

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER G-221-11**



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

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 Approval of the Revenue Requirements for Universal Compulsory Automobile Insurance  
for the Policy Year Commencing February 1, 2012**

**BEFORE:** A.W.K. Anderson, Panel Chair and Commissioner  
M.R. Harle, Commissioner  
R.D. Revel, Commissioner

December 16, 2011

**O R D E R**

**WHEREAS:**

- A. On December 1, 2011 the Insurance Corporation of British Columbia (ICBC) submitted an application to the British Columbia Utilities Commission (Commission) for approval of the Revenue Requirements for Universal Compulsory Automobile Insurance (Basic Insurance) for the policy year commencing February 1, 2012 (the Application);
- B. The Application seeks Commission approval for a permanent 11.2 percent increase in Basic insurance rates, to apply:
  - i. to all new and renewal policies with an effective date on or after February 1, 2012 that have: (i) premiums determined through the use of the Schedule of Basic Insurance Premiums (Schedule C) as filed with the Commission, excluding rate classes 800 and 900 – 906 and excluding policies relating to vehicles located on isolated islands; and (ii) premiums determined under a Fleet Reporting Policy, (together the Plate Owner Basic and Fleet Reporting Policies);
  - ii. to all other new and renewal policies that have an effective date on or after the first day of the first month that is at least 60 days following the Commission's final decision on the Application;

- C. The Application also seeks interim relief, pursuant to section 89 of the *Utilities Commission Act* and section 15 of the *Administrative Tribunals Act*, to allow a rate increase of 11.2 percent to apply on an interim basis for all new and renewal Plate Owner Basic and Fleet Reporting Policies with an effective date on or after February 1, 2012, pending the hearing of the Application and orders subsequent to that hearing;
- D. In the Application, ICBC also requests that if the Commission's final decision determines that a portion of the interim increase should be refunded, any refunds be dealt with in the manner set out in Appendix A to the Application;
- E. On December 7, 2011 the Commission issued Letter L-92-11 seeking stakeholder submissions on ICBC's interim rate request taking into account the requirements of *Special Direction IC2 to the BC Utilities Commission, BC Regulation 307/2004, as amended* (Special Direction IC2);
- F. By December 12, 2011 the Commission received six stakeholder submissions from: Automobile Insurance Committee, Insurance Bureau of Canada, Frank Duck, Trial Lawyers Association of BC, Pemberton Insurance Corporation, and BC Old Age Pensioners Organization *et al.* None of the stakeholder submissions filed supported ICBC's request for an interim rate increase citing, among other things, unaddressed issues contained in the Application;
- G. On December 13, 2011 the Commission received ICBC's response to stakeholder submissions on the interim rate request. ICBC submits that the proposed interim rate increase is appropriate based on the current evidentiary record and that the interim rates should be approved;
- H. The Commission has reviewed all submissions received regarding ICBC's interim rate request and considers setting an interim rate is in the public interest;
- I. The Commission also considers establishing an Initial Regulatory Timetable including a Workshop and a Pre-hearing Conference for the review of the Application is warranted.
- J. The jurisdiction of the Commission with respect to the regulation of ICBC's revenue requirements and rates is restricted by legislation to Basic Insurance. The Commission has no jurisdiction over ICBC's Optional Insurance business.

**NOW THEREFORE** the Commission orders as follows:

- 1. Pursuant to section 89 of the *Utilities Commission Act*, as set out in the Reasons for Decision attached as Appendix A to this Order, the requested 11.2 percent interim refundable rate increase is approved for implementation with an effective date on or after February 1, 2012 for all new and renewal policies that have: (i) premiums determined through the use of the Schedule of Basic Insurance Premiums as filed with the Commission, excluding rate classes 800 and 900 – 906 and excluding policies relating to vehicles located on isolated islands; or (ii) premiums determined under a Fleet Reporting Policy. The interim increase is

subject to refund with interest calculated for the refund period at an average prime rate of the principal bank with which ICBC conducts its business. The Commission will determine the manner by which any variance between the approved interim rate and the approved permanent rate, will be refunded or collected at the time it renders its Decision on the Application.

