# CABINET SUBMISSION - EXECUTIVE SUMMARY

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Ministry Document Number: ___
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**MINISTER**:

The Honourable Gary Collins, Minister of Finance and Minister Responsible for ICBC

**IDENTIFIER NUMBER**:

**DATE**:

October 23, 2001

**TITLE**:

ICBC's 2002 Autoplan Rate and Product Changes

**ISSUE**:

- As evidenced by rate increases in other jurisdictions, insurers across Canada are currently facing the need to increase rates to cover increasing costs. Similarly, ICBC's premium revenue is projected to be insufficient to cover costs in 2002 - partly as a result of the six-year rate freeze.
- In recent years, short term impacts of unusual investment returns and favourable adjustments from settling prior years' claims have resulted in ICBC realizing profits, despite its structural deficit situation. These positive impacts will no longer be available and losses of $145 million and $127 million are forecast for 2001 and

2002 respectively.

- ICBC's road safety programs and claims cost control strategies have also helped to keep claims costs down in recent years. Administrative and operating expenses, which increased from 1996-2000 with the implementation of these programs and addition of Motor Vehicle Branch functions, are being reduced. While these efforts will continue, they will not be sufficient to prevent the forecast loss in 2002.

- After a six year freeze, rate changes are the only short-term tool currently available to prevent such future losses.

**Business Principles**

- ICBC's recommended plan of action is based on the following guiding business principles:
  1. Break-even business operation;
  2. Basic and Optional lines of business are each self-sustaining; and
  3. No subsidization within lines of business.

**Linkage to Government Priorities**

- This submission on rate and product changes is independent of the Board of Directors' core services review of ICBC and the auto insurance industry, which will be brought forward in December 2001. It is being presented now to prevent forecast losses in 2002. There will be no material effect on future changes resulting from the core services review. On the contrary, a more financially sound Corporation will enable better flexibility to respond to future changes.

- A delay in the rate changes would mean continuing losses in 2002 and additional impacts in 2003 - the total impact in both years is approximately $34 million for a delay of 2 months and $105 million for a 6 month delay.

- This proposal neither increases nor decreases the regulatory burden as measured by the number of requirements in regulation or policy.

**RECOMMENDATION**:

- It is recommended that Cabinet approve the following changes included in the attached OIC, effective November 19, 2001 for new policies and January 1, 2002 for renewal policies.

  1. Premiums:

- Increase insurance premiums for both private passenger and commercial policyholders by an average of 7.4%, comprising:

| Coverage | Premium Increase |
|---|---|
| **Basic insurance** | 6.6% |
| **Optional insurance** | 8.7% |

- Changes to premiums for various other optional coverages will also be made, including a 100% increase in optional premiums for snowmobiles and snow vehicles to address high loss ratios.

2. Deductibles and Other Product Changes

- Increase minimum deductibles for Collision, Comprehensive and Specified Perils claims (optional coverage), for unidentified motorist claims, and for optional coverage for snowmobiles and snow vehicles. Changes to address deteriorating loss ratios for the Rental Vehicle Policy and Loss of Use coverage for limousines are also proposed.

3. Rating Inequities

- On a revenue-neutral basis, specific premiums for territory, vehicle use and type of vehicle will either be increased or decreased, depending on the relative risk that customers represent.

**FISCAL MANAGEMENT CONSIDERATIONS**:

- ICBC's current financial forecast indicates an estimated loss of $145 million for 2001, as well as an estimated loss of $127 million for 2002 (notwithstanding potential variability in claims costs).
- The financial impact of ICBC's proposed premium changes is approximately $180 million on a policy year basis and would move the Corporation towards the break-even level with a projected bottomline of an estimated $8 million loss for 2002 (notwithstanding potential variability in claims costs).

**SIGNIFICANT IMPLICATIONS**:

- Of ICBC's total 2.6 million policyholders, approximately 58% of all ICBC policyholders (approximately 1.5 million) will receive a rate increase between $0 and $100, while approximately 18% (approximately 484,000) will receive a decrease of up to $100. Approximately 22% of all policyholders (approximately 589,000) will receive a rate increase between $100 and $500.

- Groups of customers with high loss ratios will pay significantly more than the average rate increase, including commercial vehicles such as light and heavy delivery vehicles, taxis and limousines, and public buses; snowmobiles and snow vehicles; and luxury and sport vehicles.

**Legislation Required**

- ICBC's rates for Basic coverage and product descriptions for both Basic and Optional coverages are set out in the Insurance (Motor Vehicle) Act Regulation, so the changes included in the attached OIC require Cabinet approval. Regulatory change is not required for Optional premiums and deductibles (still outlined in this submission for completeness).

**Consultations**

- ICBC's rate and product changes are based on business principles and no specific consultation has been carried out with the public.

- ICBC will provide information to ministries that interact with affected stakeholder groups prior to public communication of these changes.

**SIGNATURE**:

Approved by: ORIGINAL SIGNED BY
The Honourable Gary Collins
Minister Responsible for ICBC

**KEY CONTACT**:

Cindy Brown, Corporate and Government Relations, (250) 978-4901

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ICBC's 2002 Autoplan Rate and Product Changes

**ISSUE:**

- As evidenced by rate increases in other jurisdictions, insurers across Canada are currently facing the need to increase rates to cover increasing costs. Similarly, ICBC's premium revenue is projected to be insufficient to cover costs in 2002 – a situation which has resulted in part from the six-year rate freeze.

- In recent years, short term impacts of unusual investment returns and favourable adjustments from settling prior years' claims have resulted in ICBC realizing profits, despite its structural deficit situation.

- These positive impacts will no longer be available and losses of $145 million and $127 million are forecast for 2001 and 2002 respectively.

- ICBC's road safety programs and claims cost control strategies have also helped to keep claims costs down in recent years. Administrative and operating expenses, which increased from 1996-2000 with the implementation of these programs and addition of Motor Vehicle Branch functions, are being reduced. While these efforts will continue, they will not be sufficient to prevent the forecast loss in 2002.

- After a six year freeze, rate changes are the only short-term tool currently available to prevent such future losses.

**Business Principles**

- ICBC's recommended plan of action to address the forecast shortfall is based on the following guiding business principles:

  1. Break-even business operation;

2. Basic and Optional lines of business are each self-sustaining; and
3. No subsidization within lines of business.

**Requirement for Cabinet Decision and Time Sensitivity**

- ICBC's Board of Directors has approved the recommended changes to go forward at this time. ICBC's rates for Basic coverage and product descriptions for both Basic and Optional coverages are set out in the *Insurance (Motor Vehicle) Act* Regulation, so changes require Cabinet approval. Regulatory change is not required for Optional premiums and deductibles (still outlined in this submission for completeness).

- A decision is required by October 31, 2001 to enable computer systems changes to be finalized, as well as to prepare for the necessary communications activities. These changes would be effective November 19, 2001 for new policies and January 1, 2002 for renewals.

**Linkage to Government Priorities**

- This submission on rate and product changes is independent of the Board's core services review of ICBC and the auto insurance industry, which will be brought forward in December 2001. It is being presented now to prevent forecast losses in 2002. There will be no material effect on future changes resulting from the core services review. On the contrary, a more financially sound Corporation will enable better flexibility to respond to future changes.

- A delay in the rate changes would mean continuing losses in 2002 and additional impacts in 2003 – the total impact in both years is approximately $34 million for a delay of 2 months and $105 million for a 6 month delay.

- This proposal neither increases nor decreases the regulatory burden as measured by the number of requirements in regulation or policy.

**RECOMMENDATION:**

- It is recommended that Cabinet approve the following changes included in the attached OIC, effective November 19, 2001 for new policies and January 1, 2002 for renewal policies (see Appendix A for more details).

  1. **Premiums:**
     - Increase insurance premiums for both private passenger and commercial

policyholders by an average of 7.4%, comprising:

| Coverage | Premium Increase |
|---|---|
| **Basic insurance** | 6.6% |
| **Optional insurance** | 8.7% |

- Changes to premiums for various other optional coverages will also be made, including a 100% increase in optional premiums for snowmobiles and snow vehicles to address high loss ratios for these customers.

**2. Deductibles and Other Product Changes**

- Increase minimum deductibles as follows:

| Coverage | Current Deductible* | New Deductible* |
|---|---|---|
| **Collision** claims | $200 | $300 |
| **Comprehensive – windshield** claims | $100 | $200 |
| **Comprehensive / Specified Perils** (all other claims) | $100 | $300 |
| **Snowmobiles & Snow Vehicles** (Collision and Comprehensive claims) | $100 (Comprehensive)<br>$200 (Collision) | $1000 (Both) |
| **Unidentified Motorist (Hit and Run)** property damage claims | $350**<br>($200 if minimum collision deductible purchased) | $750**<br>($300 if minimum collision deductible purchased) |

*Except for Unidentified Motorist (Hit and Run) coverage, deductibles shown in table are the minimum deductibles available for these coverages. Customers can obtain a lower premium if higher deductibles are purchased.

**Deductible shown is the maximum applicable to Unidentified Motorist (Hit and Run) claims. If a customer has purchased ICBC Collision coverage with a lower deductible, then the lower deductible will apply.

- Changes to address deteriorating loss ratios for the Rental Vehicle Policy and Loss of Use coverage for limousines are also proposed.

**3. Rating Inequities**

- On a revenue-neutral basis, specific premiums for territory, vehicle use and type of vehicle will either be increased or decreased, depending on the relative risk that customers represent.

