

ORDER NUMBER
G-2-17

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
An Application for Approval of the Revenue Requirements for Universal Compulsory Automobile Insurance
Effective November 1, 2016

BEFORE:

D. A. Cote, Commissioner/Panel Chair
B. A. Magnan, Commissioner
R. I. Mason, Commissioner

on January 12, 2017

ORDER

WHEREAS:

- A. On August 25, 2016, the Insurance Corporation of British Columbia (ICBC) filed an application to the British Columbia Utilities Commission (Commission) for its 2016 Revenue Requirements for Universal Compulsory Automobile Insurance (Basic insurance), seeking a Basic insurance rate increase of 4.9 percent for the policy year commencing November 1, 2016 (PY 2016) (Application);
- B. By Orders G-142-16 and G-163-16, the Commission established a Regulatory Timetable for the review of the Application and approved a Basic rate increase of 4.9 percent on an interim basis for PY 2016, pending approval of a permanent rate;
- C. On December 16, 2016, the Lieutenant Governor in Council issued Order in Council No. 960, amending *Special Direction IC2 to the British Columbia Utilities Commission (Special Direction IC2)*, which adds that for the PY 2016, the Commission must issue its final general rate change order by January 16, 2017 and the PY 2016 rate change must not exceed 4.9 percent (OIC 960/16);
- D. By letter dated December 20, 2016, the Commission invited ICBC and registered interveners to make submissions as to whether or not the requested PY 2016 Basic insurance rate change of 4.9 percent should be approved on a permanent basis;
- E. By January 4, 2017, the Commission received submissions from ICBC, Mr. Landale, Mr. McCandless, British Columbia Old Age Pensioners' Organization *et al.*, Toward Responsible Educated Attentive Driving and Movement of United Professionals;

- F. The Commission considers that a permanent rate change order is required in accordance with OIC 960/16 and that the 4.9 percent interim rate change for PY 2016 set by Order G-142-16 should be approved on a permanent basis.

NOW THEREFORE for the reasons set out in Appendix A of this order, the British Columbia Utilities Commission approves a 4.9 percent Basic insurance permanent rate increase for Policy Year 2016 commencing November 1, 2016.

DATED at the City of Vancouver, in the Province of British Columbia, this 12th day of January 2017.

BY ORDER

Original Signed By:

D. A. Cote
Commissioner/Panel Chair

Attachment

Insurance Corporation of British Columbia
An Application for Approval of the Revenue Requirements for Universal Compulsory Automobile Insurance
Effective November 1, 2016

REASONS FOR DECISION

1.0 BACKGROUND

On August 25, 2016, the Insurance Corporation of British Columbia (ICBC) filed an application to the British Columbia Utilities Commission (Commission) for its 2016 Revenue Requirements for Universal Compulsory Automobile Insurance (Basic insurance), seeking a Basic insurance rate increase of 4.9 percent for the policy year commencing November 1, 2016 (PY 2016) (Application).

By Orders G-142-16 and G-163-16, the Commission established a regulatory timetable for the review of the Application and approved a Basic rate increase of 4.9 percent on an interim basis for PY 2016, pending approval of a permanent rate.

On December 16, 2016, the Lieutenant Governor in Council issued Order in Council No. 960, amending *Special Direction IC2 to the British Columbia Utilities Commission (Special Direction IC2)*, which adds that for the PY 2016, the Commission must issue its final general rate change order by January 16, 2017 and the PY 2016 rate change must not exceed 4.9 percent (OIC 960/16).

2.0 SUBMISSIONS ON BASIC RATE CHANGE

2.1 Commission letter dated December 20, 2016 seeking submissions

By letter dated December 20, 2016, the Panel noted that given the last rate change in Policy Year 2015 was approved at 5.5 percent by Order G-74-16, and with the 1.5 percent rate band established by *Special Direction IC2*, the PY 2016 rate change must now be between 4 percent and 4.9 percent.