2. ICBC is to provide notice to all Basic Insurance policyholders affected by the interim rate increase and the conditions under which it is subject to refund. The notice will be given with the Renewal Reminder or other similar form issued by ICBC to Basic Insurance policyholders in the ordinary course of business for renewal policies, and at the time of purchase for new policies.
3. The Commission will accept, subject to a timely filing, amended Basic Insurance rate schedules in accordance with the terms of this Order.
4. The Initial Regulatory Timetable for the Application is as set out in Appendix B to this Order.
5. The Commission will hold a Workshop with respect to the Application, commencing at 9:00 a.m. Monday, January 23, 2012, in the Commission's Hearing Room on the 12th Floor, 1125 Howe Street, Vancouver, BC V6Z 2K8.
6. A Pre-hearing Conference will be held on Thursday, February 23, 2012, commencing at 9:00 a.m., in the Commission's Hearing Room on the 12th Floor, 1125 Howe Street, Vancouver, BC V6Z 2K8, at which the remainder of the Regulatory Timetable and the nature of the hearing process will be addressed.
7. ICBC will publish, by Thursday, January 5, 2012 in display-ad format, the Notice of Application and Workshop, attached as Appendix C, in the following local news publications so as to properly provide adequate notice to the public: Cranbrook Daily Townsman/Kimberley 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 Star, Penticton Herald, Prince George Citizen, Prince Rupert Northern View, Trail Daily Times, Victoria Times Colonist, Vancouver 24 Hours, Vancouver Metro News, Vancouver Sun, and Vancouver Province.
8. Interveners and Interested Parties are to register with the Commission, in writing or by electronic submission, by Friday, January 20, 2012. Interveners are to state the nature of their interest in the proceeding and advise whether they will be attending the Workshop on Monday, January 23, 2012.
9. The Application and supporting material will be made available for inspection at ICBC locations including, Kelowna, Prince George, and the Head Office of ICBC at 151 West Esplanade, North Vancouver, BC, on ICBC's website and at the Commission Offices, Sixth Floor, 900 Howe Street, Vancouver, BC V6Z 2N3.
10. ICBC is to provide a copy of this Order and the Initial Regulatory Timetable attached as Appendix B to this Order, to all participants of the 2010 Streamlined Revenue Requirements Application and the 2009 Revenue Requirements Streamlining Application proceedings.

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11. Interveners intending to apply for participant assistance must submit a budget estimate by Friday, March 2, 2012 consistent with the Commission's Participant Assistance/Cost Award Guidelines and Order G-72-07. Copies of the Guidelines are available upon request or can be downloaded from the Commission's web site at <http://www.bcuc.com>.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 16<sup>th</sup> day of December 2011.

BY ORDER

*Original signed by:*

A.W.K. Anderson  
Commissioner

Attachment

An Application by the Insurance Corporation of British Columbia  
for Approval of the Revenue Requirements for Universal Compulsory Automobile Insurance  
for the Policy Year Commencing February 1, 2012

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**REASONS FOR DECISION**

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**1.0 Introduction**

On December 1, 2011 the Insurance Corporation of British Columbia (ICBC) submitted an application to the British Columbia Utilities Commission (Commission) for approval of the Revenue Requirements for Universal Compulsory Automobile Insurance (Basic Insurance), effective February 1, 2012 (the Application).

ICBC is applying for an increase in Basic insurance rates of 11.2 percent. ICBC submits the requested rate increase has been determined in accordance with accepted actuarial practice as required under *Special Direction IC2 to the BC Utilities Commission, BC Regulation 307/2004, as amended* (Special Direction IC2) and reflects the change in Basic Insurance revenue that ICBC requires in order to pay for expected future costs.

ICBC is requesting interim rates effective February 1, 2012 of 11.2 percent with respect to the policies specified in Chapter 1 of its Application.

