BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-115-10

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473, as amended
and
the Insurance Corporation Act, R.S.B.C. 1996, Chapter 228, as amended
and
An Application by the Insurance Corporation of British Columbia
for Changes to Universal Compulsory Automobile Insurance for Fleetplan Vehicles

BEFORE: L. F. Kelsey, Commissioner
D. A. Cote, Commissioner

June 30, 2010

O R D E R

WHEREAS:

A. On January 28, 2010, the British Columbia Utilities Commission (Commission) received an application from the Insurance Corporation of British Columbia (ICBC) requesting changes to universal compulsory automobile insurance for Fleetplan vehicles (Fleetplan Application); and

B. The Fleetplan Application proposed changes to the Fleetplan program. In contrast to ICBC's Claim Rated Scale program, which bases premium discounts or surcharges on individual-vehicle loss experience, Fleetplan considers a fleet's loss experience for determining the discount or surcharge applicable to the base rate for each vehicle in the fleet. The Fleetplan Application proposed changes to Fleet Status Eligibility, Trailer Insurance Rates, and the Fleet Rating Retrospective Program; and

C. On February 11, 2010, the Commission issued Order G-20-10, establishing that the Application would be reviewed via a written hearing process, and specifying the Regulatory Timetable for the proceeding; and

D. Order G-20-10 also instructed ICBC to advertise the Notice of Application and Written Public Hearing, in display-ad format, in the following local news publications, and any other suitable print media, so as to properly provide adequate notice to the public: Cranbrook Daily Townsman/Kimberly Daily Bulletin, Dawson Creek Daily News, Fort St. John Alaska Highway News, Kamloops Daily News, Kelowna Daily Courier, Alberni Valley Times, Nanaimo Daily News, Nelson Daily News, Penticton Herald, Prince George Citizen, Prince Rupert Daily News, Trail Daily Times , Victoria Times Colonist, Vancouver Sun, and Vancouver Province; and

E. Order G-20-10 also instructed ICBC to provide a copy of the Order and Regulatory Timetable to all parties who registered as participants in the 2007 ICBC Rate Design Application or other ICBC regulatory proceedings during the past year, or who ICBC reasonably expects to be affected by the Fleetplan Application; and

F. Seven Interveners registered to participate in the hearing: Canadian Bar Association Automobile Insurance Committee (CBAAIC), British Columbia Old Age Pensioners Organization *et al.* (BCOAPO), Family Insurance Solutions Inc. (FIS), Automotive Retailers Association (ARA), TransLink, Pemberton Insurance Corporation (Pemberton), and the BC Trucking Association (BCTA); and

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G. Information requests were made by the Commission, BCOAPO, BCTA, Pemberton, and TransLink; Final Submissions were made by BCOAPO, BCTA, and Pemberton; and

H. The Commission has considered the Application, the information requests and related responses, the Final Submissions, and ICBC's Reply Arguments.

NOW THEREFORE the Commission, for the Reasons for Decision accompanying this Order, determines as follows:

1. The Fleet Status Eligibility amendments, as proposed in Fleetplan Application, are approved as filed.

2. The standardisation of trailer Basic Insurance premiums proposed in the Fleetplan Application is denied.

3. The Fleet Rating Retrospective Program amendments, as proposed in Fleetplan Application, are approved as filed.

4. ICBC will submit a report to the Commission by March 31, 2012, examining whether those Fleetplan Application proposals, approved by this Order, were revenue neutral from an overall premium perspective, including analysis of any variations from revenue neutrality.

DATED at the City of Vancouver, in the Province of British Columbia, this 9th day of July 2010.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

IN THE MATTER OF

INSURANCE CORPORATION OF BRITISH COLUMBIA

Changes to Universal Compulsory Automobile Insurance for Fleetplan Vehicles

REASONS FOR DECISION

June 30, 2010

BEFORE:

L.F. Kelsey, Commissioner
D.A. Cote, Commissioner

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1.0 INTRODUCTION

The Insurance Corporation of British Columbia (ICBC) applied to the British Columbia Utilities Commission (Commission) on January 28, 2010, seeking three changes to its Fleetplan insurance program:

i. Revised eligibility criteria for fleet status for all new fleets.

ii. Standardised Basic insurance premiums for commercial and non-commercial trailers, and associated reduction in Basic insurance base rates for all trailers.

iii. Elimination of Fleet Retrospective Rating Program Plan "A".

The three requested approvals are independent of each other. All the proposals are intended to be revenue neutral.

2.0 INTERVENERS AND REVIEW PROCESS

The following parties registered as interveners in the Fleetplan Application review: Canadian Bar Association Automobile Insurance Committee (CBAAIC), British Columbia Old Age Pensioners Organization (BCOAPO), Family Insurance Solutions Inc., the Automotive Retailers Association (ARA), Pemberton Insurance, TransLink, and the BC Trucking Association (BCTA).