In the letter, the Panel considered the evidence on record on a preliminary basis and the amendments to *Special Direction IC2*, and stated it believes that the 4.9 percent requested by ICBC should be approved for the PY 2016 given the following:

- *Special Direction IC2* requires that Basic insurance be fixed on the basis of accepted actuarial practice to allow ICBC to collect sufficient revenue. The 4.9 percent requested rate increase is based on accepted actuarial practice and ICBC's filing is reviewed by a Reviewing Actuary.¹
- ICBC provides that the most recent actual quarterly Basic insurance Minimum Capital Test (MCT) is 82.5 percent, 98.6 percent, 94.0 percent and 104.0 percent from Q4 2015 through Q3 2016, respectively.² *Special Direction IC2* requires that the Commission set rates that will allow ICBC to maintain at least 100 percent MCT. Maintaining 100 percent MCT is in the interest of ICBC and its policyholders to maintain financial health and solvency of Basic insurance.

¹ Exhibit B-1, p. 2-46.

² Exhibit B-8, 2016.2 RR RL.15.1.

- Basic insurance is a closed system. Any forecast variance flows through Basic capital triggering a correction to future premium rates.³ *Special Direction IC2* requires annual Basic rate filings and therefore, any variance will be reflected in future rate applications.
- In 2016, ICBC continues to hold controllable operating expense flat to the 2014 budget set out in ICBC's 2014–2016 Service Plan to government, with inflationary increases fully absorbed through the current fiscal year ending March 31, 2017.⁴ A lesser amount may result in disruptions to ICBC's planned initiatives in its operating budget.
- ICBC has not yet built billing/refund functionality into the new Policy Administration System.⁵ The interim rate of 4.9 percent was approved by Order G-142-16. A variance between the final rate and the interim rate will likely require additional administrative costs to accommodate the additional billing/refund.

The Panel invited ICBC and registered interveners to make submissions as to whether or not the requested PY 2016 Basic insurance rate change of 4.9 percent should be approved on a permanent basis.

At this point, the Panel further notes that it estimates that with the new rate band for PY 2016 of 4 percent to 4.9 percent, the customer rate impact for an average Basic premium per policy is equivalent to an increase in the range of approximately \$35 to \$43, a differential of approximately \$8, on an annual basis.⁶

2.2 Submissions by ICBC and registered interveners

By January 4, 2017, the Commission received submissions from the following participants:

- ICBC;
- British Columbia Old Age Pensioners' Organization et al. (BCOAPO);
- Mr. Landale;
- Mr. McCandless;
- Toward Responsible Educated Attentive Driving (TREAD); and
- Movement of United Professionals (MoveUP).

No parties opposed the Commission approving a 4.9 percent Basic insurance permanent rate increase for PY 2016.

ICBC

In its submission dated December 23, 2016, ICBC states that the requested Basic insurance rate change of 4.9 percent for PY 2016 should be approved at this time on a permanent basis. ICBC indicates that the proposed Basic insurance rate increase is just and reasonable, reflecting accepted actuarial practice, the applicable legislative framework as amended by OIC 960/16, the Commission-approved Capital Management Plan, and having accounted for the steps being taken by ICBC to reduce costs.⁷

³ Exhibit B-1, Appendix E.0, p. 4.

⁴ Exhibit B-1, p. 2-7.

⁵ Exhibit B-2, 2016.1 RR BCUC.62.1.

⁶ Exhibit B-2, 2016.1 RR BCUC.3.1–2. PY 2016 Average Premium = \$876. An increase of 4 percent is $\$876 \times 0.04 = \35.04 and 4.9 percent is $\$876 \times 0.049 = \42.92 .

⁷ Exhibit B-10, p. 1.