For the Reasons which follow, the Commission Panel determines that the requested 11.2 percent interim refundable rate increase is approved for implementation with an effective date on or after February 1, 2012 for all new and renewal policies specified in Chapter 1 of the Application.

**1.1 Application**

The Application seeks Commission approval for a permanent 11.2 percent increase in Basic insurance rates, to apply:

- a. to all new and renewal policies with an effective date on or after February 1, 2012 that have: (i) premiums determined through the use of the Schedule of Basic Insurance Premiums (Schedule C) as filed with the Commission, excluding rate classes 800 and 900 – 906 and excluding policies relating to vehicles located on isolated islands; and (ii) premiums determined under a Fleet Reporting Policy, (together the Plate Owner Basic and Fleet Reporting Policies); and
- b. to all other new and renewal policies that have an effective date on or after the first day of the first month that is at least 60 days following the Commission's final decision on ICBC's Application.

ICBC in Figure 3.2 – Overview of Impact on PY 2012 Indicated Rate Change on page 3-3 of the Application shows the components of the 11.2 percent rate increase. Figure 3.2 is reproduced below:

**Figure 3.2 – Overview of Impact on PY 2012 Indicated Rate Change**

Line No.	Components	Impact (percentage points of PY 2012 indicated) rate change)
1	PY 2010 Loss Cost Forecast Variance	+5.5
2	Loss Trend to PY 2012	+1.9
3	Investment Income and Premium Financing Plan Revenue	+2.5
4	Impact of IFRS changes	+0.4
5	Operating Expense (excluding IFRS changes)	+0.0
6	Capital Provision	+0.3
7	Trend in Average Premium	+0.4
8	Other	+0.2
<b>9</b>	<b>PY 2012 Indicated Rate Level Change</b>	<b>+11.2</b>

The Application also seeks interim relief, pursuant to section 89 of the *Utilities Commission Act* and section 15 of the *Administrative Tribunals Act*, to allow a rate increase of 11.2 percent to apply on an interim basis for all new and renewal Plate Owner Basic and Fleet Reporting Policies with an effective date on or after February 1, 2012, pending the hearing of the Application and orders subsequent to that hearing. The disposition of any variances between the approved interim rate and the approved permanent rate to be refunded or collected from customers will be addressed in the Commission's final decision on the Application.

In the Application ICBC states that in order to provide adequate time for the process required to implement revised rates, a February 1, 2012 effective date requires a Commission Order in respect of the interim rates by December 16, 2011.

## **1.2 Stakeholder Submissions Process regarding Interim Rate Request**

On December 7, 2011 the Commission issued Letter L-92-11 seeking stakeholder submissions on ICBC's interim rate request taking into account the requirements of Special Direction IC2.

Special Direction IC2 provides a number of directives in section 3 that the Commission must do including:

- (b) set rates for the corporation's universal compulsory insurance business in a way that will allow the corporation to maintain capital available in relation to its universal compulsory insurance business equal to at least 100% of MCT [Minimum Capital Test];
- (c) subject to paragraphs (c.1) and (e), for each year for which it fixes universal compulsory vehicle insurance rates, fix those rates on the basis of accepted actuarial practice so that those rates allow the corporation to collect sufficient revenue,

- (c.1) when regulating and fixing universal compulsory vehicle insurance rates, regulate and fix those rates in a manner that recognizes and accepts actions taken by the corporation in compliance with government directives issued to the corporation;
- (e) ensure that increases or decreases in universal compulsory vehicle insurance rates are phased in in such a way that those rates remain relatively stable and predictable.  
[emphasis added]

## **2.0 Stakeholder Submissions**

By December 12, 2011 the Commission received six stakeholder submissions from: Automobile Insurance Committee, Insurance Bureau of Canada, Frank Duck, Trial Lawyers Association of BC, Pemberton Insurance Corporation, and BC Old Age Pensioners Organization *et al.* None of the stakeholder submissions filed supported ICBC's request for an interim rate increase citing, among other things, unaddressed issues contained in the Application.

