IN THE MATTER OF

INSURANCE CORPORATION OF BRITISH COLUMBIA

AN APPLICATION FOR APPROVAL OF THE 2006 REVENUE REQUIREMENTS FOR UNIVERSAL COMPULSORY AUTOMOBILE INSURANCE

A FILING RELATING TO ICBC'S BASIC INSURANCE CAPITAL MANAGEMENT PLAN

AN APPLICATION FOR APPROVAL OF REFINEMENTS TO CERTAIN PERFORMANCE MEASURES

A FILING OF INFORMATION ON SEVEN FINANCIAL ALLOCATION FUNCTIONS AND

AN APPLICATION FOR APPROVAL OF CHANGES TO CERTAIN ALLOCATION FUNCTIONS

DECISION

July 13, 2006

Before:

L.F. Kelsey, Commissioner and Panel Chair
P.E. Vivian, Commissioner
A.W.K. Anderson, Commissioner

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1.0 INTRODUCTION AND BACKGROUND

1.1 The Application

On June 15, 2005 the British Columbia Utilities Commission ("BCUC" or "Commission") issued Letter No. L-40-05 that directed a comprehensive revenue requirements application to be filed by the Insurance Corporation of British Columbia ("ICBC" or "Corporation") no later than August 22, 2005.

On August 22, 2005, ICBC submitted an application (Exhibit B-1) to the BCUC for approval of the 2006 Revenue Requirements for Universal Compulsory Automobile Insurance ("Basic Insurance"), a filing relating to ICBC's Basic Insurance Capital Management Plan, an application for approval of refinements to certain performance measures, a filing of information on seven financial allocation functions and an application for approval of changes to certain allocation functions. In that application ICBC advised that it is not applying for a change to existing Basic Insurance rates.

Subsequently, on October 24, 2005, the Corporation filed a revision (Exhibit B-12) to the August 22, 2005 application, which included an updated actuarial rate level indication. This revision was filed as a result of the identification of a significant increase in claims cost trends and their material implications on the actuarial rate level indication for the 2006 policy year. Also reflected in this revision is the effect of the changes from the October 5, 2005 amendments to Special Direction IC2 and the Ministerial Letter regarding the transfer of capital in the amount of $530 million from Optional automobile insurance ("Optional Insurance") to Basic Insurance. The updated actuarial rate level indication in Exhibit B-12 shows that Basic Insurance rates should be increased by 4.2 percent for the 2006 policy year. However, ICBC did not apply for a change to existing Basic Insurance rates because the Corporation then believed that there should be further analysis and investigation of the claims costs, and an opportunity for management to respond to the new information, before proposing any increase in Basic Insurance rates. Furthermore, ICBC regarded these circumstances as unique, and concluded that the capital available for Basic Insurance above the 100 percent Minimum Capital Test ("MCT") level should be used in 2006 to keep 2006 Basic Insurance rates at existing approved levels (Exhibit B-12, pp. 2-2 & 2-3).

On January 27, 2006 ICBC filed a further revision (Exhibit B-30) to the August 22, 2005 application and the revision dated October 24, 2005. In this latest revision the Corporation is now seeking a 6.5 percent permanent increase in Basic Insurance rates for all new and renewal policies with an effective date after March 14, 2006. The Corporation also applied for this increase on an interim basis, pursuant to Section 89 of the Utilities Commission Act ("UCA"). ICBC stated that the unique circumstances that existed in October 2005 had changed. A further increase in claims costs was indicated in the December 2005 review of claims data and this fact will have a significant negative impact on MCT levels in policy year 2006 unless the Basic Insurance rates are raised. The 6.5 percent general increase is comprised of the 4.2 percent increase shown in the actuarial rate indication analysis filed as part of the October 24, 2005 revision and a 2.3 percent increase for capital maintenance and capital build. The latter increase is intended to mitigate the further deterioration in MCT levels, which would occur in the absence of an increase.

The Commission, by Order No. G-9-06, dated January 31, 2006, granted approval of the requested 6.5 percent increase for all new and renewal policies with an effective date after March 14, 2006, on an interim basis and with the stipulation that the increase is subject to refund with interest.

Collectively ICBC's application dated August 22, 2005, and the subsequent revisions dated October 24, 2005 and January 27, 2006, respectively, will be referred to as the "Application."