**Overall Impact to ICBC Policyholders**

- The cumulative effect of the above changes is reflected in Table 1 and Appendix C.

**Table 1: Cumulative Dollar Impact of All Premium Changes for All Policyholders**

| Dollar Impact | Total Number of Policyholders Affected | % of Total Policyholders* |
|---|---|---|
| **$100 to $500** | 589,164 | 22% |
| **$0 to $100** | 1,545,277 | 58% |
| **$0 to -$100** | 483,947 | 18% |

- Total Policyholders = 2,634,620 (all territories and rate classes), does not total 100% because customers receiving more than $500 increase or $100 decrease are not represented – see Appendix C for a complete breakdown.

**BACKGROUND:**

**Autoplan Insurance and ICBC's Rate-Setting Approach**

- All BC motorists are currently required to purchase Basic (mandatory) insurance coverage from ICBC. Customers have the choice of whether to purchase Optional insurance coverage (e.g. Collision, Comprehensive and Specified Perils coverage) and can do so from ICBC or from private insurers.

- ICBC sets its rates based on criteria used to determine the relative risk of how much an insurance company can expect to pay on an insurance policy. The higher the risk, the higher the rates charged for insurance.

- ICBC currently sets insurance premiums according to an individual's driving and claims record – factors that a customer can control – rather than using discriminatory factors such as age, sex and marital status that a customer cannot control. ICBC uses the following criteria to set its rates, based on the risk of a customer making a claim:
  - years of driving experience;
  - primary use of vehicle;
  - geographic area of residence of registered owner;
  - past claims history (Claim-Rated Scale); and
  - make, model, and year of vehicle.

- In 2000, ICBC wrote approximately 2.6 million Autoplan policies with just over 1 million claims being reported to the Corporation.[1]

**ICBC's Financial Situation**

- ICBC's current financial forecast indicates an estimated loss of $145 million for the year 2001, as well as an estimated loss of $127 million for 2002 if no changes are made to ICBC's rates and products. This is the result of insufficient premium revenue to cover costs. In recent years, the short term impacts of unusual investment returns and favourable settling of prior years' claims have allowed ICBC to record a profit, despite this structural deficit. However, these influences will no longer be providing the same benefit.

- Five key factors have an impact on ICBC's bottom line:
  - investment income;
  - claims costs;
  - claims cost benefits resulting from road safety programs;
  - administrative and operating expenses; and
  - premium revenue.

- To try to address these anticipated losses, ICBC first examined the impact of the above factors on its business:

[1] ICBC, Annual Report 2000, p. 6.

- **Investment Income**: Declining markets and reduced interest rates are reducing expected investment returns to below originally forecast levels in 2001 and 2002.
- **Claims Costs**: ICBC has limited control over some claims cost factors, and claims costs are extremely difficult to forecast accurately. A 5% fluctuation in claims represents approximately $105 million difference in claims costs. While ICBC is continuing its ongoing efforts to reduce claims costs, the Corporation is not expecting positive prior years' claims adjustments as it had in past years (see Appendix D, Table D-3).[2]
- **Benefits from Road Safety Programs**: ICBC's road safety programs continue to produce positive results, but the benefits of these programs are now fully accounted for in actuarial forecasts.
- **Administrative and Operating Expenses**: Over the past year, ICBC has restructured, initiated program cuts and implemented staffing efficiencies to streamline operations and reduce overall expenses. While efforts to reduce administrative and operating expenses will continue, ICBC's admin expense ratios compare favourably with that of private industry (ICBC - 8.6% in 2000, projected to decline to 6.9% in 2002; private industry - 13.7% in 2000; see Appendix D, Table D-4), so significant further reductions may not be readily available.

- As a result of these factors, premium revenue is the only short term tool available that can have a significant impact on ICBC's bottom line. This would be the first premium increase in six years. Inflation has been approximately 8.2% over the period from January 1, 1996 to September 30, 2001.

**Subsidization Within Lines of Business**

- Inequities among policyholders that represent different risk to the Corporation could not be addressed during the rate freeze. For some customers (particularly luxury and sports cars, taxis and other commercial vehicles), ICBC is currently paying out significantly more in claims settlements than it is collecting in premium revenue. Rates will be increased for customers that are not currently paying enough premium for their claims experience, while rates will be decreased for customers that are currently paying too much (see Appendix A, Section 5).

- Some examples of high five year average loss ratios:[3]
  - Accident Benefits coverage – Taxis (ratio of 85% required to break-even):
    - operating in parts of Vancouver and other urban centers – 164%

  - Basic Third Party Legal Liability coverage – Heavy commercial vehicles (ratio of 85% required to break-even):
    - long-distance delivery of petrol and other goods within BC – 109%.
    - medium distance delivery to the US – 163%.
  - Alternately, some groups are below the break-even loss ratio, such as seniors driving for pleasure at 80% loss ratio.

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[2] Ernst and Young's recent review of the Corporation's claims reserves confirmed that ICBC was adequately reserved for claims incurred prior to December 31, 2000 and May 31, 2001.

[3] In regard to the examples provided above, ICBC uses 5 years of claims experience data in its ratemaking due to the high degree of variability in claims costs from one year to the next.

- By rebalancing rates in this manner, ICBC will be able to more fully implement the rating system utilized by private insurers across Canada, and will come closer to making premiums match the risk that the customer represents. These changes will also mean that ICBC's rates will more closely match those charged by the private sector for the best risk customers.

**Comparison with Other Jurisdictions**

- The Property and Casualty (P&C) insurance market is not faring well across Canada, and rate increases for auto insurance have already been implemented or are being considered in most other jurisdictions:[4]
    - The Financial Services Commission of Ontario approved an average 2.5% rate increase for the second quarter, which follows increases of 4.3%, 3.9% and 3.5% over the past year. In late 2000, private insurers in Ontario were predicting premium increases of up to 26 per cent unless the province implemented reforms to its auto insurance system to reduce overhead in accident benefits, mainly due to exaggerated and fraudulent claims.
    - Auto insurance premiums are increasing in Alberta by as much as 15% for all drivers, even those who have never made a claim. Insurance companies say that while the number of claims has not increased, claims costs are rising as people are driving faster, and causing more serious crashes and injuries.
    - Net losses by property and casualty insurers in Atlantic Canada over the last two years are the worst in a decade, with Atlantic Canada experiencing rate increases of 10% and more.
    - Premiums may be rising in Manitoba for 2002 after a sharp decrease in earnings.
    - Quebec's public automobile insurance board (Société de l'Assurance Automobile du Québec - SAAQ) is in a deficit situation for the first time in 17 years.

- In August 2001, the BC Branch of the Consumers Association of Canada published a comparison of auto insurance rates in five Canadian cities: Vancouver, Calgary, Regina, Winnipeg and Toronto. **The proposed rate increases do not alter the basic conclusions of the study.**
- An analysis of the impact of ICBC's proposed rates on a number of profiles from this study is included in Appendix F. In summary:
    - BC families with a young driver with perfect driving records will still pay significantly less with the proposed rate changes when compared to the rates quoted for Calgary or Toronto.
    - Drivers under 25 with perfect driving records still pay more in Calgary and Toronto than in Vancouver.
    - Drivers with one-at-fault claim will continue to pay more in Vancouver than the highest rate quoted for Calgary, but less than the highest rate in Toronto.
    - Drivers with one-at-fault collision will still generally pay less in Vancouver compared to Toronto and Calgary.

[4] See *Thompson's World Insurance News*, Sept. 4, 2001; *Thompson's World Insurance News*, Dec. 4, 2000; *CBC News On-Line*, "Car Insurance Premiums Going North," www.cbc.ca, Oct. 4, 2001; *Thompson's World Insurance News*, Sept. 7, 2001; *Canadian InsurancE-News*, "Cooke Comments on State of Industry," Sept. 24, 2001; *Broadcast News*, "New Brunswick Seniors Insurance," Sept. 25, 2001; *CBC News On-Line*, "Newfoundland to Rein in Insurance Premiums," www.cbc.ca, Oct. 4. 2001; *CP Wire*, "Manitoba Drivers may see Car Insurance Premiums Hiked for the First Time since 1998," Oct. 2, 2001; *National Post*, "Manitoba: Car Insurance will Cost More, says Government Agency," Oct. 4, 2001; *Montreal Gazette*, "Auto Insurance Fee Hikes Studied" and "Chevrette Reverses on Auto-Fee Increases," Sept. 27 and 28, 2001.

- With the proposed rate increases, rates charged to seniors are still lower in Vancouver than the median rates in Toronto.
- The most significant increases to these profiles as a result of the proposed 2002 rates are for the 40 year old and 20 year old male drivers using their vehicles for pizza delivery, who would pay lower rates in Calgary than in Vancouver, and may pay lower rates in Toronto
- BC families with 2 vehicles (both claims free and with one at-fault claim) will also pay lower rates in Calgary than in Vancouver, and some quotes for Toronto may be lower.
- Overall, the proposed rates will still be lower than those in Toronto.

## OPTIONS:

### Option 1: Status Quo

- Under this option, no changes would be implemented to increase premiums or deductibles, or to address existing rating inequities. This option is **not recommended**, as it does not address ICBC's expected revenue shortfall for 2002 and continues rating inequities that are unfair to customers.