The Fleetplan Application was reviewed through a written hearing process. ARA, BCOAPO, Pemberton Insurance, TransLink, and the Commission sent information requests to ICBC. BCOAPO, BCTA, and Pemberton Insurance submitted written final arguments. The hearing concluded with final argument from ICBC.

3.0 FLEETPLAN PROGRAM BACKGROUND

The Fleetplan program provides potential Basic insurance premium discounts for fleets of five or more vehicles insured for commercial or business purposes. Participation in Fleetplan is optional for owners of five to nineteen vehicles; it is mandatory for owners of 20 or more vehicles.

Under Fleetplan, premium discounts of as much as 63 percent are possible. Discounts or surcharges are based on the cost of at-fault claims of all fleet vehicles over a three-year period. The lower the cost of at-fault claims the fleet has, the greater the premium discounts.

Fleetplan includes a Retrospective program for fleets with more than 200 vehicles or net insurance premiums of $100,000 or more per year. If a fleet achieves and maintains a high standard of safe driving, up to 35 percent of the annual premium may be refunded over the following year. A fleet whose safety performance diminishes may encounter up to a 10 percent increase over the following year.

Fleetplan provides administrative benefits for both the customer and ICBC by having a common insurance renewal date for the entire fleet.

4.0 PROPOSED CHANGES TO FLEETPLAN ELIGIBILITY

4.1 The Proposal

ICBC proposes to change the minimum vehicle unit criteria for Fleetplan eligibility from five total vehicles to five motor vehicles. ICBC will no longer include trailers toward meeting the minimum unit count. Existing fleets with less than five motor vehicles will retain Fleetplan eligibility through a grandfathering provision.

4.2 Arguments/Opinions

Pemberton comments that choosing a five vehicle minimum is arbitrary. They further point out that it is doubtful that the experience of five vehicles can create statistical credibility.

4.3 A Fleet Must Have Some Minimum Number of Units

Having a “fleet” means operating some multiple of vehicles. Other Canadian jurisdictions require five or 10 vehicles. Some jurisdictions include trailers in the minimum vehicle count, whereas others do not.

4.4 Evaluation

No intervener actively opposes the change to eligibility criteria. To have a fleet, some minimum number of units is required. There is no unassailable fleet minimum, so any threshold is inherently arbitrary. Further, no alternative minimum was suggested by the interveners.

ICBC selected five motor vehicles as the proposed threshold because it is consistent with the historic use of five vehicles, associated with the program since 1973. ICBC acknowledges that there is no statistical basis for using five vehicles; the number is not based on historical claims experience. ICBC views keeping a five vehicle threshold as beneficial from the perspective of change management for staff, brokers, and existing customers who will experience no change due to the grandfathering provision.

ICBC provided evidence showing that changing the eligibility criteria should be revenue neutral.

4.5 Determination on Fleetplan Eligibility

There must be a minimum vehicle threshold to qualify for fleet status. ICBC proposes changing the threshold from five total vehicles to five motor vehicles. As no intervener opposes the five vehicle threshold and no intervener suggests an alternative threshold, the Commission approves the proposed change to Fleetplan eligibility criteria.

5.0 PROPOSED STANDARDISING OF TRAILER BASIC INSURANCE PREMIUMS

5.1 The Proposal

ICBC proposes to standardise trailer Basic insurance premiums. As most customers currently enjoy discounts, achieving revenue neutrality requires lowering trailer Basic insurance base rates. The proposal does not include making concurrent adjustments to the premiums for towing vehicles.

5.2 Intervener Opposition

BCTA expects that operators with a high ratio of trailers to towing vehicles will encounter high proportional total premium increases. BCTA recommends limiting total premium increases to 20 percent.

5.3 Standardisation and Total Premium Impacts

Although the standardisation proposal is expected to be revenue neutral for ICBC, individual fleet operators will experience changes to their total fleet premiums. Total premiums will be affected because ICBC does not intend to adjust towing (motor) vehicle premiums concurrently with standardising the trailer premiums.

ICBC examined the expected total premium impacts on 6,228 fleets, using 2009 data. 309 fleets would have experienced total Basic insurance premium increases exceeding 10 percent. ICBC expects roughly 110 fleets to encounter overall premium increases exceeding 20 percent.

During the 2007 Rate Design proceeding, ICBC characterised rate increases exceeding six percent as "rate shock." The standardisation proposal means some premium impacts exceeding what the definition of rate shock.