1.2 Historical Proceedings Before the Commission

Section 1.2 in the Commission's Decision dated January 19, 2005 provides a historical account of proceedings for the period from inception of regulation of ICBC in 2003 to the beginning of the proceeding dealt with in that Decision.[1]

[1] The Decision and Orders pertaining thereto may be accessed on the Commission's website: www.bcuc.com

The proceeding, which culminated in the January 19, 2005 Decision ("2005 Decision"), was the third since inception of regulation and dealt with, among others, the important matter of a financial allocation methodology under which the Corporation assigns costs to its Basic, Optional and Non-Insurance lines of business. In its Decision the Commission accepted the submissions of ICBC and most of the Intervenors that a fully allocated costing, or pro-rata methodology, is the most appropriate methodology for allocating costs amongst the three lines of ICBC's business.

With respect to the allocation process pertaining to specific cost categories (e.g., claims services, operating costs-insurance services) the Commission made the following determinations:

- The Commission accepted ICBC's allocation process for claims incurred costs.

- For claims services costs the Commission felt uncomfortable with a result that allocates 63 percent to Basic Insurance and therefore directed ICBC to undertake further analyses with respect to certain allocators and allocation percentages. The Commission also directed ICBC to convene a workshop to review all the details in respect of these. The Commission ruled that subsequent to the workshop it would convene a written process to complete the allocation review.

- The Commission was less concerned about the gross impact of Operating Costs-Insurance Services allocations between Basic Insurance and Optional Insurance because they are much closer to each other, i.e., 55 percent to Basic Insurance and 45 percent to Optional Insurance. However, the Commission made an adjustment to the Premium Written Ratio cost allocator by removing the Non-Insurance cost before calculating the Premium Written Ratio between Basic and Optional Insurance. The Commission also identified certain allocators and allocation percentages that were subjected to the same review and process established for those in claims services costs above.

- The Commission was concerned with respect to the results of ICBC's allocations of Operating Cost-Administration and Other. The allocation of 64 percent of costs to Basic Insurance, after deducting costs allocated to Non-Insurance, was unacceptable. The Commission concluded that the fairest allocation is to allocate these costs equally between Basic Insurance and Optional Insurance, after deducting the costs allocated to Non-Insurance.

- Other matters considered in this proceeding and the Decision included filings related to Road Safety, Collection of Data relating to Age, Sex and Marital status, and Actuarial and 2005 Financial Information.

As directed in the 2005 Decision, ICBC filed the additional analyses relating to certain financial allocation functions on March 10, 2005 and held a workshop in respect thereto on March 16, 2005. Immediately following the workshop, ICBC, Intervenors and Commission staff commenced a Negotiated Settlement Process ("NSP") to seek agreement with respect to these allocation functions. A Negotiated Settlement Agreement was submitted to the Commission on April 27, 2005, and the Commission approved the same by Order No. G-46-05 dated May 18, 2005.

1.3 ICBC's Legislative Mandate and Associated Regulation

Section 1.4 in the Commission's 2005 Decision provides a detailed description of ICBC's legislative mandate and associated regulation. In addition to the scrutiny afforded the Corporation under various provisions of the listed legislation [e.g., Insurance Act, Insurance (Motor Vehicle) Act], ICBC is also subject to the requirements of the Insurance Premiums Tax Act. Currently, ICBC is required to pay a 4.4 percent tax on insurance premiums.

1.4 The Legislative Basis of the Commission's Jurisdiction

Section 1.5 in the Commission's 2005 Decision provides a detailed description of the legislative basis of the Commission's jurisdiction. The sections in the Insurance Corporation Amendment Act, which purport to give the Commission certain responsibilities in respect of the operation of the Optional Insurance business (i.e., Division 3, Sections 50, 52), have not been proclaimed and the BCUC therefore is not in a position to exercise this additional jurisdiction contained in the legislation.

In recognition of a concern raised by the BCUC in its 2005 Decision resulting from the allocation of capital (in accordance with a government directive) between ICBC's Optional Insurance and Basic Insurance, a government directive was issued to ICBC on October 5, 2005. The directive required the Corporation to transfer $530 million of its Optional Automobile Insurance capital available from its Optional Insurance to its Basic Insurance business. The directive issued by the Minister of Public Safety and Solicitor General was approved by Order in Council No. 734, dated October 5, 2005.

By Order in Council No. 735 dated October 5, 2006, the Lieutenant Governor ordered that Section 3 of Special Direction IC2 be amended by adding the following paragraph:

> "[The BCUC] when regulating and fixing universal compulsory automobile insurance rates, regulate and fix those rates in a manner that recognizes and accepts actions taken by the corporation in compliance with government directives issued to the corporation."

1.5 The Oral Proceeding Process Before the Commission

In Commission Order No. G-85-05 dated September 12, 2005, the Commission Panel directed that the issues in this proceeding would be examined in an Oral Public Hearing. The Application submitted by ICBC represents the first time since the inception of regulation of its Basic Insurance business, that the Corporation requested approval of the total Basic Insurance revenue requirements supported by actuarial analysis. The Commission Panel was of the view that an open forum was required to fully examine the merits of the Application.