**Advantages**

- Rate freeze continues for a 7th year – customers continue to pay the same rates for insurance as they did in 2001, and ICBC and government will not be criticized for increasing premiums.
- No contradiction in public's mind between the rate decision for 2002 and the policy rebate provided to customers for 2000.
- Would allow time for the Core Services Review to be completed prior to implementing any increase in rates.
- No impact on the competitiveness of commercial vehicles (e.g. taxis, heavy trucks) due to premium increases.

**Disadvantages**

- ICBC would not meet its break-even goal (Business Principle #1) because the Corporation would realize the approximately $127 million loss forecast for 2002.
- ICBC's Basic and Optional insurance portfolios would not operate on a separate, self-sustaining financial basis (Business Principle #2).
- No adjustments would be made to address rating inequities for some groups of vehicles, such as taxis, snowmobiles, and luxury and sports vehicles (Business Principle #3), which would result in unfairness to other customers.
- ICBC may be criticized for not operating in a financially sound manner, with inadequate premium revenue to cover anticipated losses.

### Option 2: Implement ICBC's Strategy for 2002 Autoplan Rate and Product Changes

- Under this option, ICBC's strategy for 2002 Autoplan rate and product changes would be implemented as described in Appendix A, with increases to overall premiums and deductibles, as well as premium increases and decreases to rebalance rating inequities. This option is **recommended** because it puts ICBC on a stronger financial footing and addresses fairness issues that evolved during the rate freeze.

- The recommended changes to ICBC's 2002 Autoplan rates and products are driven by ICBC's key business principles, and by what is best for the customer collectively.

**Advantages**

- Break-even outlook for 2002 (Business Principle #1), with a small profit forecast for 2003.
- ICBC's Basic and Optional insurance portfolios move towards operating on a separate, self-sustaining financial basis (Business Principle #2).
- Adjustments would be made to address rating inequities for certain groups of customers, such as taxis, snowmobiles, and luxury and sports vehicles, in a manner that mitigates significant one-time rate increases for individual policyholders (Business Principle #3).

**Disadvantages**

- Rate freeze of six years is discontinued, which is likely to result in some criticism of ICBC and government for increasing costs to consumers and business, particularly in light of the $100 policy rebate that ICBC provided to the majority of policyholders based on its year 2000 surplus.
- Some customers, such as taxis, snowmobiles, and luxury and sports vehicles, will pay high rate increases despite the limits that ICBC has placed on these premium changes, due to severe rating inequities that have developed during the rate freeze.
- Does not allow the Core Services Review to be completed prior to implementing rate change.
- There may be some impact on the competitiveness of commercial vehicles (e.g. taxis, delivery trucks) as a result of premium increases; however, rates for commercial vehicles are generally low in comparison to other jurisdictions at present and will in many cases continue to be lower, even with the proposed increases.

**Other Alternatives**

- Variations on the proposed changes in Option 2 could include adjusting rating imbalances all in one year, instead of phasing in these changes over a number of years (see Appendix A, Section 5). This option would not affect revenue; however, there would be significantly higher rate increases for some policyholders, such as commercial vehicles, and those who own luxury and sports cars.

- ICBC could also implement a $300 minimum deductible for all Comprehensive claims (including windshield claims), which would add a relatively small percentage of additional revenue, but would not accommodate concerns from rural and northern areas.

- Higher premium increases to guard against unpredictable claims cost variations would result in ICBC charging higher premiums than it should be charging individual customers, which could have an impact on the Corporation's ability to compete for the best risk customers with private insurers.

## FISCAL MANAGEMENT CONSIDERATIONS:

### Fiscal Impact of Option 1: Status Quo

- ICBC's current financial forecast indicates an estimated loss of $145 million for the year 2001, as well as an estimated loss of $127 million for 2002, notwithstanding potential variability due to deteriorating or improving claims trends (see Appendix D, Table D-1).

**Fiscal Impact of Option 2: Implement ICBC's Strategy for 2002 Autoplan Rate and Product Changes**

- With the proposed rate changes, ICBC's operations would move towards the break-even level with an estimated $8 million loss for the 2002 financial year, notwithstanding potential variability due to deteriorating or improving claims trends (see Appendix D, Table D-2). ICBC's Basic and Optional coverages would move towards becoming self-sustaining in 2002. There would be no substantial impact on the current year forecast for 2001, as the revenue from premiums earned from new policies between November 19, 2001 and December 31, 2001 would be negligible.

- The full impact of the proposed rate and product changes would not be felt until 2003 due to policy renewals occurring throughout the year:

| Proposed Change | 2002 Impact | Full Policy Year Impact |
|---|---|---|
| Premium increases | $90 million | $180 million |
| Deductible changes | | |
| Rating inequities | $0 million | $0 million |

- Implementation costs for this change are expected to be between $500,000 and $1 million, which will come out of existing project budgets.
- If ICBC assumes no loss in market share, a 3% actual claims trend for 2002 that increases to a 4% claims trend outlook in 2003, and no further rate or product changes, then a small profit of $14 million is estimated for 2003, notwithstanding potential variability due to deteriorating or improving claims trends (see Appendix D, Table D-2).[5] As part of its annual process, ICBC will review its 2003 rates next year to determine if any changes are required.

**Impacts to ICBC's Market Share**

- ICBC's proposed changes are designed to help the Corporation keep the business of the best risk customers by more closely matching the rates charged by private insurers. Although ICBC may lose some customers, the Corporation is anticipating that this loss will be mitigated by the use of deductible increases and by re-balancing premiums (see Appendix A, section 5). Customers experiencing higher rates and increased minimum deductibles may consider changing their optional insurance to a private insurer; however, higher risk customers with increased rates may not be able to obtain private insurance.

- ICBC expects that private insurers in BC are anticipating a rate increase, and some may follow the Corporation's lead by increasing rates and deductibles to address high loss ratios. Other private insurers may continue to tolerate high loss ratios in the hope of being able to gain market share under increased competition in the future.

- Private insurers in the BC commercial auto insurance market are choosing not to renew certain market segments. ICBC anticipates that its commercial market share loss will be mitigated because deductible increases will temper rate increases and poorer risk customers may not have an alternative private insurance source.

[5] It is extremely difficult to forecast expected claims costs accurately due to variable factors such as weather. A 5% fluctuation in claims represents an approximately $105 million difference in claims costs.

- On balance, ICBC is expecting to be able to maintain its current market share. Every 1% loss of market share would account for estimated impact on ICBC's bottom line. Similarly, a 5% loss of market share could be expected to have an estimated impact on the Corporation's bottom line, depending on the loss of average risk and best risk customers.

- As usual, ICBC will be monitoring its overall financial position, the claims trend, response to these rate and product changes, and changes in its market share, so that the Corporation can take future action to achieve break-even.

## SIGNIFICANT IMPLICATIONS:

### Overall Impact to ICBC Policyholders

- Few policyholders are likely to receive the overall average 7.4% rate increase exactly. Due to the need to correct rating inequities, some policyholders will experience higher rate increases while others will experience lower increases or even rate decreases.

- Approximately 58% of all ICBC policyholders (approximately 1.5 million) will receive a rate increase between $0 and $100, while approximately 18% (approximately 484,000) will receive a decrease of up to $100. Approximately 22% of all policyholders (approximately 589,000) will receive a rate increase between $100 and $500 (see Appendix C for complete details).

- Optional customers will share more in the cost of claims due to increased deductibles. It is expected that the increase to a $200 minimum deductible for windshield claims will be of concern to some customers, particularly in the rural and northern areas of the province. There would be a small percentage of additional revenue if the minimum deductible for windshield claims was also increased to $300 as for other types of Comprehensive claims; however, ICBC is limiting this minimum deductible to $200 to mitigate the impact of the increase on these customers.

### ICBC Commercial Customers

- Commercial customers that will experience significant increases will include light and heavy delivery vehicles, taxis and limousines, and public buses . For example, 49% of taxi and limousine customers (approximately policies) will receive an increase of $500 or more, while 27% of taxis and limousines (approximately policies) will receive an increase of $100 to $500. In general, rates for commercial vehicles are currently low in comparison to other jurisdictions and will in many cases continue to be lower, even with the proposed increases.

- The taxi industry is well organized and represented. The Motor Carrier Commission (MCC) has established a Taxi Advisory Committee to liaise with the industry, which can provide a forum for discussion of concerns, including insurance issues. Taxis can also apply to the MCC for rate increases based on changes to the recently adopted Taxi Cost Index, of which insurance premium costs are one of the indices.

- Increases may be viewed as an additional burden on commercial vehicles, particularly at a time when the industry is dealing with other issues such as long waits at border crossings and high gasoline prices. As a business, ICBC can not afford rates for these customers to be inadequate in 2002. These proposed changes bring ICBC closer to having adequate rates for its commercial coverages that match the risk these policies represent, so that the Corporation can avoid writing more than its share of the poorer risk business in the commercial auto insurance market.

**Business Impacts**

- The glass replacement industry may experience potential loss of business because customers who might have had minor damage in their windshields repaired with the deductible waived, or replaced at a $100 deductible, will be more likely to drive with minor windshield damage when the minimum deductible rises to $200. To a lesser degree, the body shop industry may also be concerned about the increase in the minimum deductible for Collision coverage from $200 to $300 for similar reasons.

## LEGISLATION REQUIRED:

- As ICBC's rates for Basic coverage and product descriptions for both Basic and Optional coverages are set out in regulation, the recommended actions require amendments to the *Insurance (Motor Vehicle) Act* Regulation.

