposes that the formula for the yield on equity assets in the Yield on Basic Equity calculation be replaced with the equity return component of the proposed New Money Rate.[326] ICBC states the advantages of utilizing BCI's capital market forecasts to determine the expected yield are that they account for the diversification of strategies within ICBC's equity portfolio and leverage BCI's knowledge which is incorporated into its return forecasts.[327]

The result of the changes to the formula is that the Yield on Basic Equity for the first 11-month period of PY 2021 is 2.75 percent, 151 basis points lower than the Yield on Basic Equity of 4.26 percent from the 2019 RRA and 31 basis points lower than the Yield on Basic Equity of 3.06 percent using the currently approved formula. The decrease is largely attributable to lower market interest rates since PY 2019 and a lower expected yield on equity assets. For the second 12-month period of PY 2021, the Yield on Basic Equity using the proposed formula is 3.01 percent, 26 basis points higher than the Yield on Basic Equity calculated for the first 11-month period and 29 basis points lower than the value of the equivalent Yield on Basic Equity as calculated by the currently accepted formula.[328]

As ICBC acknowledges, the combined effect of the decrease in the proposed New Money Rate and the Yield on Basic Equity compared to PY 2019 would result in lower estimated investment income for the current policy period if other assumptions were unchanged. However, this unfavourable impact is offset by the longer expected payout period for policyholder supplied funds under Enhanced Care, which as previously described enables ICBC to hold and invest premiums collected over a longer period of time compared to prior years and generate higher investment income. Overall, this results in a favourable impact for customers.[329]

The Panel is persuaded that pursuant to its approval of ICBC's proposed New Money Rate, the formula for the yield on equity assets in the Yield on Basic Equity calculation should also be replaced with the equity return component of the proposed New Money Rate based on BCI's forecast returns using its capital market forecasts, instead of the actual yield on the 30-year Government of Canada bonds. As the New Money Rate will be based on forecasts provided by BCI going forward, it is appropriate for ICBC to calculate its Yield on Basic Equity to reflect the same fundamental assumptions and data as provided by BCI in respect of the New Money Rate. **The Panel approves the changes to the formula for the Yield on Basic Equity as proposed.**

[325] Exhibit B-1, p. 5-10.
[326] Exhibit B-1, p. 5-10.
[327] Exhibit B-1, p. 5-11.
[328] Exhibit B-1, p. 5-15.
[329] Exhibit B-1, p. 5-2.

Subsequent Events Impacting Investment Income

With respect to the impact of the CRT decision and the two COVID-19 rebates directed to be returned to customers pursuant to Government direction the only evidence that is before us is ICBC's evidence that these events do not materially impact the PY 2021 indicated rate change because they do not impact expected premium or claims costs associated with policies written in PY 2021. To the extent that these events do affect ICBC's current Basic capital level for fiscal year 2020/2021 from effects on investment income on Basic equity, however, ICBC submits that the impact is expected to be minimal given that investment income on Basic equity is a small component of the total required premium. However, ICBC has not provided any calculation in support of that submission. In these circumstances, the Panel is unable to determine or test the validity of ICBC's assertion of the "minimal" impact. Despite these concerns, however, the Panel is satisfied that no adjustment to the rate indication is warranted to reflect the cumulative impact of these subsequent events, particularly in light of the fact that ICBC operates in a closed system in which any overstatement of rate level changes will ultimately flow through to the Basic Capital and decrease future capital build requirements in future RRAs. As the Panel has already noted earlier in Subsection 2.3 of this Decision, any update to the actuarial estimates for subsequent events, would require ICBC to revisit all assumptions within its analysis to assess the reasonableness of assumptions in the aggregate, as required under AAP. Given that the impact of these events may not be material and that ICBC would require several months to prepare a full update to the actuarial estimates, the Panel sees no benefit in directing an update for ongoing changes, the results of which will be captured in the closed system and will impact future ICBC rate applications.

3.5 Other

The "Other" line in Table 2 above includes impacts from the average premium trend and the difference between the PY 2020 rate indication and the 0 percent implemented PY 2020 rate change as per Government direction. ICBC submits that these items contribute 0.4 percentage points to the PY 2021 rate indication.[330]

No interveners commented on the "Other" component of the PY 2021 indicated rate change.

3.6 Panel Determination of the PY 2021 Indicated Rate Change

The Panel acknowledges that the inherent uncertainty in the actuarial estimates, compounded with the introduction of Enhanced Care for which there is no previous ICBC data or analysis, means there is considerable uncertainty in the estimate of claims costs. Actual claims data related to Enhanced Care will emerge over the 23-month policy year and any estimation differences will be captured in future rate applications.