Registered interveners

In its submission dated December 23, 2016, BCOAPO submits that it acknowledges the proposed increase amount was arrived by accepted actuarial practice and cannot object to the approval of the 4.9 percent rate increase in light of the actuarial evidence. However, the compressed timelines do not allow any meaningful probing of the underlying costs associated with providing Basic insurance.⁸ BCOAPO also submits its concerns regarding the impact of increasing auto insurance rates on fixed or low income customers as well as the market structure of ICBC providing Basic insurance.⁹

In its submission dated December 28, 2016, Mr. McCandless states that the 4.9 percent rate increase for PY 2016 should be approved because a larger increase is not permitted by cabinet order and a lesser rate increase would put capital reserves at risk.¹⁰ Mr. McCandless also submits that the Panel must consider the financial cost to future policyholders in light of the growth trends in claims costs and capital reserves being close to regulatory minimum levels.¹¹

In its submission dated December 28, 2016, Mr. Landale submits that the Commission should “[d]o as ordered,” without regard to all the evidence filed to date in the current hearing.¹² Mr. Landale also provides his views and concerns, in light of the Commission’s mission, visions and values, regarding the regulatory oversight of Basic insurance and the amendments to *Special Direction IC2* set out in OIC 960/16.¹³

In its submission dated December 30, 2016, TREAD accepts that the proposed 4.9 percent rate increase is consistent with *Special Direction IC2* and that ICBC’s rate indication is actuarially determined.¹⁴ TREAD expresses concerns regarding consecutive Basic insurance rate increases and the lack of an ICBC rate design filing.¹⁵ TREAD also provides comments regarding OIC 960/10 and the subsequent submissions seeking process by the Commission.¹⁶

By email dated December 30, 2016, MoveUP advises that it is content to let the matter proceed on the basis of the submissions made by other stakeholders in this process. MoveUP did not file any formal submissions.

ICBC reply

In response to intervener submissions, ICBC submits that some intervener submissions go well beyond the Commission’s requested submission related to whether or not the 4.9 percent Basic insurance rate change sought for PY 2016 should be approved on a permanent basis. These topics include the longer term sustainability of the Basic insurance business, further potential process for the 2016 Revenue Requirements Application and matters beyond the scope of this proceeding, such as rate design.

⁸ Exhibit C3-5, p. 3.

⁹ Exhibit C3-5, p. 2.

¹⁰ Exhibit C1-5, p. 3.

¹¹ Exhibit C1-5, p. 2.

¹² Exhibit C2-6, p. 5.

¹³ Exhibit C2-6, pp. 1–5.

¹⁴ Exhibit C5-5, pp. 6, 11.

¹⁵ Exhibit C5-5, pp. 5–6, 7–13.

¹⁶ Exhibit C5-5, pp. 2–5.

ICBC also noted that given ICBC's evidence, as highlighted in its submission dated December 23, 2016 and that no intervenor submissions provided any rationale for approving a rate increase lower than 4.9 percent, it believes that the Commission should approve the 4.9 percent rate increase on a permanent basis.¹⁷

3.0 PANEL DETERMINATION

An interim rate of 4.9 percent was approved for all new or renewal policies following the issuance of Order G-142-16 with an effective date on or after November 1, 2016. In this final rate order, the Panel will make a final determination on the permanent PY 2016 rate change, in accordance with OIC 960/16. In light of the requirement from OIC 960/10 for an expedited final rate change decision, the Panel acknowledges the extensive effort by ICBC and interveners to make submissions in order for the Panel to understand the parties' views on the permanent rate change for PY 2016.

The Panel approves a 4.9 percent Basic insurance permanent rate increase for Policy Year 2016 commencing November 1, 2016. The Panel notes that neither ICBC nor interveners expressed opposition to the approval of a 4.9 percent permanent rate increase. The Panel accepts that the proposed PY 2016 indicated rate change is prepared and reviewed in accordance with accepted actuarial practice which includes a sum of \$472 million income transfers from Optional to Basic insurance. Given the actuarial analysis and the increasing claims costs projections presented in the evidentiary record that is filed and reviewed to date, the Panel finds a permanent rate change at 4.9 percent is warranted to provide ICBC additional revenues to cover the cost of the Basic insurance program.

In the December 20, 2016 letter, the Panel indicated that an amended regulatory timetable will be issued in due course for all other matters in the ICBC 2016 Revenue Requirements proceeding.

¹⁷ Exhibit B-11, p. 1.