1.6 Summary of Commission approvals sought in the Application

In its August 22, 2005 submission (Exhibit B-1) ICBC sought approvals for the following:

- the 2006 Revenue Requirements for Basic Insurance (ICBC did not, however, apply for a change to Basic Insurance rates);
- refinements to certain Performance Measures; and
- changes to certain Allocation Functions.

The Corporation also submitted filings for the following:

- ICBC's Basic Insurance Capital Management Plan; and
- information on seven financial Allocation Functions.

In its January 27, 2006 submission (Exhibit B-30) ICBC sought additional approvals for the following:

- the revised 2006 Revenue Requirements for Basic Insurance;
- a permanent increase in Basic Insurance rates of 6.5 percent for all new or renewal policies with an effective date after March 14, 2006; and
- an increase in Basic Insurance rates of 6.5 percent for all new or renewal policies with an effective date after March 14, 2006, on an interim basis, pursuant to Section 89 of the Utilities Commission Act.

The Corporation also submitted a revised filing for its Basic Insurance Capital Management Plan.

The Application generated considerable interest. A significant number of organizations and individuals registered as Intervenors or Interested Parties and a large number of Letters of Comment were received by the Commission. The Intervenors who filed Submissions were: B.C. Old Age Pensioners' Organization et al. ("BCOAPO"), B.C. Chiropractic Association, Consumers' Association of Canada (BC) ("CACBC"), Canadian Direct Insurance Inc. ("CDI"), Insurance Bureau of Canada ("IBC"), and Pemberton Insurance Corporation ("Pemberton").

2.0 THE REVENUE REQUIREMENT

2.1 The Changing Predictions of the Indicated Rate Level

The following schedule shows a high level perspective of the evolution of ICBC's 2006 policy year Revenue Requirements and the resulting actuarial rate level indications commencing with the August 22, 2005 filing (Exhibit B-1) and progressing to the January 27, 2006 filing (Exhibit B-30).

Summary Schedule - Revenue Requirements and Rate Indications - Basic Insurance

(Dollars in Thousands)

	27-Jan-2006 Filing Exhibit B-30	INCREASE/ (DECREASE)	24-Oct-2005 Filing Exhibit B-12	INCREASE/ (DECREASE)	22-Aug-2005 Filing Exhibit B-1
CLAIMS AND RELATED COSTS	$ 1,816,928		$ 1,816,928	$ 118,219	$ 1,698,709
OPERATING EXPENSES	176,450		176,450	(3,746)	180,197
COMMISSIONS & PREMIUM TAXES	135,751		135,751	(3,701)	139,452
TOTAL CLAIMS COSTS AND ALL OTHER EXPENSES	2,129,129		2,129,129	110,771	2,018,358
add:					
CAPITAL PROVISION	40,664	40,664		(12,890)	12,890
EXPENSE ALLOCATION ADJUSTMENT				3,700	(3,700)
TOTAL COSTS	2,169,793	40,664	2,129,129	101,581	2,027,548
less:					
INVESTMENT & OTHER REVENUE	264,073		264,073	22,869	241,204
2006 REVENUE REQUIREMENTS - BASIC INSURANCE	$ 1,905,720	$ 40,664	$ 1,865,056	$ 78,712	$ 1,786,343
PROJECTED PREMIUM AT CURRENT RATE LEVEL- BASIC INSURANCE	$ 1,790,292		$ 1,790,292	$ 4,393	$ 1,785,899
2006 BASIC INSURANCE REVENUE (DEFICIENCY) / SURPLUS	$ (115,428)	$ (40,664)	$ (74,764)	$ (74,319)	$ (444)
INDICATED RATE LEVEL CHANGE	**+6.5%**	**+2.3%**	**+4.2%**	**+4.18%**	**+0.02%**
References for detailed amounts	Exhibit B-30, Appendix B		Exhibit B-15		Exhibit B-9, 2006.1 BCUC 1.1

In the August 22, 2005 filing (Exhibit B-1), ICBC indicates that Revenue Requirements for policy year 2006 are forecast to be $1,786,343,000, with a resulting $444,000 Revenue Deficiency and an indicated rate level change of +0.02 percent. The Corporation chose not to apply for an increase in Basic Insurance premiums.

In September 2005, the Corporation carried out a regularly scheduled review of Basic Insurance claims, which included claims data up to August 31, 2005. When the results from this review were compared to the results from a previous review, which served as the basis for the August 22, 2005 filing (for that filing Basic Insurance claims data up to December 31, 2004 was examined), the Corporation observed that a significant increase in claims costs had occurred. As a result of this finding, ICBC undertook a new actuarial rate level indication analysis based on claims data to August 31, 2005.