With respect to the impact of subsequent events related to the CRT decision and the two COVID-19 rebates directed to be returned to customers pursuant to Government direction, ICBC's evidence is that these events do not materially impact the PY 2021 indicated rate change because they do not impact expected premium or claims costs associated with policies written in PY 2021. Furthermore, the impact of investment income on Basic equity is a small component of the total required premium. The Panel is satisfied that no adjustment to the rate indication is warranted to reflect the cumulative impact of these subsequent events. The impact of these events will be reflected in the next rate application.

[330] Exhibit B-5, BCUC IR 2.4, Attachment A – Indicated Rate Change by Component.

Having reviewed all of the elements of the PY 2021 indicated rate change and found their underlying assumptions to be reasonable and no adjustments to be necessary, the Panel approves the 15 percent decrease in Basic insurance rates for PY 2021 as proposed by ICBC in the Application.

4.0 Other Approvals Sought

4.1 Changes to Performance Measures

In the Application, ICBC reported on several Performance Measures as directed by the BCUC.[331] The purpose of the BCUC directed performance measures is to provide information that will help the BCUC to assess whether ICBC's provision of Basic insurance service to customers is adequate, efficient, just, and reasonable.[332] ICBC also outlines its proposed reporting to the BCUC in future RRAs for the next several years during the transition from the current tort-based system to the new Enhanced Care model. This includes corporate performance measures outlined in the Service Plan that reflects ICBC's continued focus and commitment to delivering more affordable insurance, and being customer driven, smart and efficient, and future focused.[333]

ICBC intends to align its current BCUC performance measures with what was reported in the 2020/21–2022/23 Service Plan.[334] ICBC submits that the current BCUC performance measures, while meaningful to ICBC's performance, do not fully align with the new Service Plan measures. As a result, ICBC is proposing two changes to the current BCUC performance measures. This includes maintaining the current Insurance Expense Ratio and combining it with the Non-insurance Expense Ratio and reporting them as a single measure. It also includes replacing the Loss Adjustment Ratio (LAR) with the Loss Adjustment Expense Ratio (LAER).[335]

ICBC submits that the requested changes will continue to provide information to the BCUC that will assist in its regulation of ICBC's Basic insurance business.[336]

Replace LAR with LAER

ICBC is proposing to discontinue LAR and replace it with the LAER, which would be consistent with what is now reported in ICBC's Service Plan. Both LAR and LAER are intended to measure ICBC's efficiency in controlling how much of the premium dollar is needed to pay for the management of claims.[337]

LAR is calculated by taking the sum of claims services expenses, external expenses and loss management expenses and dividing it by claims paid net of external expenses. Claims services expenses consist of salaries and benefits for claims staff and internal legal staff, information system services related to claims handling, and claims office overhead, while external expenses consist primarily of costs for outside defence legal counsel, medical and dental reports, private investigators, independent adjusters and towing expenses. Loss

[331] Order G-192-19, dated August 19, 2019.
[332] Exhibit B-1, Appendix 7A, p. 7A-1.
[333] Exhibit B-1, Appendix 7A, p. 7A-6.
[334] Exhibit B-1, p. 1-12.
[335] Exhibit B-1, p. 1-12.
[336] Exhibit B-1, Chapter 7, Appendix 7A, p. 7A-4.
[337] Exhibit B-1, Chapter 7, Appendix 7A, p. 7A-5.

management expenses include ICBC's Special Investigation Unit (SIU), which covers auto crime and fraud prevention investigation and detection to help reduce claims costs, but excludes road safety expenses.[338]

LAER is calculated by taking the sum of claims services expenses, external expenses and Road Safety and Loss Management expenses and then dividing it by Vehicle Earned Premiums.[339] The LAER measure considers claims management expenses on an incurred basis, which means that it is based on the costs (current/paid and future/estimated) for claims that arise from losses occurring in the current fiscal year.[340]

ICBC submits that LAER is considered to be a better measure of claims operation efficiency than LAR because it is on an as incurred basis making it more responsive to changes in the cost of managing claims. It also ties the claims management expenses to the premiums in the same period and reflects how efficient ICBC is in controlling the amount of the premium dollar that is required to manage claims. In addition, LAER is measured against a more stable base, has a stronger alignment to other measures such as the Loss Ratio, and aligns better with ICBC's corporate performance measure reporting.[341]

Combine Insurance Expense Ratio with the Non-Insurance Expense Ratio

ICBC proposes to combine the current Insurance Expense Ratio with the Non-Insurance Expense Ratio and report them as a single measure, which will be referred to as the Expense Ratio.[342] The Basic Insurance Expense Ratio is the ratio of Basic insurance operating expenses (excluding claims, claims-related costs, and non-insurance expenses) to Basic insurance premium dollars earned. It is a measure to assess operational efficiency.[343] The Basic Non-Insurance Expense Ratio is the ratio of non-insurance expenses to Basic insurance premium dollars earned. Non-insurance expenses include expenses for the administration of driver licensing, commercial vehicle services, vehicle registration and licensing, and government fine collection.[344]
ICBC submits that both ratios will be shown separately in the calculation resulting in an additional level of information provided. Also, this change is consistent with the goal of aligning with corporate performance measures across ICBC's other public reporting.[345]

Positions of Parties

No Interveners commented on the proposed performance measure changes.