## CONSULTATIONS:

**Public Consultation**

- ICBC's rate and product changes are based on business principles and no specific consultation has been carried out with the public.

- ICBC contracted Ipsos-Reid to carry out five focus groups with ICBC optional insurance policyholders in September 2001 to explore customer reaction to potential changes in ICBC's auto insurance pricing practices.[6] This research provided an indication of possible public reaction to these changes, and the type of questions and explanations that will need to be communicated to the public as part of ICBC's Communications Plan.

- ICBC has had high level consultations with brokers regarding potential changes in ICBC's auto insurance pricing practices. Brokers indicated a preference towards deductible changes as opposed to rate changes, and that the most significant increases should be borne by high risk customers who are not currently paying enough premium for the risk they represent.

**Inter-Ministry, Inter-Agency and Inter-governmental Consultation**

- ICBC's rate and product changes will have minimal direct impact on other government entities, with the exception of ministries and agencies that have vehicle fleets.
  - For the Ministry of Finance, these changes will have an impact on government's consolidated financial statements by improving ICBC's financial results for 2002.
  - There will be indirect impacts to ministries that interact with stakeholder groups who will be affected by these changes, such as the Ministry of Transportation, Motor Carrier Commission and the Ministry of Water, Land and Air Protection.

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[6] Ipsos-Reid, *Competitive Insurance Pricing Options Research: Final Report submitted to ICBC*, September 2001.

- Once these changes are approved, ICBC will provide information to these ministries prior to public communication of these changes (see Communications Plan).

**Communications Issues**

- The stakeholder implications outlined above will be addressed through communications with individual customers through their Notice-to-Renew, as well as with organizations representing affected groups once these changes are announced. For example, it is possible that increased premiums for taxis and limousines, as well as the change to exclude limousines from Loss of Use coverage, may generate some complaints from these industries that will need to be addressed through direct communication with these customers.

- ICBC will primarily rely on its network of insurance brokers to communicate these changes to customers renewing their insurance or purchasing new policies. As a result, much of ICBC's communications activities will be focused on ensuring that brokers understand the extent of and rationale for these changes. Additionally, detailed Questions and Answers will be developed to help ICBC front line staff answer customer enquiries about these changes (see attached Communications Plan for more details).

- ICBC will also be conducting informational advertising to provide high level information about the changes to customers, to evoke an understanding of the Corporation's products and to encourage customers to see their broker for more details.

**RECOMMENDED DECISION:**

- It is recommended that Cabinet approve the attached OIC, which includes the changes to Basic rates and Basic and Optional products that have been explained in this submission (effective November 19, 2001 for new policies and January 1, 2002 for renewal policies). These changes are guided by ICBC's key business principles and the best interest of the customer collectively.

**SIGNATURE:**

Approved by: **ORIGINAL SIGNED BY**
The Honourable Gary Collins
Minister Responsible for ICBC

**KEY CONTACTS**:

**Contact:** Cindy Brown
Corporate and
Government Relations
(250) 978-4901

**Line of Business:** John Hancock
Senior Vice President,
Insurance
(604) 408-4018

**APPENDICES TO SUBMISSIONS:**

Appendix A: ICBC's Strategy for 2002 Autoplan Rate and Product Changes
Appendix B: Vehicles Affected by Changes to Rate Groups
Appendix C: Cumulative Impact of Premium Changes: Dollar Impacts and Percentage Impacts for All Policyholders
Appendix D: Financial Analysis
Appendix E: Section Notes to Accompany Order-in-Council (OIC)
Appendix F: Auto Insurance Rates Comparison Study

## Appendix A: ICBC's Strategy For 2002 Autoplan Rate & Product Changes

- ICBC carries out actuarial analysis on an annual basis to determine the adequacy or inadequacy of existing rates for individual insurance coverages, which is known as the Indicated Rate Level Change (IRLC).

- Actuarial analysis for 2002 indicated a need for rate increases in most of ICBC's coverages (see Figures 1 and 2 below). ICBC is recommending that this projected inadequacy be partially addressed by increases to deductibles instead of the full increase to minimize the overall rate increase for all policyholders, and to ensure that those customers who have claims pay more of the cost of those claims.

- The following sections explain the rationale for the proposed changes:
  1. Basic Insurance
  2. Unidentified (Hit-and-Run) Motorist Coverage
  3. Optional Insurance
  4. Special Coverages
  5. Rating Inequities

<u>1. Basic Insurance</u>

- ICBC is recommending a total average increase of 6.6% to basic premiums, which comprises the changes detailed below to Basic Liability and Accident Benefits coverages (premiums for other basic coverages remain unchanged). This rate increase will have an impact on approximately 2.6 million policyholders who carry basic coverage.

**Figure 1: Recommended Changes to Basic Insurance Premiums**

| | 2002 Indicated Rate Level Change (IRLC) | Written Premium ($ Thousands) | Recommended Rate Increase |
|---|---|---|---|
| **Basic Third Party** | | 1,311,767 | 4% |
| **Accident Benefits** | | <u>117,941</u> | <u>35%</u> |
| **Total Average** | | 1,429,708 | 6.6% |

*Basic Third Party Legal Liability*

- As indicated in Figure 1, actuarial analysis suggests that premiums for Basic Third Party coverage could be However, as the full impact of ICBC's rate and product changes will not be felt until 2003 due to renewals occurring throughout the year, ICBC recommends that Basic Liability premiums be increased by 4% to offset this delay and to ensure that ICBC's rate adequacy is realistically conservative.

- ICBC's 2002 financial outlook contains little contingency against the fragility that is inherent in a one year forecast, particularly as these premiums have to be sufficient to cover claims settlements under basic coverage for both property damage and bodily injury. For example, a 5% fluctuation in claims represents an approximately $105 million difference in claims costs, making it extremely difficult to forecast expected claims costs accurately (see Variability analysis for Tables D1 and D2 in Appendix D). Additionally, a slight downward trend in investment income or higher than anticipated operating expenses would move ICBC's break-even forecast to a deficit.

*Accident Benefits*

- Actuarial analysis indicates a need to increase the Accident Benefits by which results in an average policy increase of $16. As shown in Figure 1, annual written premium for Accident Benefits coverage is significantly lower than for Basic Liability coverage, meaning that the rate increase for Accident Benefits coverage only comprises 1.7% of the total increase.

2. Unidentified Motorist Coverage

- ICBC recommends increasing the deductible for unidentified motorist (Hit-and-Run) claims from $350 to $750. This deductible was last raised in 1993 and an increase is needed to reduce ICBC's costs for these claims. Additionally, such an increase reduces the potential for fraudulent claims.

- However, if customers carry ICBC Collision coverage with a lower deductible than $750 (e.g. $300), then the lower of the two deductibles will apply to Hit-and-Run claims. The impact to these customers is therefore the same as the $100 increase in the minimum deductible for Collision coverage (see Figure 3 below).

- Approximately 2,500 Uninsured Motorist (Hit-and-Run) claims are filed annually by policyholders that do not carry ICBC Collision coverage.[7]

3. Optional Insurance

- ICBC is recommending a total average increase of 8.7% to optional premiums.[8] Approximately 2.3 million customers currently purchase their optional coverage from ICBC.

- As Figure 2 demonstrates, the rate increases needed for optional insurance were mitigated to some extent by higher deductibles. Increases to deductibles only affect those customers who make claims, while higher rates have an impact on all customers.

**Figure 2: Recommended Changes to Optional Insurance Premiums**

| | 2002 IRLC Before Deductible Changes | 2002 IRLC – After Deductible Changes | Written Premium ($ Thousands) | Recommended Rate Increase |
|---|---|---|---|---|
| **Collision** | | | 380,554 | 19.9% |
| **Comprehensive** | | | 304,120 | 1.7%[9] |
| **Extended Liability** | | | 299,740 | 0% |
| **RoadStar** | | | 12,874 | 42.3% |
| **Total Average** | | | 997,288 | 8.7% |

[7] A resolution was endorsed at the recent Union of BC Municipalities convention that Hit-and-Run damage costs incurred by local governments should be recoverable from ICBC. The proposal in this submission does not address this resolution.

[8] While Basic rates are set out in Regulation, optional rates are not in the Regulation and do not require regulatory amendment.

[9] With a $300 deductible for all Comprehensive claims, the IRLC for Comprehensive coverage was However, to reduce the impact on rural and northern customers, ICBC recommends a $200 deductible for windshield claims. The rate increase for optional coverage remains at 8.7%.

*Collision, Comprehensive and Specified Perils*

- As Figure 2 indicates, rates for ICBC's Collision and Comprehensive coverages are projected to be inadequate for 2002. To minimize the amount of premium increase required (particularly for Comprehensive coverage), ICBC is recommending that the minimum deductibles for these types of claims be increased as shown in Figure 3. The current minimum deductibles have been in place since 1993.

**Figure 3: Recommended Changes to Minimum Optional Insurance Deductibles**

| Coverage | Current Deductible | New Deductible |
|---|---|---|
| **Collision** claims | $200 | $300 |
| **Comprehensive** – **windshield** claims (missile or flying object) | $100 | $200 |
| **Comprehensive** – all other claims (e.g. impact with animals, theft, vandalism, rising water) | $100 | $300 |
| **Specified Perils** – all claims (does not include coverage for vandalism, malicious mischief, missiles/flying objects or impact with animals) | $100 | $300 |

- While windshield deductibles are increasing, ICBC is proposing to limit the increase to $200 to minimize the impact on northern and rural areas of the province, even though other comprehensive deductibles are increasing to $300. This lower deductible is only applicable when the minimum $300 Comprehensive deductible is purchased.