On October 24, 2005 ICBC filed a revision (Exhibit B-12), which reflected the effect of the above increases in claims costs. Revenue Requirements had increased to $1,865,058,000, the Revenue Deficiency had increased to $74,764,000 and the indicated rate level change had increased to +4.2 percent. However, ICBC chose not to apply for a change in Basic Insurance rates because it believed the circumstances underpinning the increase were unique. The Corporation submitted several reasons for its decision and these included that "before proposing a Basic Insurance rate increase ICBC must be satisfied that the deterioration in claims costs that is seen in the most recent data continues for a period of time" (Exhibit B-12, p. 4-5). In addition, the transfer of capital from Optional Insurance to Basic Insurance in compliance with the government directive of October 5, 2005, left Basic Insurance with sufficient capital available to absorb a loss (in the absence of a rate increase to cover increased claims costs, it is likely that a loss will be incurred in 2006) for one year and still end 2006 with capital available of approximately 100 percent MCT (Exhibit B-12, p. 4-7).

In December 2005 ICBC carried out another regularly scheduled review of Basic Insurance claims data, which included data up to November 30, 2005. The review indicated a further increase in Basic Insurance claims costs (Exhibit B-30, p. 4-1). More importantly, ICBC was satisfied that "… the deterioration in claims costs is continuing" and the unique circumstances thought to exist at the time of the October 24, 2005 filing, had changed (Exhibit B-30, p. 4-6). As a consequence, in the January 29, 2006 filing the Revenue Requirements has increased to $1,905,720,000, the Revenue Deficiency is $115,428,000 and the Corporation now seeks approval for a +6.5 percent increase in Basic Insurance rates for the 2006 policy year.

The 6.5 percent increase is comprised of the 4.2 percent increase, which emanates from the actuarial rate indication analysis performed for the October 24, 2005 filing (Exhibit B-12), a 0.6 percent increase for a capital build provision, and a 1.7 percent increase for a capital maintenance provision (Exhibit B-30, p. 14-17).

The Commission Panel notes that the Basic Insurance revenue requirements and rate indications for the policy year 2006 exhibit significant volatility i.e., progressing from no increase in Basic Insurance premiums to a 6.5 percent increase in the span of a five month period (September 2005 to January 2006). The major cause for this volatility is claims and related costs, which rose by $118,219,000 or 7 percent between the August 22, 2005 filing (Exhibit B-1) and the January 27, 2006 filing (Exhibit B-30). This matter of volatility, the Corporation's ability to identify it in a timely manner and the potential negative effect on achieving predictable and stable rates, will be further addressed by the Commission Panel in subsequent sections of this Decision.

2.2 Actuarial Determinations – Claims and Related Costs

In October 2005, ICBC completed an analysis of its 2006 revenue requirements based on data evaluated as of August 31, 2005. The analysis indicates that the current rate level must be increased by 4.2 percent for policies becoming effective in 2006. The indicated rate level change is determined by comparing the required 2006 premium to the projected 2006 premium at the current rate level (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, p. 2).

The required 2006 premium is determined through an analysis of historical loss experience as of August 31, 2005. The projected loss and loss adjustment expenses arising from the policies issued in 2006 together with the expenses associated with those policies and the investment income expected to be earned on those policies are the major components of the required 2006 premium.

This section deals with the projected loss and loss adjustment expenses [i.e., Allocated Loss Adjustment Expenses (“ALAE”) and Unallocated Loss Adjustment Expenses (“ULAE”)] only. The projected loss and loss adjustment expenses for policies issued in 2006 are as follows [Exhibit B-12, Exhibit A.1.0 (Revised), Columns (6), (7) and (8)]:

(Dollars in Thousands)

	Projected Loss and ALAE	KOL 37	ULAE	Total
Plate/Owner Basic				
Third Party Liability	$1,470,527	$1,010	$140,714	$1,612,251
Part 7	142,264	0	15,799	158,063
Manual Basic				
Third Party Liability	38,432	100	3,382	41,914
Part 7	2,641	0	232	2,873
Collision	1,127	0	99	1,226
Comprehensive	551	0	49	600
TOTAL	$1,655,542	$1,110	$160,275	$1,816,927

2.2.1 Projected Loss and ALAE

Ultimate Losses

ICBC uses three standard actuarial methods to develop estimates of ultimate incurred claim amounts or ultimate losses. The three methods are: Paid Development Method, Incurred Development Method and Bornhuetter-Ferguson Method. The ultimate claim estimates are based on the average of two or more of these actuarial methods. The ultimate claim estimates are produced for each of the following coverages:

1. Plate/Owner Basic – Bodily Injury
2. Plate/Owner Basic – Property Damage
3. Plate/Owner Basic – Accident Benefits
4. Plate/Owner Basic – Death Benefits
5. Manual Basic

(Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, pp. 4-7)

The ultimate claim estimates are produced by analyzing historical loss development data. ICBC selects paid and incurred loss development factors and these factors are important elements in the indications produced by the three different methods. Generally, ICBC uses a baseline of the average of the last four observed loss development factors (Exhibit B-23, 2006.2 BCUC 72.1 and 2006.2 BCUC 73.1).

> "The baseline for selection of the bodily injury loss development factors is the average of the most recent 4 loss development factors ('average 4'). The use of a baseline helps maintain consistency in the loss development factors from one reserve review to another. Adjustments to the baseline selection are made when circumstances warrant a departure. Examples of such circumstances are a change in the claims settlement environment, a change in the handling or reserving of claims or an emerging trend in the statistical data used in the analysis" (Exhibit B-23, 2006.2 BCUC 72.1).

For most coverages, ICBC relies on the baseline. However, for bodily injury, a material and significant departure from the baseline is noted.

> "Exhibit B.1.3.3: An upward trend in the incurred loss development factors was observed. It extended to approximately the 68 month stage of development. It is appropriate to recognize this upward trend. To not do so would, in all likelihood, underestimate the ultimate incurred claims. The upward trend was recognized in this case by selecting 'average 2' development factors for the periods 8 months to 92 months" (Exhibit B-23, 2006.2 BCUC 72.1).

> "Exhibit B.1.4.3: An upward trend in the paid loss development factors was observed. It extends to approximately the 92 month stage of development. It is appropriate to recognize this upward trend. To not do so would, in all likelihood, underestimate the ultimate paid claims. The upward trend was recognized in this case by selecting 'average 1' development factors for the

periods 32 to 92 months" (Exhibit B-23, 2006.2 BCUC 72.1).

Several of the loss development factors for bodily injury are based on one and two year averages. A distinct upward trend in the bodily injury loss development factors over the last three calendar years has been noted. ICBC has determined that the chief causes of this upward trend are the underlying shift between smaller (under $40,000) and larger claims, particularly the recent increases in the number of larger claims, and the increasing payments made in the latest calendar years. ICBC does not believe that there have been any changes in case reserve adequacy, which have produced the observed increases in incurred loss development. These changes in mix of claims and payment trends have caused a greater proportion of claims development to occur than historical averages would indicate (Exhibit B-35, 2006.3 BCUC 21.2).

The selected ultimate losses for bodily injury are based on a 25 percent, 50 percent and 25 percent weighting of the results of the Incurred Development Method, Paid Development Method and Bornhetter-Ferguson Method, respectively [Exhibit B-12, Exhibit B.1.1.2 (Revised)]. The selected ultimate losses for the other lines are generally based on the results of the Incurred Development Method and Paid Development Method [Exhibit B-12, Exhibit B.2.1.2 (Revised), Exhibit B.3.1.1 (Revised), Exhibit B.3.1.2 (Revised), Exhibit B.4.1.1 (Revised), Exhibit B.5.1.2 (Revised)].

Ultimate ALAE

Ultimate ALAE amounts for bodily injury and property damage are projected to ultimate values using two methods: the Paid-to-Paid Method and the Paid ALAE Development Method (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, pp. 5, 6). The Paid-to Paid Method develops the ratio of paid ALAE to paid losses to ultimate using a set of loss development factors. The ultimate paid ALAE to paid loss ratio by accident year is applied to the ultimate loss estimates to produce the ultimate ALAE. The Paid ALAE Development Method develops the paid ALAE amounts to ultimate using a set of loss development factors. Generally, the selected ultimate ALAE is based on an equal weighting of these two methods [Exhibit B-12, Exhibit B.1.1.3 (Revised) and Exhibit B.2.1.3 (Revised)].

Ultimate ALAE amounts for accident benefits, death benefits and manual basic are combined with the claim amounts and the ultimate values projected for those coverages include a provision for ALAE (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, pp. 6, 7).

Other Adjustments

There are further adjustments to the ultimate loss and ALAE amounts to reflect:

- "Additional payments comprise court order interest, third party costs, and third party disbursements. According to the Insurance (Motor Vehicle) Act, these payments are to be paid in addition to the indemnity payments covered by the policy limits. As such, they should be allocated between Third Party Basic and Extension Coverage according to the distribution of the indemnity loss" (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, p. 5). The additional payments reflect a misallocation of these costs where the extension coverage absorbs a disproportionate share of the additional payments. This adjustment adds payments that should be part of Basic claims (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, pp. 5-6).