### **2.1 Automobile Insurance Committee**

The Automobile Insurance Committee (A.I.C.) outlines its concerns about the impact that the requested rate hike will have on the general public. A.I.C.'s concerns include:

- a. increasing bodily injury claims costs may be related to specific claims handling strategies employed by ICBC;
- b. it is not clear how the cost of counsel hired by ICBC to defend bodily injury claims is factored into the analysis;
- c. ICBC's profitability and ability to withstand normal fluctuations in the claims costs.

The A.I.C. submits that the concerns raised are only preliminary because the members of this Committee have not had sufficient time to conduct a thorough analysis of ICBC's rationale for such a large rate increase.

### **2.2 Insurance Bureau of Canada**

Insurance Bureau of Canada (IBC) submits that the Commission should deny the requested interim rate increase.

IBC is concerned that the 11.2 percent rate increase is a very significant increase and should not be imposed on British Columbia drivers on an interim basis unless it is very clear that ICBC needs that increase. IBC comments that past revenue requirements filings have proven that the loss forecasts of ICBC can quickly turn out to be much different than predicted. In light of Special Direction IC2, IBC states that "an increase of 11.2% one year after a decrease is anything but stable and predictable, and the situation is only made worse if there is an interim rate increase of 11.2% and a subsequent reduction."

### **2.3 Frank Duck**

Mr. Frank Duck states that the “interim rate increase should be rejected, and further interim rate requests should only be entertained if criteria and evidence regarding financial hardship are advanced”, as indicated in his earlier comments on an ICBC interim rate request in 2007. In his submission, Mr. Duck comments that “BCUC has little or no criteria for granting an interim rate award for ICBC, other than a refund mechanism for a final award different than the interim request.”

### **2.4 Trial Lawyers Association of British Columbia**

The Trial Lawyers Association of British Columbia submits numerous issues regarding ICBC’s position on its premium rates, including: ICBC’s definition of “increased claims costs”; change in claims frequency and severity; legal fees of defending claims; compensation levels; and investment returns. The submission also notes the burden ought to be on ICBC to address these issues before any rate increase is allowed.

### **2.5 Pemberton Insurance Corporation**

The Pemberton Insurance Corporation concludes that “it is premature to grant an interim increase now”. The Pemberton Insurance Corporation submission comments on the following three parts of the proposed rate increase: (1) the portion relating to the 2010 premium year of account; (2) the portion requested due to investment income yields; and (3) the process and needs for setting the revenue requirement needs for 2012.

### **2.6 BC Old Age Pensioners Organization *et al.***

The BC Old Age Pensioners Organization *et al.* (BCOAPO) submits that they “strongly oppose this interim rate Application”. The BCOAPO notes issues concerning the timing of the Application and the rate shock to policyholders if interim rates are granted at the requested level.

## **3.0 ICBC Response to Stakeholder Submissions**

On December 13, 2011 the Commission received ICBC’s response to stakeholder submissions on the interim rate request (Reply Submission).

In its Reply Submission, ICBC notes one of the key requirements of Special Direction IC2 (section 3(1)(b)) is that the Commission set rates at a level that allows ICBC to maintain 100% MCT. ICBC states that the forecast MCT with the proposed increase will be 102% at the end of 2012 and that “MCT would drop below 100% MCT during 2012 if rates were increased by less than 10%”.

ICBC also submits that the Commission should be making the decision based on the evidence before it, recognizing that further evidence will be provided in the course of a comprehensive process. ICBC concludes the proposed interim rate increase is appropriate based on the current evidentiary record and the interim rates should be approved.



#### **4.0 Commission Determinations**

The Commission Panel has reviewed and considered ICBC's application for a refundable interim increase, all stakeholder submissions commenting on the ICBC's interim rate request, and subsequent Reply Submission by ICBC. The Commission Panel findings and determinations follow.

