

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3 CANADA
web site: <http://www.bcuc.com>



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-142-05

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

IN THE MATTER OF

the Insurance Corporation Act, RSBC 1996, Chapter 228, as amended
and
the Utilities Commission Act, RSBC 1996, Chapter 473, as amended
and

An application by the Insurance Corporation of British Columbia
for approval of the 2006 Revenue Requirements for Universal Compulsory Automobile Insurance
and

A filing relating to the Insurance Corporation of British Columbia's Universal Compulsory Automobile Insurance
Capital Management Plan
and

An application for approval of refinements to certain performance measures
and

A filing of information on seven financial allocation functions
and

An application for approval of changes to certain allocation functions

BEFORE: L. F. Kelsey, Commissioner and Panel Chair
A. J. Pullman, Commissioner
P. E. Vivian, Commissioner
December 21, 2005

O R D E R

WHEREAS:

- A. On August 22, 2005, the Insurance Corporation of British Columbia ("ICBC") submitted an application for approval of the 2006 Revenue Requirements for Universal Compulsory Automobile Insurance ("Basic Insurance"), a filing relating to ICBC's Basic Insurance Capital Management Plan, an application for approval of refinements to certain performance measures, a filing of information on seven financial allocation functions and an application for approval of changes to certain allocation functions (the "Application"). The Application is in response to the directive in Letter No. L-40-05 and directives issued by the British Columbia Utilities Commission ("Commission") in its Decision dated January 19, 2005 and includes additional information and applications. In the Application, ICBC advised that it is not applying for a change to Universal Compulsory Automobile Insurance rates; and
- B. As per Order No. G-78-05, a Pre-hearing Conference was held on September 8, 2005 in Vancouver, B.C. to discuss the major issues to be examined and the steps and timetable for the Oral Public Hearing process. Registered Intervenors and ICBC made their submissions for consideration by the Commission Panel; and

- C. Per Order No. G-85-05, dated September 12, 2005, the Commission Panel ordered that the Application and related materials will be examined in an Oral Public Hearing in accordance with the Regulatory Agenda and Timetable, attached as Appendix A to said Order. The list of issues for the Oral Public Hearing was attached as Appendix B to said Order; and
- D. On September 20, 2005, ICBC filed a letter wherein, among other matters, it notified the Commission that a standard scheduled review of its claims forecast took place on Friday, September 16, 2005. The review revealed that there has been a significant deterioration of the claims experience for Basic Insurance, both for prior years' claims and for current year claims. ICBC stated that this adverse claims experience needs to be factored into the actuarial rate indication for Basic Insurance and that it expects to be in a position to file the updated information that will incorporate the most current claims information in mid-October 2005; and
- E. In response to events described in paragraph D, the Commission issued Letter No. L-88-05, dated October 12, 2005. Letter No. L-88-05 provides relief from the Regulatory Agenda and Timetable as set out in Appendix A to Commission Order No. G-85-05, sets out a proposed revised Regulatory Agenda and Timetable, and requests from Registered Intervenors and ICBC to provide their comments with respect to the latter; and
- F. The Commission received responses from Registered Intervenors and ICBC to requests made in its Letter No. L-88-05. All Registered Intervenors who responded to the Commission's request in Letter No. L-88-05 agreed to the proposed revised Regulatory Agenda and Timetable. In a letter to the Commission dated October 26, 2005, ICBC requested additional changes to the proposed revised Regulatory Agenda and Timetable to accommodate a scheduling conflict; and
- G. On October 24, 2005, ICBC filed a revision to the Application ("Revision No. 1"). Revision No. 1 provides the updated information available on the increase in claims costs and its implications on the actuarial rate level indication for the 2006 policy year, and the changes from the October 5, 2005 amendments to Special Direction IC2 and the Ministerial Letter regarding the transfer of capital. The updated actuarial rate level indication shows that Basic Insurance premiums should be increased by 4.2 percent for the 2006 policy year, however, in Revision No. 1 ICBC is not applying for a change in Basic Insurance premiums; and
- H. Per Order No. G-108-05, dated October 27, 2005, the Commission Panel ordered that the Regulatory Agenda and Timetable be revised as per attached Appendix A to said Order; and
- I. In a letter dated December 15, 2005, ICBC advised the Commission and Registered Intervenors that on December 12, [2005] another scheduled review of claims costs occurred and that the information presented at that review confirms the increases in claims costs seen in the September [2005] review, and indicates that there has been further deterioration in Basic Insurance claims costs; and
- J. ICBC advised that with the information now available, ICBC must reassess the appropriateness of its Management Decision, in order to ensure that the Revenue Requirement Application is consistent with the provisions of the Special Direction. ICBC requested that those portions of the hearing that deal with revenue requirement matters be adjourned, but the portions of the hearing that do not directly relate to ICBC's revenue requirements proceed on January 5, 2006. Specifically, ICBC proposed that matters relating to Basic Insurance Capital (Chapter 6), Performance Measures (Chapter 9), Information on Selected Financial Allocation Functions (Section 10.1), Road Safety Definition and Allocation of Auto Crime Prevention Costs