Panel Determinations

Replace LAR with LAER

[338] Exhibit B-1, Chapter 7, Appendix 7A, Attachment 7A.2, pp. 7A.2-1– 7A.2-2.
[339] Exhibit B-1, Chapter 7, Appendix 7A, Attachment 7A.2, p. 7A.2-3.
[340] Exhibit B-1, Chapter 7, Appendix 7A, Attachment 7A.2, p. 7A.2-1.
[341] Exhibit B-1, Chapter 7, Appendix 7A, Attachment 7A.2, p. 7A.2-4.
[342] Exhibit B-1, Chapter 7, Appendix 7A, p. 7A-6.
[343] Exhibit B-1, Chapter 7, Appendix 7A, Attachment 7A.1, p. 7A.1-8.
[344] Exhibit B-1, Chapter 7, Appendix 7A, Attachment 7A.1, p. 7A.1-8.
[345] Exhibit B-1, Chapter 7Appendix 7A, p. 7A-6.

The Panel approves the replacing of the LAR with the LAER performance measure. ICBC is proposing the change of two elements of the formula in replacing the LAR with the LAER. The first is to change the denominator of the ratio from Claims – external expenses (LAR) to premiums earned (LAER). Given the change to the Enhanced Care Program, the Panel finds that this proposed change would make for a better reflection of ICBC's operations.

The other proposed change to the ratio is to add Road Safety expenses to the numerator. The Panel questions the inclusion of these expenditures to the ratio as they are accident prevention expenditures rather than expenses included in dealing with claims. That said, the addition of Road Safety expenses of approximately $30 million is not significant in terms of the total amount of the numerator and the Panel accepts the inclusion of these costs due to the minimal impact it would have on the ratio.

<u>Combine Insurance Expense Ratio with the Non-Insurance Expense Ratio</u>

ICBC proposes to combine the Insurance Expense Ratio with the Non-Insurance Expense Ratio and report them as one measure. The Panel views the Non-Expense Ratio components as expenses related to administration of programs the operation of which has been delegated to ICBC by Government. The Panel recognizes ICBC's need to have an expense ratio that combines all its expenses. At the same time, the Panel also notes that there should be some measure related to the Insurance expenses only. **Therefore, the Panel approves the combining of the Insurance Expense Ratio with the Non-Insurance Expense Ratio into a new measure to be referred to as the Expense Ratio. At the same time, the Panel directs ICBC to continue reporting on the Insurance Expense Ratio as a separate measure to better reflect its actual insurance operations.**

4.2 Financial Allocation Methodology Review

ICBC states that total corporate operating expenses are allocated to the Basic insurance line of business by applying the BCUC-approved financial allocation methodology.[346] On December 31, 2014, ICBC filed the Customer and Injury Services Operations Detailed Work Effort Study which contained the review of the cost allocation methodology. The cost allocation methodology was approved by the BCUC in 2015 Revenue Requirements Application.[347] ICBC submits the last independent review of the overall allocation methodology was filed in ICBC's 2004 Financial Allocation Methodology (FAM) Application. Since that time, there have been three independent third party reviews of a subset of ICBC's overall allocation methodology, all of which have involved claim centres and specialized claims handling department operating expenses, the largest single allocation group of ICBC's operating expenses.[348] ICBC is directed to review the financial allocation methodology for total corporate operating expenses allocated to the Basic insurance line of business in December 2022 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.[349]

In this Application, ICBC proposes to defer that filing to December 2023. ICBC explains that it anticipates it will take at least two to three years of operation under Enhanced Care in order for the data under the new model to

[346] Exhibit B-1, p. 6-7.
[347] Decision for Order G-74-16, regarding ICBC 2015 Revenue Requirements, p. 17.
[348] Exhibit B-6, BCOAPO IR1 18.2.
[349] ICBC 2019 RRA Decision, Section 3.4, p. 28.

develop and to inform an updated financial allocation methodology. Deferring the filling will allow ICBC to include further development of the claims and insurance data for the allocation filing as well as allowing ICBC to undertake a full financial allocation methodology review, including claims and premium data.[350]

Positions of the Parties

Although MoveUp and TREAD did not comment specifically about the deferral of the filing of FAM to December 2023, they did not object to any of the approvals being sought by ICBC including the deferral proposal.