- Additionally, ICBC will no longer waive the deductible for windshields that can be repaired instead of replaced, as is the Corporation's current practice.

- ICBC will continue to fund loss prevention initiatives that can help reduce windshield claims. For example, one program that has been successful is ICBC's research into anti-icing technology, which requires less sand and salt through the winter season, and minimizes the amount of gravel on roads that could potentially hit car windshields.

*Extended Third Party Legal Liability*

- Extended Third Party premiums are adequate and the average premium will not be increased to ensure that ICBC's rate adequacy is realistically conservative, particularly given that the full impact of ICBC's rate and product changes will not be felt until 2003. However, individual Extended Third Party premiums will vary as a result of rebalancing the rates by rate class and territory (see Section 5 below).

*RoadStar and Roadside Plus Packages*

- As indicated in Figure 2, RoadStar package premiums are projected to be inadequate for 2002 and require an increase. The premium charged to RoadStar policyholders will increase by $6-$12, depending on whether or not customers purchase their optional coverages from ICBC. Approximately 650,000-675,000 customers currently purchase this coverage.

- Prices for the new Roadside Plus package of coverages introduced in June 2001 will remain unchanged, at $50 for RoadStars and $78 for non-RoadStar customers.

*Rate Classes for Ten Years of Driving Experience*

- In July 2000, ICBC introduced rate classes 021 to 027, which provided a 5% discount on certain optional coverages (approximately $17-18) if all drivers using the vehicle in the household have 10 or more years of driving experience.

- The positive loss experience for these rate classes over the past year and a half indicates that this discount should be increased to 10% (approximately $35). Approximately 200,000 customers are currently utilizing these rate classes.

4. Special Coverages

*Snowmobiles and Snow Vehicles*

- Without any changes, ICBC's snowmobile business is projected to suffer significant losses in 2002 due to deteriorating loss ratios. For every dollar that ICBC collects in premium revenue for these coverages, it currently pays out $1.50 in claims costs.

- To correct the loss ratios for these coverages, ICBC is recommending increases to rates and deductibles for snowmobiles and snow vehicles as shown in Figure 4. This insurance coverage is not mandatory and is also available from private insurers. No changes are being made to basic premiums for these vehicles.[10]

**Figure 4: Recommended Changes to Coverage for Snowmobiles and Snow Vehicles**

| Coverage | Current | New |
|---|---|---|
| **Premium – Collision and Comprehensive coverage** | Varies greatly, depending on value of vehicle | 100% increase (Both) |
| **Deductibles** (Collision and Comprehensive claims) | $100 (Comprehensive)<br>$200 (Collision) | $1000 (Both) |
| **Specified Perils coverage** (does not include coverage for vandalism, malicious mischief, missiles/flying objects or impact with animals) | Available | No longer available |

*Excess UMP*

- The premium for Excess Underinsured Motorist Protection (UMP) coverage will be increased from $15 to $25.

*Rental Vehicle Policy*

- The premium for the Rental Vehicle Policy (Form APV 281) is projected to be inadequate in 2002 due to high loss ratios (e.g. 150% in 2000) and will be increased from $4 to $10 per day. Minimum deductibles for this policy will also be changed to be consistent with Optional Collision and Comprehensive coverage.

[10] Rates and deductibles for optional Snowmobile and Snow Vehicle coverage are not in the Regulation and do not require regulatory amendment.

- Additionally, as a result of deteriorating loss ratios, changes will be made to the rental vehicle policy to:
  - require the reporting of all claims within 21 days of the accident, to prevent commercial customers with seasonal rentals from claiming a number of separate claims as one occurrence; and
  - exclude employees of rental agencies while driving vehicles owned by their employer for business purposes.

*Exclude Limousines from Loss of Use Coverage*

- A regulatory amendment will be made to prevent the misuse of Loss of Use coverage that is presently sold to cover the rental cost of a limousine when an insured vehicle is not available due to a claim. As limousines are not available for rent from any rental organization, limousine operators make private arrangements to pay for a replacement limousine and then recover the cost under Loss of Use coverage, which is not intended to be used as a form of business interruption insurance.

- ICBC is recommending that limousines be excluded from Loss of Use coverage as a result of this misuse, which will address deteriorating loss ratios and will be consistent with existing exclusions for taxis and rental vehicles.

5. Rating Inequities

- In addition to a need for overall rate changes, the type of vehicle, type of use, rating territory and other factors cause certain policies to have higher or lower expectations of loss. Over time, as the expectation of loss changes, premiums have to be re-balanced to compensate for these rate inequities. Insurers regularly make premium adjustments to address changing expectations for claims. Ideally, a policy's loss expectation should correlate with its premium or else inequities occur, resulting in a situation where certain policyholders pay more than their claims require and others pay less.

- With the rate freeze in place, ICBC had no mechanism for re-balancing rates for rating territory, vehicle usage and type of vehicle, and some severe rate inequities have evolved. ICBC recommends that these rating inequities should be corrected through premium increases and decreases as illustrated in Figure 5.

**Figure 5: Recommended Changes to Address Rating Inequities**

| Rating Factor | Range of Average Incremental Premium Change |
|---|---|
| **Territory** | • 5% decrease to 6% increase<br>• Largest decreases in Northern Coast and all Vancouver Island/Sunshine Coast territories<br>• Largest increases in Fraser Valley, Maple Ridge/Pitt Meadows and Cariboo territories |
| **Vehicle Use (Rate Class)** | • 10% decrease to 13% increase<br>• Largest decreases for trailers; moving trucks; and public, airport and charter buses travelling long distances<br>• Largest increases for taxis; limousines; delivery and courier vehicles; and public, airport and charter buses travelling short distances |

| Type of Vehicle (Rate Group) | • Largest increases for luxury and sports vehicles: 25% to 35% increase (see Appendix B)* <br>• Other vehicles: 25% decrease to 25% increase* <br>• Largest decreases for a variety of older model sedans, station wagons and vans |
|---|---|

* May be specific exceptions

- To ensure that customers are not affected by the entire impact of substantial rate increases from re-balancing of rating inequities in one year, ICBC will be phasing in these rate increases to the actuarially recommended level over time. Further rebalancing of these rating inequities will be required in future to ensure that customers pay rates that are appropriate for the loss expectations of these policies.

- The combined impact of these changes on customers will be as follows:
  - No more than a 20% increase from the combination of changes to territory and vehicle use (rate class);

  - No more than a 35% increase (total premium for all coverages) from changes to type of vehicle (rate group); and
  - Any overall premium and deductible increases as described previously.

## Appendix B: Vehicles Affected by Changes to Rate Groups

- For vehicle types (rate groups), the largest premium increases are for luxury and sports vehicles, which will receive a 25% to 35% increase (see Figure B-1, there may be specific exceptions)
- Other vehicles will receive between a 25% decrease and a 25% increase (there may be specific exceptions).
- The largest premium decreases will be for a variety of older model sedans, station wagons and vans (see Figure B-2).

### Figure B-1: Vehicles with the Largest Premium Increases

| Make | Model – Examples Only* | Model Yr* |
|---|---|---|
| ACURA | NSX | 02 - 95 |
| ASTON MARTIN | DB7 Coupe / DB7 Vantage Volante / DB7 Volante (Convertible) | 02 - 97 |
| BENTLEY | Arnage / Azure Convertible / Continental Convertibles & Turbo | 02 - 89 |
| FERRARI | 348 Coupe & Convertible / 360 Spider Convertible / 456 GT | 02 - 84 |
| LAMBORGHIN | Diablo, SV, VT Roadster, SE | 02 - 84 |
| LOTUS | Esprit V8 / Esprit Turbo / Esprit Turbo S-4 | 02-97, 91, 89-84 |
| MERCEDES | CL500 2Dr / CL 600 2Dr / S600 Coupes & Sedans / | 02 - 97 |
| PORSCHE | 911 Carrera Coupe – various models, 911 Turbo Coupe /928 GTS | 02 - 84 |
| ROLLSROYCE | Corniche IV & Other Convertibles / Silver Seraph, Dawn, Spur, Spirit | 02 - 84 |

*may be specific exceptions

**Figure B-2: Vehicles with the Largest Premium Decreases**

| Make | Model – Examples Only* | Model Yr* |
|---|---|---|
| NISSAN | Axxess SE, Euro | 92/93 |
| DODGE | W350 (Ram) 4X4 Club Cab 1993 & Newer / Colt 100, 200, GT Turbo / Dakota LE Pickup / Other Vans Registered as Station Wagons | 93 - 88 |
| MERCURY | Topaz LTS, All Whdr / Cougar Other Models / Sable GS, LS, Sedan | 93 - 87 |
| OLDSMOBILE | Cutlass Ciera & Calais - various models/ Brougham / Toronado | 93 - 88/83 |
| TOYOTA | Corolla 2/4Whdr Wagons/ Camry Sedan –various models | 93 - 87 |
| MAZDA | 626 / 323 GT / 323 / 626 Turbos / Protégé GT | 90 - 86 |
| FORD | Taurus GL,L Sedan & Wagon, MT5/ Escort All Station Wagons/ Tempo All Whdr / Thunderbird Turbo Coupe, Fila | 94/92- 87 |
| BUICK | Regal T/ Century T, Ltd, / Le Sabre Estate Wagon | 90/88/87 |
| CHRYSLER | Imperial / Dynasty & Le Baron Other Models 1990 & Older | 93/90/83 |
| ROVER | 3500 | 83 |
| PONTIAC | Trans Sport Van / 6000 Station Wagon | 94/89 |
| CHEVROLET | Cavalier LS, RS Coupes & Sedans / Lumina Z-34, Euro / Corisca LTZ / Celebrity Eurosport / Astro Van / Cavalier Conv | 93 - 89 |
| PLYMOUTH | Colt 200 GT Turbo | 90 |
| SUBARU | GL 10 | 90 - 87 |
| RENAULT | Alliance GTA | 87 |
| JEEP | Commanche Eliminator | 87 |