(Section 10.2), Allocation of Corporate Projects (Section 10.3), Investment Governance (Chapter 11), and Alternatives to Broker Distribution (Chapter 12) be the subjects of the January 5, 2006 hearing. ICBC advised that adjournment of part of the hearing is necessary to provide the further time required to reassess the appropriateness of its Management Decision, with the overall intent of ensuring that Basic Insurance rates are just and reasonable, and any changes are relatively stable for Basic Insurance policyholders; and

- K. On December 16, 2005, the Commission issued a letter wherein it asked Registered Intervenors to comment on ICBC's request and to provide their comments by December 20, 2005; and
- L. The Commission received comments from Canadian Direct Insurance Inc. ("CDI"), Pemberton Insurance Corporation ("Pemberton"), the British Columbia Public Interest Advocacy Centre ("BCPIAC"), the Insurance Bureau of Canada ("IBC"), the British Columbia Chiropractic Association ("BCCA"), the Consumers' Association of Canada (BC Branch) ("CACBC"), the Insurance Brokers Association of British Columbia ("IBABC"), and Canadian Northern Shield Insurance Company ("CNS"); and
- M. CDI, IBC and CACBC indicated that the hearing should proceed in its entirety as scheduled on January 5, 2006. BCPIAC, Pemberton, IBABC, BCCA and CNS indicated that the hearing should be adjourned in its entirety. None of the Registered Intervenors supported the convening of separate proceedings for revenue requirement matters and matters not directly related to revenue requirements; and
- N. In a letter dated December 21, 2005, ICBC responded to BCPIAC's recommendations relating to the filing of certain documents. In their letter dated December 16, 2005, BCPIAC listed several documents that BCPIAC recommended should be filed with the revised revenue requirements application; and
- O. The Commission has reviewed and considered the submissions by ICBC and Registered Intervenors and has determined that a ruling on the matter is required.

NOW THEREFORE the Commission orders as follows:

- 1. Both the Oral Public Hearing scheduled to commence on January 5, 2006 and the remainder of the Regulatory Agenda and Timetable, which followed the Oral Public Hearing as set out in Order No. G-108-05, are hereby adjourned.
- 2. ICBC is directed to file a revised 2006 Revenue Requirements Application ("Revision No. 2") not later than January 27, 2006.
- 3. The changes in Revision No. 2 are to be confined to updated information relating specifically to Basic Insurance claims costs and those costs and revenues, which are a function of Basic Insurance claims costs.
- 4. A revised Regulatory Agenda and Timetable for the review of Revision No. 2 will be determined after consultation with ICBC and Registered Intervenors.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-142-05

4

5. The List of Hearing issues attached as Appendix B to Order No. G-85-05 will remain in force.

DATED at the City of Vancouver, in the Province of British Columbia, this 21st day of December 2005.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner and Panel Chair