In its Final Argument, BCOAPO submits given the passage of time since the last full review of the FAM, it is appropriate that it be reviewed at the earliest opportunity and that an independent consultant be engaged to provide analysis and recommendations. BCOAPO prefers that the FAM review continue in accordance with the BCUC directed timeframe for filing in December of 2022, but based on the representations made by ICBC with respect to the expectation of a small increase in the allocation to Basic insurance, BCOAPO submits that there does not appear any negative impact to Basic insurance customers of the requested postponement until December of 2023. BCOAPO recommends that the BCUC direct that ICBC file Terms of Reference for the review of the FAM before the review commences and, at that time, the BCUC should invite ICBC and interveners to provide options and comments on the Terms of Reference and preferred regulatory process to evaluate the FAM.[351]

In response to BCOAPO, ICBC states, as is typical with any regulatory application, it is up to ICBC to put forward a proposal for how the FAM review ought to be undertaken. The regulatory process is the appropriate forum for interveners to test that methodology.[352]

Panel Determination

The Panel approves ICBC's request to postpone the review of the FAM for total corporate operating expenses allocated to the Basic line of business until December 2023. The Panel notes that all intervener comments on this issue supported ICBC's requested postponement of the filing with only BCOAPO having some additional suggestions. The Panel agrees with ICBC's suggestion that the additional time sought would provide more data under the new Enhanced Care Program to better inform the analysis to be conducted. The Panel notes that the process to follow with regard to the proposed review is a matter for a future BCUC Panel to determine and declines to take any further action on BCOAPO's suggestions.

4.3 Compliance Reporting for Fiscal Year 2021/22

Given that Special Direction IC2 exempts ICBC from filing an application for a general rate change in 2021, in this Application, ICBC seeks approval to define the timing and content of fiscal year 2021/22 compliance reports which would have been otherwise been included in the 2021 RRA, as follows:

- **Report on road safety** – ICBC proposes to defer the filing of its next annual report on road safety by one year from December 15, 2021 to December 15, 2022, to coincide with the filing of its next RRA;

[350] Exhibit B-1, p. 6-7.

[351] BCOAPO Final Argument, p. 23.

[352] ICBC Reply Argument, p. 20.

- **Report on performance measures** – ICBC proposes to file the report on performance measures, which was due by August 31, 2021, by December 15, 2021; and
- **Report on information technology (IT) capital expenditures** – ICBC proposes to file the report on IT capital expenditures, which is due annually, by December 15, 2021.[353]

ICBC submits that it is appropriate to defer the filing of the annual report on road safety considering that, in this reporting, ICBC "mostly updates ongoing initiatives and there are usually not significant changes from year to year." ICBC also states there is significant public reporting on road safety in the media and information on road safety statistics on icbc.com and other websites.[354]

With respect to the annual reports on performance measures and IT capital expenditures, ICBC submits that its proposals allow these reports to be "efficiently reviewed together at the same time" and also provides ICBC with sufficient "runway" to report on the activities of fiscal 2021/22.[355]

Positions of the Parties

MoveUP and TREAD submit that the requested changes to compliance reporting for fiscal year 2021/21 are reasonable in the circumstances and should be granted.[356] BCOAPO submits it has not identified "any significant issues of concern" to recommend that the BCUC reject the approvals sought.[357]

Panel Determination

The Panel approves ICBC's requested timing for the compliance reports indicated (Road Safety, Performance Measures and IT Capital Expenditures). The Panel finds the reasoning provided by ICBC for deferring the filing of these reports to be acceptable and none of the interveners who commented on this request disagreed with the proposed changes in reporting dates.

5.0 Panel Commentary on Other Issues Raised by Participants

As noted in Subsection 1.4 above, nine interveners registered in the proceeding and the BCUC received three letters of comment. While the purpose of the RRA proceeding is to review ICBC's request for a general Basic insurance rate change for the PY 2021 that affects all Basic insurance policyholders equally, the BCUC nonetheless received submissions concerning matters that have been determined by the Panel to be beyond the scope of this proceeding. These matters relate to ICBC's financial viability, Basic insurance rate design and the need for insurance product reform. For instance, submissions were received regarding the long-term financial viability of ICBC and the potential review of ICBC's new capital management plan in light of the Enhanced Care model.[358]

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[353] Exhibit B-1, p. 1-11; ICBC Final Argument, p. 64.
[354] Exhibit B-1, p. 1-11.
[355] Exhibit B-1, p. 1-11.
[356] MoveUP Final Argument, p. 2; TREAD Final Argument, p. 2.
[357] BCOAPO Final Argument, p. 25.
[358] Exhibit C2-3, McCandless IR 1.2.1 McCandless Final Argument, p. 8; Exhibit E-3.