The Commission Panel acknowledges the concerns of stakeholder submissions, many of which are shared by the Commission Panel, including the short period of time between the December 1, 2011 filing of this Application and the December 16, 2011 date at which ICBC apparently requires an Order authorizing implementation of interim rates effective for the February 1, 2012 Policy Year.

The Commission Panel notes that ICBC was either unable or unwilling to submit an application for a rate change for the 2011 Policy Year which may have, at least to some extent, mitigated the quantum and stability impact of this very significant proposed rate increase of 11.2 percent for the 2012 Policy Year. More than 80 percent of ICBC's requested rate increase is attributed to the negative impacts of loss cost forecasting, loss trends and investment, and premium financing returns. Apparently these trends were not able to be identified by ICBC at an earlier date.

In previous rate hearings the Commission expressed concerns about the level of the MCT determination, a measure of its ability to meet its future claim liabilities. The Commission's previous Decisions directed ICBC to achieve and maintain a management target MCT ratio of 130%, above the regulatory minimum of 100%. ICBC now submits that, with the 11.2% Basic rate increase, the MCT level will drop to only 102% of the regulatory MCT requirement. ICBC has been empowered to reduce the management target MCT level as a result of the Government directive of November 25, 2011 with respect to Basic Rate Stability and Capitalization approved by Order in Council 560/11. ICBC states that "... MCT would drop below 100% during 2012 if rates were increased by less than 10%" (Exhibit B-3). The corollary to that statement is of course that if the rate increase were even higher, the additional funds would contribute to rebuilding ICBC's capital. ICBC also notes that "Adequate capitalization is important to permit ICBC to continue to provide Basic Insurance in the future." (Exhibit B-3) The Commission Panel is left to make a choice between two now competing directives: (1) relatively stable and predictable rates and (2) the maintenance of capital to ensure the financial stability of ICBC.

Notwithstanding its concerns surrounding the circumstances which led to the 11.2 percent rate increase Application, and the immediate unfortunate impact that will have on policyholders, the Commission Panel finds that the longer term financial stability of ICBC is paramount and in the best interest of the policyholders.

**Accordingly, pursuant to section 89 of the *Utilities Commission Act*, the Commission Panel determines that the requested 11.2 percent interim refundable rate increase is approved for implementation with an effective date on or after February 1, 2012 for all new and renewal policies that have: (i) premiums determined through the use of the Schedule of Basic Insurance Premiums as filed with the Commission, excluding rate classes 800 and 900 – 906 and excluding policies relating to vehicles located on isolated islands; or (ii) premiums determined under a Fleet Reporting Policy.**

The issues and concerns surrounding the rate increase will be more fully explored through the future proceedings to be established to examine this Application.

The interim increase is subject to refund with interest calculated for the refund period at an average prime rate of the principal bank with which ICBC conducts its business. The Commission will determine the manner by which any variance between the approved interim rate and the approved permanent rate, will be refunded or collected at the time it renders its Decision on the Application.

ICBC is to provide notice to all Basic Insurance policyholders affected by the interim rate increase and the conditions under which it is subject to refund. The notice will be given with the Renewal Reminder or other similar form issued by ICBC to Basic Insurance policyholders in the ordinary course of business for renewal policies, and at the time of purchase for new policies.

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

An Application by the Insurance Corporation of British Columbia  
for Approval of the Revenue Requirements for Universal Compulsory Automobile Insurance  
for the Policy Year Commencing February 1, 2012

**INITIAL REGULATORY TIMETABLE**

**ACTION:**

**DATE:**

Intervener and Interested Party Registration Deadline	Friday, January 20, 2012
Commission Workshop*	Monday, January 23, 2012 commencing at 9:00 a.m.
Commission Information Request No. 1	Wednesday, February 8, 2012
Intervener Information Request No. 1	Wednesday, February 15, 2012
Pre-hearing Conference*	Thursday, February 23, 2012 commencing at 9:00 a.m.
Filing of Participant Assistance/Cost Award Budgets	Friday, March 2, 2012
ICBC Information Request No. 1 Responses	Monday, March 12, 2012