*may be specific exceptions

## Appendix C: Cumulative Impact of All Premium Changes

### 1. All Policyholders (All Territories, All Rate Classes)

**Figure C-1: Dollar Impact**

*Based on Policy Year Counts (Differences in totals due to rounding)

| Dollar Impact | Total Number of Policyholders Affected | % of Total Policyholders |
|---|---|---|
| **$750+** | 5,920 | 0.22% |
| **$500 to 750** | 8,517 | 0.32% |
| **$250 to 500** | 108,963 | 4.14% |
| **$150 to 250** | 233,204 | 8.85% |
| **$100 to 150** | 246,997 | 9.38% |
| **$60 to 100** | 360,620 | 13.69% |
| **$35 to 60** | 361,556 | 13.72% |
| **$10 to 35** | 461,232 | 17.51% |
| **$0 to 10** | 361,869 | 13.74% |

| | | |
|---|---|---|
| **-$10 to 0** | 215,305 | 8.17% |
| **-$35 to -10** | 189,421 | 7.19% |
| **-$60 to -35** | 62,265 | 2.36% |
| **-$100 to -60** | 16,956 | 0.64% |
| **-$150 to -100** | 1,565 | 0.06% |
| **-$250 to -150** | 218 | 0.01% |
| **-$250 to -500** | 12 | 0.00% |
| **beyond -$500** | - | 0.00% |
| **Total** | 2,634,620 | 100.00% |

**Figure C-2: Percentage Impact**
*Based on Policy Year Counts (Differences in totals due to rounding)

| Percentage Impact | Total Number of Policyholders Affected | % of Total Policyholders |
|---|---|---|
| **100%+** | 2 | 0.00% |
| **50 to 100%** | 100 | 0.00% |
| **25 to 50%** | 29,483 | 1.12% |
| **12.5 to 25%** | 351,925 | 13.36% |
| **7.5 to 12.5%** | 533,896 | 20.26% |
| **2.5 to 7.5%** | 823,202 | 31.25% |
| **0 to 2.5%** | 410,273 | 15.57% |
| **-2.5% to 0** | 264,950 | 10.06% |
| **-7.5 to -2.5%** | 205,996 | 7.82% |
| **-12.5 to -7.5%** | 14,380 | 0.55% |
| **-25 to -12.5%** | 413 | 0.02% |
| **-50 to –25%** | 2 | 0.00% |
| **-100 to –50%** | - | 0.00% |
| **beyond –100%** | - | 0.00% |
| **Total** | 2,634,622 | 100.00% |

# Appendix D: Financial Analysis
## Table D-1: Five Year Projections for Option 1 – Status Quo

**5 Year Projections Without 2002 Rate and Deductible Changes**
**December 31, 2001, 2002, 2003, 2004, 2005.**

| | 2001 Forecast | 2002 Projection | 2003 Projection | 2004 Projection (Note 1) | 2005 Projection (Note 1) |
|---|---|---|---|---|---|
| **Premiums Written** | 2,481 | 2,502 | 2,542 | 2,583 | 2,624 |
| **Premiums Earned** | 2,446 | 2,470 | 2,510 | 2,550 | 2,590 |
| Claims Incurred - Current Year | 2,086 | 2,153 | 2,239 | 2,275 | 2,311 |
| - Prior Years' Claims Development | | - | - | - | - |
| Insurance Operations Expenses | 748 | 740 | 757 | 762 | 767 |
| **Total claims and related costs** | 2,834 | 2,893 | 2,996 | 3,037 | 3,078 |
| **Operating Income/(Loss)** | (388) | (423) | (486) | (487) | (488) |
| Investment Income | 385 | 410 | 405 | 400 | 395 |
| **Income/(Loss) for Insurance Operations** | (3) | (13) | (81) | (87) | (93) |
| Licences and Fines on Behalf of the Province | 415 | 415 | 415 | 415 | 415 |
| **Less:** | | | | | |
| Payment of Licences and Fines on Behalf of the Province | 415 | 415 | 415 | 415 | 415 |
| Operating Expenses | 97 | 99 | 101 | 101 | 101 |
| **Income/(Loss) for Non Insurance Operations** | (97) | (99) | (101) | (101) | (101) |
| **Net Income Before Transition Costs** | (100) | (112) | (182) | (188) | (194) |
| Transition Costs | 45 | 15 | | | |
| **Net Income** | (145) | (127) | (182) | (188) | (194) |
| Retained Earnings Beginning of Year | 520 | 375 | 248 | 66 | (122) |
| Retained Earnings End of Year | 375 | 248 | 66 | (122) | (316) |
| Rate Stabilization Reserve as a % of Liabilities | 6.8% | 4.4% | 1.1% | -2.1% | -5.3% |
| **Assumptions:** | | | | | |
| Claims Trend | 0.8% | 0.8% | 0.8% | | |
| Inflation (CPI per BC Economic Outlook) | 1.6% | 1.6% | 1.6% | | |
| Vehicle Growth | 1.6% | 1.6% | 1.6% | 1.6% | 1.6% |
| Total Claims Trend | 4.0% | 4.0% | 4.0% | 1.6% | 1.6% |
| Rate increase | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Commissions % of Premiums earned | 7.3% | 7.3% | 7.3% | 7.3% | 7.3% |
| Premium Tax % of Premiums earned | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |

**Assumptions:**
**Subject to amendments from real estate appraisals**
No prior years' adjustments are reflected in the outlook. Outlook is based on no significant change in business practices.
The forecast is based on the status quo business model. Transition costs are one time costs to streamline organization.
Investing accounting policy changes have not been reflected.

**Note 1:**
**Years 2004 and 2005 are based on flat line assumptions, except for 1.6% vehicle growth, & do not represent forecasts for those years. Projection assumes that claims trend experience will be offset by premium adjustments or other measures. Every 1% claims trend means approximately $21 million in additional claims costs and every 1% increase in operating costs means an additional $9 million.**

**Variability:**

| | |
|---|---|
| Premiums: | 1% fluctuation means $24 million in net premiums |
| Claims: | 5% fluctuation means $105 million in claims costs. |
| Investments: | 0.25% fluctuation in return means $14 million in investment income. |
| | 1% change in investment balance means $4 million in investment income. |

# Appendix D: Financial Analysis (cont.)
# Table D-2: Five Year Projections for Option 2 – ICBC's Strategy for 2002 Autoplan Rate and Product Changes

**5 Year Projections With 2002 Rate and Deductible Changes**

**December 31, 2001, 2002, 2003, 2004, 2005.**

| | 2001 Forecast | 2002 Projection | 2003 Projection | 2004 Projection (Note 1) | 2005 Projection (Note 1) |
|---|---|---|---|---|---|
| **Premiums Written** | 2,481 | 2,700 | 2,743 | 2,787 | 2,832 |
| **Premiums Earned** | 2,446 | 2,575 | 2,706 | 2,749 | 2,793 |
| Claims Incurred - Current Year | 2,086 | 2,129 | 2,214 | 2,250 | 2,286 |
| - Prior Years' Claims Development | | - | - | - | - |
| Insurance Operations Expenses | 748 | 750 | 782 | 797 | 812 |
| **Total claims and related costs** | 2,834 | 2,879 | 2,996 | 3,047 | 3,098 |
| **Operating Income/(Loss)** | (388) | (304) | (290) | (297) | (304) |
| Investment Income | 385 | 410 | 405 | 400 | 395 |
| **Income/(Loss) for Insurance Operations** | (3) | 106 | 115 | 103 | 91 |
| Licences and Fines on Behalf of the Province | 415 | 415 | 415 | 415 | 415 |
| **Less:** | | | | | |
| Payment of Licences and Fines on Behalf of the Province | 415 | 415 | 415 | 415 | 415 |
| Operating Expenses | 97 | 99 | 101 | 101 | 101 |
| **Income/(Loss) for Non Insurance Operations** | (97) | (99) | (101) | (101) | (101) |
| **Net Income Before Transition Costs** | (100) | 7 | 14 | 2 | (10) |
| Transition Costs | 45 | 15 | | | |
| **Net Income** | (145) | (8) | 14 | 2 | (10) |
| Retained Earnings Beginning of Year | 520 | 375 | 367 | 381 | 383 |
| Retained Earnings End of Year | 375 | 367 | 381 | 383 | 373 |
| Rate Stabilization Reserve as a % of Liabilities | 6.8% | 6.5% | 6.6% | 6.6% | 6.3% |
| **Assumptions:** | | | | | |
| Claims Trend | 0.8% | -0.2% | 0.8% | | |
| Inflation (CPI per BC Economic Outlook) | 1.6% | 1.6% | 1.6% | | |
| Vehicle Growth | 1.6% | 1.6% | 1.6% | 1.6% | 1.6% |
| Total Claims Trend | 4.0% | 3.0% | 4.0% | 1.6% | 1.6% |
| Rate increase | 0.0% | 7.4% | 0.0% | 0.0% | 0.0% |
| Commissions % of Premiums earned | 7.3% | 7.3% | 7.3% | 7.3% | 7.3% |
| Premium Tax % of Premiums earned | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |

**Assumptions:**

**Subject to amendments from real estate appraisals**

No prior years' adjustments are reflected in the outlook. Outlook is based on no significant change in business practices.
The forecast is based on the status quo business model. Transition costs are one time costs to streamline organization.
Investing accounting policy changes have not been reflected.