In addition, some participants pursued rate design matters. Some interveners explored the relationship between distance travelled and claims costs, as well as risk differentials between geographic locations or rating territories in BC.[359] ICBC notes that Order in Council 458/18, August 9, 2018 directed certain Rate Design Tariff Amendments be approved by the BCUC, which included the 10-year Territory transition adjustment.[360] As a result of the BCUC's review of the ICBC 2018 Basic Insurance Rate Design Application, pursuant to Order G-188-18 and other subsequent related orders, starting December 31, 2021, ICBC is scheduled to file annual reports on the results and impact of the rate design changes that were implemented on September 1, 2019.[361] ICBC submits that the scope and timeline of future rate design work are still being determined. ICBC's corporate strategy goal includes being more flexible and considering customer needs in the design and delivery of products and services.[362]

With respect to the Basic insurance product, Landale's submissions included a discussion of how the new Enhanced Care program affects seniors.[363] The Fournier Auto Group also used the public review process of this Application to highlight a legislative change related to ICBC's insurance product regarding accelerated depreciation of vehicle damage which, in that intervener's view, should "be put on hold until we can make sure that all British Columbia's [sic] are aware of this change and the impact."[364]

Panel Discussion

While respect to ICBC, the BCUC is limited by legislation and Government direction to its jurisdiction of Basic insurance oversight and the scope of individual RRAs, the specific terms of which are binding upon the BCUC. Nonetheless, the Panel empathizes with and applauds participants' continued attempts to canvas these issues which are important to them in a public and transparent BCUC process. In the absence of such process, they may have limited opportunity otherwise to openly share their views on auto insurance in BC in the hopes of improving the current state of that market for all drivers in the Province.

With respect to participants' concerns about the continued long-term financial viability of ICBC, the Panel notes that this is an important issue for all of ICBC's customers, claimants and the BCUC in the long term. However, it is not an issue that can be readily examined or resolved in the context of a current RRA for two years and requires a long-term solution. Furthermore, the Panel notes that the MCT threshold of at least 100 percent MCT has been suspended for the PY 2021 in accordance with section 3(1)(1.2) of Special Direction IC2 and specific capital build provisions have been mandated for PY 2021 in accordance with section 3(1)(e.1) of Special Direction IC2. Nonetheless, the Panel has recommended earlier in this Decision that in conjunction with the development of ICBC's new capital management plan, the inclusion of targets for minimum levels of Basic capital to be established with stakeholder input, merits consideration. While this may not alleviate participants' concerns about ICBC's long-term financial viability, it may be a means of addressing some aspects of those concerns at least so far as ICBC's capital management with target levels of Basic capital going forward is concerned.

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359 Exhibits C1-3 and C1-5, Repen IRs to ICBC.
360 Exhibit B-6, Repen IR 1.3.
361 Exhibit B-8, Repen IR 1.2.
362 Exhibit B-8, Repen IR 1.2.
363 Transcript Volume 1, pp. 20–22.
364 Fournier Auto Group, Exhibits C7-2 and C7-3; Fournier Auto Group Final Argument, p. 1.

As for potential rate design reform, the Panel notes that the current rate design, in respect of which the BCUC held a public review process in 2018, was mandated via OIC 458/18 and 459/18 and other subsequent Government directives. This included the 10-year Territory transition adjustment.[365] Pursuant to Order G-188-18, ICBC is directed to start filing annual reports on the results and impact of the new rate design starting December 31, 2021.

With respect to potential reform of the Basic insurance product as advocated by some participants, even assuming that it considers such reform necessary, the BCUC has no authority to direct such reform pursuant to section 45(6) of the *Insurance Corporation Act*.[366] Further, section 3(2) of Special Direction IC2 sets out the provisions for Basic insurance rate discounts for persons who are at least 65 years of age or persons with disabilities. However, to the extent that participants view the current product as being unfair to certain disadvantaged groups, we encourage them to continue their efforts in educating the public, ICBC and Government alike about the importance of considering and implementing any necessary reform.

In the end, we acknowledge the importance of these and other matters raised by participants, and do not minimize the impacts that these issues continue to have on ICBC's customers as well as the current state of the auto insurance industry in the Province. We encourage ICBC to reflect on the feedback that it has received in this proceeding, and where appropriate, consult with the Government about the development and implementation of any further changes that may be needed to ICBC's business and Basic insurance offerings, in a manner similar to its recent efforts to reduce claims costs while enhancing benefits to claimants, which have culminated in Enhanced Care.

DATED at the City of Vancouver, in the Province of British Columbia, this 28th day of October 2021.