- "The Insurance (Motor Vehicle) Act provides for the recovery under Basic property damage coverage for vehicle property damage resulting from a hit-and-run occurrence. The recovery is limited to the amount by which the damage exceeds the deductible amount set forth in the regulation. Since January 1, 2002, this statutory deductible amount has been $750" (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, p. 6).

  "When an insured has purchased Autoplan collision insurance with a deductible lower than the statutory hit-and-run deductible, the lower deductible applies in the case of a hit-and-run occurrence. The difference between the two deductibles should be recorded as a collision loss, since the benefit is due to the purchase of collision coverage; however, ICBC systems currently record this amount as part of the hit-and run (property damage) loss. In order to correct this misassignment of loss to the Basic business, the amount of payments made on hit-and-run claims below the statutory deductible is calculated and then eliminated from the Basic data" (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, p. 6).

- Certain claims-related costs, like those for ambulance services, are not included in the claims database. These costs are invoiced to ICBC periodically on an aggregate basis (instead of by individual claim). These “bulk” amounts, which are available by calendar year, are included with the claims and ALAE costs for accident years 2000 to 2004 (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, p. 7).

Trend Analysis

There are two trends that must be reflected in order to predict the costs related to policies to be written in 2006. The two trends are the anticipated increase in the number of vehicles on the road (exposure trend) and the changes in both the average cost of a claim and the frequency of claims (referred to as loss trends) (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, p. 8).

Exposure Trend

ICBC uses a multiple linear regression model to predict the number of future exposure units. The prediction is based on an analysis of the historic monthly number of polices issued and consideration of the B.C. Labour Force Population Report. The model predicts the growth rate in exposure units, which is then applied to the earned exposure units in 2004 to obtain the expected number of exposure units related to policies written in 2006 (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, p. 8).

Loss Trends

The prediction of loss trends requires consideration of economic conditions, weather, loss prevention programs and other forces over time. To make predictions about the future trend rates of claims frequency and claims severity (average claims cost), ICBC has used econometric stepwise regression to analyze historical ultimate claims frequency and claims severity data. The selected trend rates are applied to losses and ALAE for each of the Plate/Owner and Manual Basic Insurance coverages (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, p. 9).

Prospective Loss Adjustments

After historical accident year loss amounts are developed to their ultimate values and trended to policy year 2006 levels, prospective loss adjustments are made. These adjustments are necessary because they deal with changes in cost level that are not captured through the trending process. There are two specific prospective loss adjustments that are made in the analysis. The first is for the Court Tariff provision and the second is for the Enhanced Graduated Licensing Program. The analysis considers an increase in the Court Tariff and assumes that it will be implemented on July 1, 2006. The impact of this is an increase in bodily injury costs of approximately $25.9 million. In October 2003, enhancements were made to the current Graduated Licensing Program. An analysis by ICBC shows that total Basic claim savings of $35.4 million are anticipated from these enhancements in 2006 (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, pp. 9, 10).

2.2.2 Kind of Loss 37 Losses

> "Kind of Loss ("KOL") code 37 is used to record the towing charge on a vehicle which does not carry Optional Collision coverage with ICBC but is partially liable in a claim involving another ICBC insured vehicle" (Exhibit B-12, Chapter 5, Exhibit A.1.7, p. 2 of 5).

2.2.3 ULAE

ULAE consist of internal claims servicing expenses that are not directly assignable to individual claims. In estimating the revenue requirement, the future ULAE costs associated with claims on policies becoming effective in 2006 must be projected. ICBC used a standard actuarial methodology to project the future ULAE costs (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, pp. 7, 8).

The accident year ULAE by coverage are expressed as a percentage of the ultimate loss and ALAE. The percentage for policy year 2006 ULAE expenses is then projected from the historical percentages (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, p. 8).

Intervenor Submissions

Many of the Intervenors understand that there is a range of assumptions that fall within accepted actuarial practice. BCOAPO in its cross-examination of Mr. Weiland, ICBC's external actuary, asked about the use of judgment in actuarial work and Mr. Weiland testified there is some judgment in a lot of the work done by actuaries (BCOAPO Final Submissions, pp. 12, 13). Many of the Intervenors accept the fact that ICBC's revenue requirements application follows accepted actuarial practice. However, some Intervenors believe the ICBC revenue requirements application is based on conservative assumptions (BCOAPO Final Submissions, p. 7; Pemberton Submissions, pp. 1, 7).