**Note 1:**

**Years 2004 and 2005 are based on flat line assumptions, except for 1.6% vehicle growth, & do not represent forecasts for those years. Projection assumes that claims trend experience will be offset by premium adjustments or other measures. Every 1% claims trend means approximately $21 million in additional claims costs and every 1% increase in operating costs means an additional $9 million.**

**Variability:**

| | |
|---|---|
| Premiums: | 1% fluctuation means $26 million in net premiums |
| Claims: | 5% fluctuation means $105 million in claims costs. |
| Investments: | 0.25% fluctuation in return means $14 million in investment income. |
| | 1% change in investment balance means $4 million in investment income. |

## Appendix D: Financial Analysis (cont.)

## Table D-3: Statement of Operations Adjusted for the Development of Prior Years' Claims

**Statement of Operations Adjusted for the development of Prior Years' Claims**

**Supplemental Information**

According to generally accepted accounting principles, estimates for claims are made in the year that the crashes occur. Adjustments to these estimates are made necessary when more current claims information is available to better determine the cost required to settle outstanding claims. After the initial claims estimate, all subsequent adjustments are reflected as 'prior year adjustment' in the year the adjustments are made. This supplemental financial information is provided to show the net income for the respective years after adjusting for the development of claims reserves back to the accident year. For more recent accident years, little development has occurred to date, and the amounts will continue to develop positively or negatively.

| (Dollars in Millions) | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| **Premiums Earned** | 2,277 | 2,303 | 2,369 | 2,382 | 2,387 |
| **Cost of Claims Incurred** | | | | | |
| Incurred during the year | 2,230 | 2,189 | 2,135 | 2,080 | 2,006 |
| Prior years' claims development reallocated to the year affected at September 30, 2001 | (212) | (204) | (152) | (91) | - |
| | 2,018 | 1,985 | 1,983 | 1,989 | 2,006 |
| **Insurance Operations expenses** | 611 | 632 | 694 | 793 | 808 |
| Total claims and expenses | 2,629 | 2,617 | 2,677 | 2,782 | 2,814 |
| **Operating Income/loss** | (352) | (314) | (308) | (400) | (427) |
| **Investment Income** | 348 | 387 | 412 | 449 | 626 |
| **Underwriting Income/loss** | (4) | 73 | 104 | 49 | 199 |
| **Non-Insurance Operations expenses** | 23 | 18 | 52 | 100 | 108 |
| **Net Income/Loss Before dividend** | (27) | 55 | 52 | (51) | 91 |
| **Road safety dividend** | | | (47) | | (218) |
| **Adjusted Net Income/Loss** | (27) | 55 | 5 | (51) | (127) |
| Prior years' claims development reallocated to the year affected at September 30, 2001 | (212) | (204) | (152) | (91) | - |
| Prior years' claims development in current year | 104 | 163 | 220 | 238 | 266 |
| **Net Income/(Loss) reported** | (135) | 14 | 73 | 96 | 139 |

## Appendix D: Financial Analysis (cont.)
## Table D-4: Comparison of Expense Ratios for ICBC and Industry

| | ICBC | | | | Industry | | | |
|---|---|---|---|---|---|---|---|---|
| **Year** | Admin Insurance | Acquisition Costs | Non Insurance | **Total** | Admin Insurance | Acquisition Costs | Non Insurance | **Total** |
| **1996** | 5.0% | 10.3% | 1.0% | **16.4%** | 13.2% | 18.1% | 0.0% | **31.3%** |
| **1997** | 5.6% | 11.0% | 3.0% | **19.6%** | 13.5% | 18.4% | 0.0% | **31.9%** |
| **1998** | 5.9% | 11.2% | 3.9% | **21.1%** | 14.9% | 18.4% | 0.0% | **33.3%** |
| **1999** | 8.5% | 10.8% | 4.2% | **23.5%** | 14.7% | 18.6% | 0.0% | **33.3%** |
| **2000** | 8.6% | 11.1% | 4.5% | **24.2%** | 13.7% | 18.4% | 0.0% | **32.1%** |
| **2001** | 7.3% | 10.1% | 4.0% | **21.4%** * | Information not available | | | |
| **2002** | 6.9% | 10.7% | 3.8% | **21.3%** * | Information not available | | | |

* 2001 and 2002 exclude transition costs of $45 m and $15 m respectively.

## Appendix E: Section Notes to Accompany Order-in-Council (OIC)

- Section 1 of the OIC repeals Section 12(3) of the *Insurance (Motor Vehicle) Act* Regulation because it is no longer relevant as a result of the rate freeze ending, effective November 19, 2001 for new policies and January 1, 2002 for renewal policies.

- Sections 2 and 3 of the OIC add a definition for "windshield damage" to Section 113 of the Regulation, and provide for a $200 deductible for windshield damage in Section 117 of the Regulation, when the $300 deductible is purchased. Both changes will be effective November 19, 2001 for new policies and January 1, 2002 for renewal policies.

- Sections 4 and 5 of the OIC add provisions to sections 124(1) and 125(1) of the Regulation to exclude limousines from Loss of Use coverage effective November 19, 2001 for new policies and January 1, 2002 for renewal policies. Additionally, section 125(6) of the Regulation is repealed because it refers to an obsolete Loss of Use endorsement in section 126, which was repealed in 1991.

- Increases to Basic premiums are found in Section 6 of the OIC, which replaces Table 1 of Schedule 1 of the Regulation effective November 19, 2001 for new policies and January 1, 2002 for renewal policies.

- Section 7 of the OIC amends Section 9 of Schedule 3 of the Regulation, to increase the deductible for Hit-and-Run claims effective January 1, 2002.

- Minimum deductibles are generally not set out in Regulation, and as such, do not require regulatory amendment. However, these deductibles are listed on some policy forms, so Section 8 of the OIC repeals and replaces the following forms in Schedule 5 of the Regulation so that the minimum deductible amounts are consistent with the new minimum deductibles for Collision, Comprehensive and Specified Perils coverages effective November 19, 2001 for new policies and January 1, 2002 for renewal policies:
  - Form APV16 (Temporary Operation Permit and Owner's Certificate of Insurance); and
  - Form APV36 (Interim Licence and Owner's Certificate of Insurance).

- Section 9 of the OIC repeals and replaces the following forms in Schedule 6 of the Regulation effective November 19, 2001 for new policies and January 1, 2002 for renewal policies:
  - Form APV334 (Excess Underinsured Motorist Protection Policy) to increase the minimum and retained premium; and
  - Form APV281 (Rental Vehicle Policy) to increase deductibles, and to make additional changes detailed in section 4 of ICBC's Strategy for 2002 Autoplan Rate and Product Changes.

## Appendix F: Auto Insurance Rates Comparison Summary

The following chart compares the proposed 2002 ICBC auto insurance rates with rates quoted in the August 2001 Consumers' Association of Canada (CAC) study of auto insurance rates in five Canadian cities. The CAC study used a cross section of drivers, ages, gender, martial status and vehicles. ICBC does not rate according to age, gender or marital status.

| Profile* | Proposed ICBC 2002 Rates Vancouver $ | Vancouver $ | Calgary $ | | | Regina $ | Winnipeg $ | Toronto $ | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Lowest | Median | Highest | | | Lowest | Median | Highest |
| 1 | **2375** | 2295 | 1475 | 1686 | 2060 | 1520 | 1406 | 1795 | 1982 | 2501 |
| 2 | **2376** | 2339 | 1615 | 1922 | 2227 | 1633 | 1891 | 1819 | 2244 | 2501 |
| 3 | **1301** | 1298 | 1739 | 2066 | 2520 | 939 | 931 | 2091 | 2553 | 2754 |
| 5 | **1305** | 1378 | 1587 | 1919 | 2810 | 806 | 791 | 2219 | 3191 | 3646 |
| 6 | **1877** | 1934 | 2024 | 3165 | 4062 | 929 | 1003 | 2979 | 4510 | 6513 |
| 10 | **1134** | 1063 | 1304 | 1626 | 1901 | 727 | 537 | 911 | 1050 | 1235 |
| 11 | **1282** | 1102 | 1535 | 1831 | 2214 | 840 | 680 | 1434 | 1958 | 2676 |
| 14 | **4162** | 3327 | 2155 | 3729 | 6097 | 719 | 802 | 4118 | 6268 | 6989 |
| 16 | **1616** | 1395 | 816 | 1053 | 1292 | 819 | 802 | 801 | 1224 | 1770 |
| 25 | **1324** | 1187 | 1129 | 1263 | 1415 | 967 | 898 | 1383 | 1515 | 1829 |
| 26 | **1443** | 1268 | 1097 | 1441 | 1594 | 956 | 947 | 1465 | 1725 | 2103 |
| 27 | **893** | 909 | 667 | 833 | 1020 | 841 | 666 | 830 | 973 | 1286 |
| 28 | **1377** | 1223 | 1088 | 1294 | 1494 | 937 | 682 | 1255 | 1518 | 2045 |
| 30 | **1588** | 1435 | 1492 | 2312 | 3171 | 1250 | 1202 | 2064 | 2297 | 4002 |

* Profiles are from the Consumers' Association of Canada report entitled *Comparison of Automobile Insurance Rates in Five Canadian Cities* published in August 2001.