The fleets for which expected increases exceed 10 percent all have a significant number of trailers relative to motor vehicles. ICBC estimates the greatest total premium increases at 144 percent, affecting customers with a fleet profile that is exclusively trailers in Rate Classes 550 to 552 and with a fleet discount of 59 percent or more.

The evidence indicates that fleets with a trailers-to-tractors ratio of just under 2:1 will avoid overall Basic premium increases over 6 percent. Operators with ratios of 2:1 and over are expected to experience premium increases over 6 percent, with the percentage increases directly proportional to the trailer-tractor ratio. There was no evidence showing the average trailer-tractor ratio of ICBC customers. However, publicly-available information suggests that, on average, Canadian commercial fleet operators have trailer-tractor ratios of roughly 4:1. At that ratio, the total premium increases would exceed six percent.

According to BCTA, "*[i]t would seem fair to establish a maximum annual premium increase (e.g., 20 percent) and introduce this change over several years so as to decrease the impact of the rate shock. Given that the cause of the increase is ICBC's desire to introduce a more rational approach to premium pricing rather than a higher risk posed by the behaviour of these customers, they should not be unduly penalized by the introduction of this new rating system.*" [BCTA Final Argument, p. 1]

For fleets with a trailers-to-tractors ratio of about 7:1, the proposed flat rates will mean Basic premium increases approximating BCTA's suggested 20 percent limit. Operators with ratios greater than 7:1 would experience premium increases over 20 percent.

ICBC estimates that roughly 110 fleets would encounter premium increases of 20 percent or more. ICBC submits that the potential benefit of a cap to this sub-set of customers is outweighed by the additional complexity and administrative cost involved with implementing caps. ICBC estimates that the average total Basic insurance dollar increase for these customers would have been $937 for 2009—similar to the $1,100 average premium for a commercial power unit—which ICBC characterises as a relatively small increase. ICBC submits that it is appropriate to implement standardisation without capping provisions.

5.4 Expected Total Premium Impacts and Government Directive IC2 re ICBC Premiums

Implementing standardised Basic insurance premiums may mean significant total premium increases for some commercial operators. The problem is that the fleets encountering these premium increases are those with good safety performance.

Government directive IC2 concerning ICBC rate design directed that rates should reward good safety performance and penalise bad safety performance. Directive IC2 describes government policy on auto insurance premiums as follows:

> *"ICBC can contribute to solving the aggressive driving issue through the initiation of a more driver based rate design system that increases the direct accountability of drivers by ensuring that those high-risk drivers who have more crashes, more claims, multiple motor vehicle violations and/or serious Criminal Code convictions are required to pay more premium dollars."* [OIC 039: Directive issued by the Ministry of Public Safety and Solicitor General on Rate Design]

ICBC has previously relied on the need for program consistency with IC2 in its representations to the Commission (specifically, concerning implementing flat rate non-insurance fees, which were a requirement of the Commission Decision on the 2007 ICBC Rate Design application.)

In a July 9, 2008 letter to the Commission, ICBC stated that "*implementing flat rate equal payment of Non-insurance costs would mean that some customers that have caused multiple crashes and carry a CRS surcharge would see large decreases in their premium. Such decreases would be inconsistent with the intention of the January 2007 Government Directive on Rate Design [IC2] that high-risk drivers pay higher premiums*."

5.5 Determination on Standardised Trailer Premiums

The Commission denies the proposed standardisation of trailer Basic insurance premiums. The standardisation proposal involves premium dislocations which are disadvantageous for safe fleet operators and advantageous for poor safety records, and therefore inconsistent with IC2.

ICBC does not intend to concurrently adjust motor vehicle premiums. As the result, standardising trailer premiums will not be cost-neutral for individual fleet customers. The fleet customers who will be most adversely impacted by the proposal are those with the best safety records. Premium increases may reach 144 percent. ICBC characterises the associated absolute dollar premium impacts as minimal; in contrast, BCTA described it as significant for some operators. These perspectives differ, but what is certain is that the directional changes are counter to the principle of rewarding good safety performance described in IC2.

It should be noted that the Commission believes that the general intent of the standardisation proposal is desirable. Certainly, the total premium impact for non-commercial fleet operators causes no concerns. The Commission encourages ICBC to re-examine whether an implementation which limits total annual premium increases (perhaps consistent with the 20 percent BCTA recommendation) may be feasible.