Original signed by:

A. K. Fung, QC
Panel Chair / Commissioner

Original signed by:

K. A. Keilty
Commissioner

Original signed by:

[365] Exhibit B-6, Repen IR 1.3.

[366] Section 45(6) of the *Insurance Corporation Act* states "… the commission does not have the power to change a term or condition of any plan of universal compulsory vehicle insurance established under the *Insurance (Vehicle) Act*."

B. A. Magnan
Commissioner

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ORDER NUMBER
G-307-21

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 May 1, 2021

BEFORE:
A. K. Fung, QC, Panel Chair
K. A. Keilty, Commissioner
B. A. Magnan, Commissioner

on October 28, 2021

ORDER

WHEREAS:

A. On December 15, 2020, the Insurance Corporation of British Columbia (ICBC) filed an application with the British Columbia Utilities Commission (BCUC) for its 2021 Revenue Requirements for Universal Compulsory Automobile Insurance (Basic insurance), seeking a Basic insurance rate decrease of 15 percent for the policy year commencing May 1, 2021 (PY 2021), 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 and does not set rates for Optional insurance;

C. On December 14, 2020, the Lieutenant Governor in Council (LGIC) approved Order in Council No. (OIC) 631/20 directing ICBC to apply for approval of Basic insurance tariff (Tariff) amendments as set out in OIC 631/20 (Tariff Amendment Application in Support of Enhanced Care and Enhanced Care Rebate Directive);

D. On December 14, 2020, the LGIC also approved OIC 632/20 directing ICBC, in part, to file a 23-month Basic insurance revenue requirements application for PY 2021, and to reflect in rates for PY 2021 a capital build provision that would result in an 11.5 percentage point increase to the general rate change and a capital maintenance provision that neither increases nor decreases the percentage change in rates (General Rate Change Directive);

E. On December 14, 2020, the LGIC approved OIC No. 633/20, amending Special Direction IC2 such that the BCUC must, for PY 2021, regulate and fix rates in accordance with the Tariff Amendment Application in Support of Enhanced Care and Enhanced Care Rebate Directive and the General Rate Change Directive;

F. By Order G-12-21 dated January 14, 2021, the BCUC approved an interim rate decrease of 15 percent for all new or renewal policies with an effective date on or after May 1, 2021;

G. By Orders G-12-21, G-134-21 and G-221-21, the BCUC established, among other things, a regulatory timetable for the review of the Application which included public notice, intervener registration, a workshop, and two rounds of BCUC and intervener information requests to ICBC, followed by written final and reply arguments; and

H. 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. ICBC is approved to decrease Basic insurance rates by 15.0 percent on a permanent basis for the 23-month policy year commencing May 1, 2021.
2. ICBC is approved to change the formula for the New Money Rate and Yield on Basic Equity, as set out in Section D.2 and Chapter 5 of the Application.
3. ICBC's request to keep the following information confidential is accepted:
    - The unredacted version of Chapter 7, Appendix 7D - 2020/21 Annual Information Technology Capital Expenditure Plan (Appendix 7D) and Chapter 7, Appendix 7D, Attachment 7D.1 – Data Analytics Platform (DAP) Project Update (Attachment 7D.1);
    - 2021.1 BCUC.43.3: First Additional Services Agreement and the Funds Management Agreement between ICBC and the British Columbia Investment Management Corporation (BCI);
    - 2021.1 RR BCUC.51.3, 2021.1 RR BCUC.65.1, 2021.1 RR BCUC.66.1-3, 2021.2 RR BCUC.80.2, 2021.2 RR BCOAPO.37.1 and 2021.2 RR BCOAPO.37.2: partially redacted to remove confidential content;
    - 2021.1 RR MoveUP.2.1: Attachment A - ICBC Culture & Flexible Work Assessment 2020 – Redacted; and
    - The responses to 2021.2 RR BCUC.86.1-3, 2021.2 RR BCUC.86.4-5 and 2021.2 RR BCUC 86.6-7.
4. ICBC is directed to comply with all other terms and directives in the decision that have been issued concurrently with this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 28th day of October 2021.

BY ORDER

Original signed by:

A. K. Fung, QC
Commissioner

List of Acronyms

Acronym	Description
AAP	Accepted Actuarial Practice
ACE	Autoplan Care Enhancements
ALM	Asset Liability Management
Application	Insurance Corporation of British Columbia's 2021 Revenue Requirements Application
Basic insurance	Universal compulsory automobile insurance
BCI	British Columbia Investment Management Corporation
BCOAPO	British Columbia Old Age Pensioners' Organization et al.
BCUC	British Columbia Utilities Commission
BVDC	Basic Vehicle Damage Coverage
BI	Bodily Injury
Board	ICBC's Board of Directors
Claim Costs	Claims and related costs
Claims Services Expenses	Unallocated Loss Adjustment Expenses
CRT	Civil Resolution Tribunal
EAB	Enhanced Accident Benefits
Enhanced Care	A care-based insurance system
Environmental Adjustments	Adjustments to reflect differences in provincial income levels and MPI/ICBC data structures
EY	Ernst & Young
EY Report	EY's actuarial assessment of the expected prospective claims costs of Enhanced Accident Benefits
FAM	Financial Allocation Methodology
Filing Actuary	ICBC's filing actuaries
Frequency	Number of claim exposures per policy
FTEs	Full-time equivalents
ICA	Insurance Corporation Act
ICBC	Insurance Corporation of British Columbia
IFRS	International Financial Reporting Standards