Projected Loss and Loss Adjustment Expenses

Several Intervenors commented on the loss development factor selection process. The loss development factors are used to calculate the projected loss and Loss Adjustment Expenses. The opinion of these Intervenors is that the process used by ICBC to select loss development factors is conservative and while it follows accepted actuarial practice, the selected loss development factors are at the high end of the range of accepted actuarial practice.

> "BCOAPO et al. submit that it would have been preferable to use the same selection techniques for loss development factors in the revised filing as in the initial filing. In that case, as shown in Volume 2, page 269, line 17 of the transcript, the indicated rate increase would be 0.7%" (BCOAPO Final Submissions, p. 13).

CDI states: "what can be drawn from the testimony is that assumptions used by actuaries can vary but can still be within actuarially accepted practice. Variations in assumptions can lead to different loss development factors being used to determine ultimate claims costs" (CDI

Submissions, p. 4).

Pemberton states that throughout the hearings, examples of the subjectivity of actuarial "Science" became apparent. Of particular note were estimations of Loss Development Factors ("LDF's"), multipliers used by ICBC's actuaries to determine a future value, with interpretation and statistical projection based on past trends. There are some 153 different factors which could have a bearing on any particular LDF outcome. Pemberton expresses concern about the subjectivity of these factors (Pemberton Submissions, p. 1).

ICBC believes the selected LDFs are middle-of-the-road (T3: 504).

Loss Trends

BCOAPO is the only Intervenor that challenges the trend methodology used by ICBC. However, for its own reasons BCOAPO refrained from pursuing further questioning about statistical issues of homoscedasticity, autocorrelation and multi-collinearity, which potentially have similar impacts on the correctness of the model (BCOAPO Final Submissions, p. 15).

Commission Panel Determination

The model used by ICBC to determine the projected loss and loss adjustment expenses is thorough and reflects all major assumptions. The three methods: Paid Development Method, Incurred Development Method and Bornhuetter-Ferguson Method are appropriate methods for the derivation of ICBC's ultimate losses. The weight applied to the different methods is appropriate for all coverages.

The loss development factors selected by ICBC are reasonable and within the range of accepted actuarial practice. Generally, ICBC uses a baseline of the average of the last four observed loss development factors. A significant departure from the baseline is noted for the bodily injury coverage. The loss development factors for bodily injury are based on one and two year averages. The Commission Panel accepts that a distinct upward trend in the bodily injury loss development factors over the last three calendar years has been noted. The Commission Panel accepts that there is a range of selected loss development factors for this analysis. The low end of the acceptable range would be the baseline and the high end of the range would be a trended loss development factor as suggested by ICBC and Mr. Sherman in his report (Exhibit B-35, 2006.2 BCOAPO.7.1, p. 7). ICBC did not implicitly give any weight to the trended loss development factors. ICBC's analysis indicates that the use of trended loss development factors would increase the indicated rate level change by 0.8 percent (Exhibit B-12, Chapter 5, Actuarial Rate Level Indication Analysis, p. 16).

Further, ICBC testified that because of the upward trend, it would not be unreasonable to select trended loss development factors. ICBC believes this would still be in accordance with accepted actuarial practice. The Commission Panel accepts that ICBC could have justified applying some weight to trended loss development factors in their selection methodology for the loss development factors. **Therefore, the Commission Panel determines the selected loss development factors are appropriate given the evidence available.**

The Commission Panel is, however, concerned about the increasing bodily injury claim costs. The Commission Panel expects ICBC to continue to analyze the data as it emerges and to gain an understanding of the factors that are causing costs to rise. A periodic reporting requirement is directed in Section 7.1 of this Decision.

The Commission Panel accepts that the methodology used by ICBC to determine the ultimate ALAE amounts is reasonable. Similarly, the adjustments to the ultimate loss and ALAE amounts to reflect additional payments and hit-and-run claims are appropriate and properly determined.

The Commission Panel accepts that the trend methodology used by ICBC for loss trends and exposure trends is appropriate and reasonable. The Commission Panel accepts that the process used by ICBC to test the appropriateness of their trend model is adequate.

The Commission Panel accepts that the prospective loss adjustments made for the Court Tariff and the Graduated Licensing Program are appropriate and reasonable. In particular with respect to the Court Tariff, this is no longer an issue as the Court Tariff increase has now been approved.

The Commission Panel accepts that the provisions for ULAE and KOL 37 losses are appropriate.