6.0 PROPOSED ELIMINATION OF RETROSPECTIVE PLAN "A"

6.1 Retrospective Program - Background and Proposed Amendment

Fleetplan Retrospective Program provides participating customers the possibility of earning premium refunds based on improving their safety performance, expressed in terms of loss ratio. Loss ratio is the percentage of loss experience (claims or claim-related costs) per premium dollar earned. (For Fleetplan, loss experience does not include payment of third party liability claims any amount over $200,000 per accident.) The fleet customer's loss ratio is reviewed for the 2.5 years after the end of the policy term. If the customer meets or exceeds specified loss ratio thresholds, a portion of the fleet premium is returned to them in the form of a premium adjustment. The premium adjustment refunds are made in three instalments, at six months from the designated expiry month of the fleet, 12 months from the date of the first adjustment, and 12 months from the date of the second adjustment.

Participants may select from two Fleetplan Retrospective Program options: Plan "A" and Plan "B". Plan "A" rewards low loss exposure with rate discounts, but does not punish high loss exposure with surcharges. Plan "B" rewards with discounts but also punishes with surcharges (negative return premiums).

Loss Ratio		Return Premium	
From	**To**	**Plan A**	**Plan B**
0%	5%	25%	35%
25%	30%	20%	30%
30%	35%	15%	25%
35%	40%	10%	20%
40%	45%	5%	15%
45%	50%	0%	10%
50%	55%	0%	5%
55%	60%	0%	0%
60%	65%	0%	-5%
65%	70%	0%	-10%

Under Plan "A," participants avoid the risk of being charged an additional premium when their fleet loss experience is poor. ICBC views this aspect of Plan "A" as limiting the program's effectiveness. Therefore, ICBC proposes to discontinue Plan "A" and retain only Plan "B." ICBC intends to make the change through a one-time action, remarking that phasing in the change would be complicated.

6.2 Arguments and Opposition

The elimination of Retrospective Plan "A" is strongly opposed by TransLink, one of the province's largest fleet operators. TransLink expressed concern that eliminating Plan "A" would have impacts on its insurance costs for the coming years, which have not been factored into its long-term budget.

6.3 Impact of Eliminating Plan "A"

As of December 2008, there were 392 fleets participating in Plan "A" and 48 fleets participating in Plan "B". The majority of customers prefer Plan "A" because although the maximum discount under Plan "A" is less than under Plan "B", it can yield premium benefits with no risk of incurring a premium surcharge. Plan "A" is a no-lose strategy: at best, a discount of 25 percent; at worst, 0 percent surcharge.

Eliminating Plan "A" will at worst mean a customer encountering a 10 percent increase. Eliminating Plan "A" means customers still have choice of staying in the Retrospective by selecting Program Plan "B", or opting out. ICBC expects some former Plan "A" customers to move to Plan "B". ICBC offered no estimate of the proportion of Plan "A" customers that will actually switch to Plan "B".

ICBC provided estimates of the revenue impact assuming all Plan "A" customers switched to Plan "B," for the years 2003 through 2005. The year-specific estimates show considerable variation in revenue impact, ranging from a decrease of $600 thousand to an increase of $400 thousand (variations of about 1 percent of total program premium revenue) per year. Over the three years, there would have been no significant net revenue impact.

If all Plan "A" customers opted out, ICBC revenue would increase by roughly $6 million. With roughly two-thirds of Plan "A" customers having loss ratios sufficient for premium benefits under Plan "B," ICBC reasonably believes it unlikely that all customers would opt out of the Retrospective Program. ICBC also points out that overall revenue neutrality would also be preserved because no provision to cover Plan "A" return premiums would be included in the Basic insurance revenue requirements analysis.

6.4 Determination on Elimination of Retrospective Plan "A"

The Commission approves the proposed elimination of Fleetplan Retrospective Program Plan "A". ICBC rightly points out that customers can avoid the potential for surcharges by opting out of the Retrospective program. Eliminating Plan "A" does not increase premiums for operators with good safety records, who can realise premium benefits by switching to Plan "B."

Customers are not compelled to remain within the Retrospective Program. The potential Plan "B" premium surcharges of up to 10 percent may be avoided by opting out of the Retrospective Program. Participation in the Retrospective Program is not essential to realising some degree of discount. Those customers maintaining good loss experience, and those improving their loss experience, realise premium rewards whether or not they participate in the Retrospective Program. The proposed amendment to the Retrospective Rating program is consistent with government policy, as it still provides rewards for operators who improve their safety performance.

The Commission notes that, although TransLink opposed the elimination of Plan "A", they did not submit final argument in support of their original position on the issue. Presumably, had the proposal been significant to TransLink, they would have provided final argument for consideration by the Commission in reaching its determination.

7.0 SUMMARY OF DETERMINATIONS

- Revised Fleetplan Eligibility Criteria – APPROVED
- Standardisation of trailer Basic insurance premiums – DENIED. The proposal would advantage operators with poor safety history and disadvantage those with good safety history; these impacts are inconsistent with government policy.
- Elimination of Fleetplan Retrospective Program Plan “A” – APPROVED.