IR	Information request
IT	Information Technology
Landale	Richard Landale
LAR	Loss Adjustment Ratio
LAER	Loss Adjustment Expense Ratio
Loss Costs	Loss and Allocated Loss Adjustment Expenses
McCandless	Richard McCandless
MCT	Minimum Capital Test
MoveUP	Movement of United Professionals
MPI	Manitoba Public Insurance
Optional Insurance	Optional automobile insurance market
OIC	Order in Council
Optional insurance	Optional automobile insurance
PSEC	Public Sector Employers' Council
PY	Policy year
PY 2021	The 23-month policy year commencing May 1, 2021 and ending March 31, 2023
RAAP	Rate Affordability Action Plan
Repen	Darcy Repen
Reviewing Actuary	Mr. Weiland of Eckler Ltd.
RRA	Revenue Requirements Application
2019 RRA	ICBC's 2019 Revenue Requirements Application
Severity	Average cost per claim exposure
SIPP	Statement of Investment Policy and Procedures
SIU	Special Investigation Unit
Special Direction IC2	Special Direction IC2 to the BCUC, *BC Regulation 307/2004*
TP	Transformation Program
TPL – BI	Third Party Liability – Bodily Injury
TREAD	Toward Responsible Educated Attentive Driving
UCA	Utilities Commission Act

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
2021 Revenue Requirements Application

for Universal Compulsory Automobile Insurance

Effective May 1, 2021

EXHIBIT LIST

Exhibit No.	Description
COMMISSION DOCUMENTS	
A-1	Letter dated December 17, 2020 – Appointment of panel for review of Insurance Corporation of British Columbia's 2021 Revenue Requirements Application
A-2	Letter dated January 14, 2021 – BCUC Order G-12-21 establishing interim rates with a regulatory timetable and public notice
A-3	Letter dated January 14, 2021 – BCUC Order G-13-21 approving tariff amendments
A-4	Letter dated January 27, 2021 – BCUC response to Mr. Repen Intervener Request
A-5	Letter dated February 3, 2021 – BCUC response to Mr. Litman Intervener Request
A-6	Letter dated February 4, 2021 – BCUC submitting Workshop and Information Request Information
A-7	Letter dated March 2, 2021 – BCUC Information Request No. 1 to ICBC

A-8	Letter dated May 5, 2021 – BCUC Order G-134-21 establishing a further regulatory timetable
A-9	Letter dated May 26, 2021 – BCUC submitting Information Request No. 2 to ICBC
A-10	Letter dated July 16, 2021 – BCUC submitting response to Intervener Final Argument Extension Request
A-11	Letter dated July 21, 2021 – BCUC Order G-221-21 amending the regulatory timetable

APPLICANT DOCUMENTS

B-1	**INSURANCE CORPORATION OF BRITISH COLUMBIA (ICBC)** - 2021 Revenue Requirements Application (2021 RRA) dated December 15, 2020 – **REPLACED** with Attachment Spreadsheets
B-1-1	**CONFIDENTIAL** – Letter dated December 15, 2020 – ICBC Appendix 7D IT Capital Plan Attachment 7D.1 DAP Project Update
B-1-2	Letter dated February 26, 2021 – ICBC submitting Errata to the 2021 Revenue Requirement Application
B-2	Letter dated December 15, 2020 – ICBC Tariff Amendment Application in Support of Enhanced Care
B-3	Letter dated February 12, 2021 – ICBC submitting Workshop Agenda
B-4	Letter dated February 18, 2021 – ICBC submitting Workshop Presentation
B-5	Letter dated April 14, 2021 – ICBC submitting responses to BCUC Information Request No. 1
B-5-1	**CONFIDENTIAL** - Letter dated April 14, 2021 – ICBC submitting confidential responses to BCUC Information Request No. 1
B-6	Letter dated April 14, 2021 – ICBC submitting responses to Intervener Information Request No. 1
B-7	Letter dated April 30, 2021 – ICBC submitting supplementary responses to BCUC Information Request No. 1
B-8	Letter dated June 16, 2021 – ICBC submitting responses to BCUC and Intervener Information Requests No. 2
B-8-1	**CONFIDENTIAL** - Letter dated June 16, 2021 – ICBC submitting confidential responses to BCUC and Intervener Information Requests No. 2
B-9	Letter dated July 19, 2021 – ICBC submitting extension request to file Reply Argument