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### *Profiles Compared in the Above Table*

**[1] Two Vehicles Owed by Same Family**

- **Vehicle 1** – 1995 Chrysler Intrepid, **Use –** 10 km to work each way, 25 km daily, 18,000 km annually
- **Principal Operator –** Male, 58 years old, married, Drivers License 40 years, Occasional driver of Vehicle 2, No claims or convictions
- **Vehicle 2 –** 1996 Dodge Caravan, **Use** – Pleasure only, 20 km daily, 15,000 km annually
- **Principal Operator –** Female, 55 years old, married, Drivers License 35 years, No claims or convictions

**[2] Family with Two Vehicles, One At-Fault Claim**

- **Vehicle 1** – 1995 Chrysler Intrepid, **Use** – 10 km to work each way, 25 km daily, 18,000 km annually,
- **Principal Operator** - Male, 58 years old, married, Drivers License 40 years, Occasional driver of Vehicle 2, One at-fault claim 12 months ago
- **Vehicle 2** – 1996 Dodge Caravan, **Use** – Pleasure only, 20 km daily, 15,000 km annually

- **Principal Operator** – Female, 55 years old, married, Drivers License 35 years, No claims or convictions

**[3] Family With Young Driver, Perfect Driving Records**

- **Vehicle** – 1996 Toyota Camry, **Use** – 20 km to work each way, 50 km daily, 22,000 km annually,
- **Principal Operator** - Male, 48 years old, married, Drivers License 32 years, Owned a vehicle and insured 30 years, Same insurer 30 years
- **Occasional Driver -** Female, 42 years old, married, Drivers License 26 years, Owned a vehicle and insured 20 years, Same insurer 20 years
- **Occasional Driver -** Male, 17 years old, son, single, Drivers License 1 year, Never owned a vehicle

## Appendix F: Auto Insurance Rates Comparison Summary (cont.)

### [5] Single Male – Perfect Driving Record

- **Vehicle** – 1992 Honda Civic DX Hatchback, **Use –** 10 km each way to school, 30 km daily, 20,000 km annually
- **Principal Operator -** Male, 22 years old, single, Drivers License 6 years, Owned a vehicle and insured 4 years, No claims or convictions

### [6] Single Male – One At-Fault Collision

- **Vehicle** – 1992 Honda Civic DX Hatchback, **Use –** 10 km each way to school, 30 km daily, 20,000 km annually, **Principal Operator -** Male, 22 years old, single, Drivers License 6 years, Owned a vehicle and insured 4 years, One at-fault collision claim (rear ender) 18 months ago

### [10] Single Female & Occasional Driver – Son

- **Vehicle –** 1991 Mazda 4DR Protégé, **Use –** 10 km each way to work, 35 km daily, 20,000 km annually, **Principal Operator -** Female, 38 years old, single, Drivers License 22 years, No claims or convictions
- **Occasional Driver -** Male, 18 years old, son, Drivers License 2 years, Never owned a vehicle, No claims or convictions

### [11] Single Female & Occasional Driver – Son

- **Vehicle –** 1991 Mazda 4DR Protégé, **Use –** 10 km each way to work, 35 km daily, 20,000 km annually, **Principal Operator -** Female, 38 years old, single, Drivers License 22 years, Owned a vehicle and insured 20 years, same insurer 10 years, One at-fault collision claim (rear ender) 18 months ago.
- **Occasional Driver -** Male, 18 years old, son, Student, Drivers License 2 years, Never owned a vehicle, No claims or convictions

### [14] Single Male – One At-Fault Collision

- **Vehicle** – 1991 Nissan Micra, **Use –** 10 km each way to school, 50 km daily, 20,000 km annually, **Principal Operator -** Male, 20 years old, single, P/t student, Pizza Delivery Person, Drivers License 3 years, Owned a vehicle 2 years, Insured 2 years, One at-fault collision 12 months ago

### [16] Single Male – One At-Fault Collision

- **Vehicle** – 1991 Nissan Micra, **Use –** 10 km each way to school, 50 km daily, 20,000 km annually,
- **Principal Operator -** Male, 40 years old, single, P/t student, Pizza Delivery Person, Drivers License 22 years, Owned a vehicle 20 years, Insured 20 years, Same Insurer 20 years, One at-fault collision 12 months ago

### [25] Single Female – One Comprehensive Claim

- **Vehicle** – 1996 Mazda Convertible **Use –** 15 km to work daily, 10,000 km annually, **Principal Operator -** Female, 42 years old, single, Drivers License 24 years, Owned a vehicle and insured 15 years, Same insurer 5 years, One comprehensive claim 3 years ago.

### [26] Married Man & Occasional Driver

- **Vehicle –** 1997 Ford Explorer, **Use –** 50 km to work daily, 40,000 km annually, **Principal Operator -** Male, 55 years old, married, Drivers License 34 years, No claims or convictions
- **Occasional Driver -** Female, 50 years old, married, Drivers License 31 years, No claims or convictions

**[27] Single Female – 73 Years of Age**

- **Vehicle –** 1995 Chevrolet Corsica, **Use –** Pleasure use only, 11,000 km annually, **Principal Operator -** Female, 73 years old, single, Drivers License 51 years, No claims or convictions

**[28] Married Male – Perfect Driving Record**

- **Vehicle** – 1997 Ford F-150 1/2 Tonne Truck, **Use –** 40 km daily to work, 28,000 km annually
- **Principal Operator -** Male, 42 years old, married, Drivers License 25 years, Owned a vehicle and insured 19 years, Same insurer 1 year , No claims or convictions

**[30] Married Male – Perfect Driving Record**

- **Vehicle** – 2001 Volkswagon Beetle **Use –** 9 km daily to work, 24,000 km annually
- **Principal Operator -** Male, 27 years old, married, Drivers License 11 years, Owned a vehicle and insured 3 years, No claims or convictions

## Appendix F: Auto Insurance Rates Comparison Summary (cont.)

### Analysis of Examples from the Above Table

- Using ICBC's proposed 2002 rates, BC families with a young driver with perfect driving records will still pay significantly less with the proposed rate changes when compared to the rates quoted for Calgary or Toronto.

- Drivers under 25 with perfect driving records still pay more with ICBC's proposed rates in Calgary and Toronto than in Vancouver.

- Drivers with one-at-fault claim will continue to pay more in Vancouver with ICBC's proposed rates than the highest rate quoted for Calgary, but less than the highest rate in Toronto. Drivers with one-at-fault collision will still generally pay less in Vancouver compared to Toronto and Calgary.

- With the proposed rate increases, rates charged to seniors are still lower in Vancouver than the median rates in Toronto.

- Using ICBC's proposed 2002 rates, the profile for a family with two vehicles (1995 Chrysler Intrepid & 1996 Dodge Caravan) pays approximately $315 - $900 less in Calgary and approximately $580 less to an additional $125 more in Toronto. The same profile with one-at-fault claim pays approximately $150 - $760 less in Calgary and approximately $550 less to an additional $125 more in Toronto.

- Using ICBC's proposed 2002 rates and the CAC report, the most significant increases are noted for the CAC profiles of the single 40 year old male driver and the 20 year old driver (over $400 and $800 increase respectively) who each drive a 1991 Nissan Micra, have one-at-fault collision and use their vehicle for business purposes (pizza delivery). The 40 year old male in this case would receive a lower rate in Calgary and in Toronto, although the highest quote in Toronto is higher than Vancouver's. The proposed 2002 rates for the 20 year old male in this case are higher than the lowest and median Calgary quotes and the lowest Toronto quote.

- The proposed ICBC 2002 rate for the profile of a 38 year old single female driving a 1991 Mazda 4DR Protege with one conviction and occasional driver (teenage son) also increases (by approximately $180) but is still lower than quotes in Calgary and Toronto.

- The proposed ICBC 2002 rate for the profile of a 42 year old married male driving a 1997 Ford F- 150 1/2 tonne truck with a perfect driving record also increases (approximately $150). The proposed 2002 rates are higher than the lowest and median quotes in Calgary and the lowest Toronto quote.

## Appendix F: Auto Insurance Rates Comparison Summary (cont.)

### Analysis of Examples from the Above Table (cont.)

- The proposed ICBC 2002 rate for the profile of a 42 year old single female driving a 1996 Mazda convertible with one comprehensive claim increases by approximately $130. The lowest and median Calgary quotes are lower than the proposed ICBC 2002 rates and is similar to lowest Toronto quote.

- The proposed ICBC 2002 rate for the profile of a 27 year old married male driving a 2001 Volkswagon Beetle with a perfect driving record also increases (approximately $150) but is still lower than the quotes in Calgary and Toronto (except for the lowest quote in Calgary). The proposed 2002 rates are higher than the lowest and median quotes in Calgary and the lowest Toronto quote.

- Overall, the proposed rates will still be lower than those in Toronto.