\*Location: Commission Hearing Room  
12<sup>th</sup> Floor, 1125 Howe Street  
Vancouver, BC V6Z 2K8

# PUBLIC NOTICE

## WORKSHOP & PRE-HEARING CONFERENCE

BRITISH COLUMBIA UTILITIES COMMISSION



### INSURANCE CORPORATION OF BRITISH COLUMBIA AN APPLICATION FOR APPROVAL OF THE REVENUE REQUIREMENTS FOR UNIVERSAL COMPULSORY AUTOMOBILE INSURANCE FOR THE POLICY YEAR COMMENCING FEBRUARY 1, 2012

On December 1, 2011, ICBC filed a Revenue Requirements Application for Universal Compulsory Automobile (Basic) Insurance seeking an 11.2 percent increase in Basic Insurance rates on an interim and permanent basis for all new and renewal Plate Owner Basic and Fleet Reporting Policies with an effective date on or after February 1, 2012. For the balance of Basic Insurance policies, ICBC also seeks an 11.2 percent permanent increase for those policies that have an effective date on or after the first day of the first month that is at least 60 days following the Commission's final decision on ICBC's Application.

The Commission by Order G-221-11 has approved the requested 11.2 percent interim refundable rate increase for implementation with an effective date on or after February 1, 2012 for all new and renewal Plate Owner Basic and Fleet Reporting Policies. The disposition of any variances between the approved interim rate and the approved permanent rate to be refunded or collected from customers will be addressed in the Commission's final decision on the Application.

The Commission is initiating a review of ICBC's Application. To view the timetable for this hearing and the Application go to [www.bcuc.com](http://www.bcuc.com) select "Current Applications" under "Quick Links" and scroll to "ICBC 2012 Revenue Requirements".

	<b>Workshop</b>	<b>Pre-hearing Conference</b>
	ICBC will explain the Application and answer questions	The Commission will consider the process to review the Application.
<b>Date:</b>	Monday, January 23, 2012	Thursday, February 23, 2012
<b>Time:</b>	9:00 a.m.	9:00 a.m.
<b>Location:</b>	Commission Hearing Room 12 <sup>th</sup> Floor, 1125 Howe Street Vancouver, BC V6Z 2K8	

#### HOW TO GET INVOLVED

If you wish to participate actively in the review process, you may register as an Intervener or an Interested Party with the Commission in writing by Friday, January 20, 2012 with the Commission Secretary, using the contact information at the end of this notice. Interveners will receive a copy of the Application as well as all correspondence and filed documents.

Interested Parties will receive an executive summary of the Application and a copy of the Commission's decision when it is issued.

All submissions and/or correspondence received from active participants or the public relating to the Application will be placed on the public record and posted to the Commission's website.

If you wish to attend the public Workshop or the Pre-hearing Conference please register with the Commission Secretary using the contact information provided at the end of this notice.

### **HOW TO REGISTER**

You may apply to register to the Commission Secretary by email, electronic submission on the Commission's website, by fax, or by mail using the Commission contact information provided below.

For more information, please visit [www.bcuc.com](http://www.bcuc.com) or contact the Commission Secretary at [Commission.Secretary@bcuc.com](mailto:Commission.Secretary@bcuc.com).

### **VIEW THE DOCUMENTS**

The Application and all supporting documentation are available on the Commission's website under "Current Applications" and at the locations below:

<b>British Columbia Utilities Commission</b> Sixth Floor, 900 Howe Street Vancouver, BC V6Z 2N3 Phone: 604-660-4700 Toll Free: 1-800-663-1385 <a href="http://www.bcuc.com">www.bcuc.com</a>	<b>Insurance Corporation of British Columbia</b> Head Office - 151 West Esplanade, North Vancouver, BC Kelowna - 1720 Springfield Road, Kelowna, BC Prince George - 4001 - 15th Avenue, Prince George, BC <a href="http://www.icbc.com">www.icbc.com</a>
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