INTERVENER DOCUMENTS

C1-1	**REPEN, D. (REPEN) –** Letter dated December 31, 2020 submitting request to intervene
C1-2	Letter dated February 15, 2021 – Repen submission regarding Workshop and submitting Information Request No. 1
C1-3	Letter dated March 9, 2021 – Repen submitting Information Request No. 1 to ICBC
C1-4	Letter dated March 15, 2021 – Repen submitting clarification letter
C1-5	Letter dated May 25, 2021 – Repen submitting Information Request No. 2 to ICBC
C2-1	**MCCANDLESS, R. (MCCANDLESS) –** Letter dated January 8, 2021 submitting request to intervene
C2-2	Letter dated February 15, 2021 – McCandless submission regarding Workshop
C2-3	Letter dated March 7, 2021 – McCandless submitting Information Request No. 1 to ICBC
C2-4	Letter dated May 25, 2021 – McCandless submitting Information Request No. 2 to ICBC
C3-1	**MOVEMENT OF UNITED PROFESSIONALS (MOVEUP) –** Letter dated January 18, 2021 Request to Intervene by James Quail
C3-2	Letter dated March 9, 2021 – MoveUP submitting Information Request No. 1 to ICBC
C4-1	**LANDALE, R. (LANDALE)** – Letter dated January 27, 2021 submitting Request to Intervene
C4-2	Letter dated January 28, 2021 – Landale submission regarding regulatory timetable
C4-3	Letter dated March 9, 2021 – Landale submitting Information Request No. 1 to ICBC
C5-1	**LITMAN, T. (LITMAN) –** Letter dated February 1, 2021 submitting Request to Intervene
C5-2	Letter dated March 9, 2021 – Litman submitting Information Request No. 1 to ICBC
C6-1	**INSURANCE BUREAU OF CANADA (IBC) –** Letter dated February 3, 2021 Request to Intervene by Miranda Lee
C6-2	Letter dated February 17, 2021 – IBC submission regarding Information Request Scope
C6-3	Letter dated March 9, 2021 – IBC submitting Information Request No. 1 to ICBC
C6-4	Letter dated May 26, 2021 – IBC submitting Information Request No. 2 to ICBC

C7-1 **THE FOURNIER AUTO GROUP (FOURNIER-AUTO)–** Letter dated February 4, 2021 Request to Intervene by Rob Fournier

C7-2 Letter dated March 9, 2021 – Fournier Auto submitting Information Request No. 1 to ICBC

C7-3 Letter dated May 26, 2021 – Fournier submitting Information Request No. 2 to ICBC

C8-1 **BRITISH COLUMBIA OLD AGE PENSIONERS' ORGANIZATION, ACTIVE SUPPORT AGAINST POVERTY, COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS OF BC, AND THE TENANT RESOURCE AND ADVISORY CENTRE (BCOAPO) –** Letter dated February 4, 2021 Request to Intervener by Leigha Worth and Irina Mis

C8-2 Letter dated March 3, 2021 – BCOAPO submitting Confidentiality Declaration and Undertakings for L. Worth, I. Mis, R. Rainkie and K. Derksen

C8-3 Letter dated March 9, 2021 – BCOAPO submitting Information Request No. 1 to ICBC

C8-4 Letter dated May 26, 2021 – BCOAPO submitting Information Request No. 2 to ICBC

C8-5 Letter dated July 15, 2021 – BCOAPO submitting extension request to file Final Argument

C9-1 **TOWARD RESPONSIBLE EDUCATED ATTENTIVE DRIVING (TREAD) –** Letter dated February 4, 2021 Request to Intervene by Fred Weisberg

C9-2 Letter dated March 9, 2021 – TREAD submitting Information Request No. 1 to ICBC

C9-3 Letter dated May 26, 2021 – TREAD submitting Information Request No. 2 to ICBC

INTERESTED PARTY DOCUMENTS

D-1 **INSURANCE BROKERS ASSOCIATION OF B.C. (IBABC)** – Submission dated January 19, 2021 – Request for Interested party status by Charles Byrne

D-2 **RENAUD, D. (RENAUD) -** Submission dated January 25, 2021 – Request for Interested party status

LETTERS OF COMMENT

E-1	Kang, C. – Letter of Comment dated January 15, 2021
E-2	Watson, L. – Letter of Comment dated January 16, 2021
E-3	Oliver, J. – Letter of Comment dated January 18, 2021