The Commission Panel determines that the projected losses and loss adjustment expenses for policies issued in 2006 as presented in Exhibit B-12, Exhibit A.1.0 (Revised), Columns (6), (7) and (8) are acceptable. The Commission Panel determines that the ICBC analysis follows accepted actuarial practice and is not overly conservative and further that the requirement of Special Direction IC2 has been met with the use of the actuarial method for rate determination.

2.3 The Capital Build and Maintenance Program for ICBC

Legislative/Regulatory Background

The capital requirements for ICBC are set forth in Special Direction IC2 ("IC2") to the British Columbia Utilities Commission, as amended to October 5, 2005.

Section 3(1) of IC 2 includes the following provisions:

> "(1) With respect to the exercise of its powers and functions under the Act in relation to the corporation generally, the commission *must* [emphasis added] do the following:
>
> (b) require the corporation [Total Corporation] to achieve, by December 31, 2014, and to maintain, after that date, capital available equal to at least 110% of MCT, and, for that purpose,
>
> (i) [repealed]
>
> (ii) the commission must set rates for the corporation's universal compulsory automobile insurance business in a way the will allow the corporation to achieve, by December 31, 2014, and to

maintain after that date, capital available in relation to its universal compulsory automobile insurance business [Basic Insurance] equal to at least 100% of MCT.

(c) ensure that increase or decreases in universal compulsory automobile insurance rates are phased in such a way that those rates remain relatively stable and predictable."

Section 4 of IC2 includes the following:

"(1) With respect to the exercise of its powers and functions under the Act in relation to the corporations optional automobile insurance business, the commission

(c) must require the corporation to achieve by December 31, 2010 and to maintain, after that date, capital available in relation to the corporation's optional automobile insurance [Optional Insurance] business equal to at least 200% of MCT."

Section 1 of IC2 defines the terms "capital available" and "MCT" to have the meaning in the Special Direction, as defined in the regulations and guidelines under the Insurance Companies Act (Canada).

<u>ICBC Capital Requirements Program</u>

In its 2005 Decision, the Commission directed ICBC to develop a comprehensive capital management plan for the Corporation as a whole ("Total", or "Total Corporation"), and for both the Basic Insurance and Optional Insurance lines of business. ICBC was also directed to fully comply with all requirements of IC2 in making the required calculations for the MCT.

ICBC addresses its capital requirements in Section 6.1 of Exhibit B-1, and provides a final update in Exhibit B-30.

ICBC's capital management plan, as described in its Application, with respect to complying with the MCT requirements of IC2 is summarized as follows:

- With respect to the Total Corporation MCT requirements, ICBC states: "Given the results of the DCAT adverse scenarios and consideration of other plausible scenarios for the Total Corporation, management has selected an MCT ratio of 150% as its capital management target for the Total Corporation."

- With respect to the Basic Insurance MCT requirements, ICBC states: "The Basic Insurance business will use the regulatory target of 100% as its capital management target."

- With respect to the Optional Insurance MCT requirements, ICBC is silent in this application.

Dynamic Capital Adequacy Testing ("DCAT") and Capital Management Target

The use of DCAT as a tool to determine adequate levels of capital is described by ICBC, including the following:

> "Actuarial standards of practice for dynamic capital adequacy testing (DCAT) are included in section 2500 of the Canadian Institute of Actuaries' Consolidated Standards of Practice – Practice-Specific Standards for Insurers, January 1, 2003. These standards of practice include the consideration of adverse scenarios which test the adequacy of a corporation's solvency position. Other plausible adverse scenarios are also tested to assist company management in selecting an appropriate capital management target. Management selects its capital management target with a sufficient buffer in available capital to allow time to respond to plausible adverse events in order to prevent its MCT ratio from falling below the regulatory capital target ratio" (Exhibit B-30, p. 6-2).

The Commission Panel notes that the regulatory MCT ratios prescribed in IC2 are *minimum* requirements. IC2, in prescribing the ratios, uses the term "at least" in describing the MCT levels to be achieved in the case of each of the Total Corporation, Basic, and Optional Insurance businesses. IC2 does not make provision for MCT ratios to fall below the prescribed levels.

Total Corporation MCT Ratios

ICBC addresses Total Corporation MCT ratios and states:

“9. Under DCAT standards, positive capital is required under all adverse scenarios in order to achieve a minimum satisfactory financial condition.

10. Given the results of the DCAT adverse scenarios and consideration of other plausible scenarios for the Total Corporation, management has selected an MCT ratio of 150% as its capital management target for the Total Corporation. This capital management target achieves a minimum satisfactory financial condition under all of the adverse scenarios tested and provides a reasonable buffer to decrease the likelihood of falling below the regulatory target of 110%...” (Exhibit B-30, pp. 6-2, 3).

As noted above, ICBC has selected a MCT ratio of 150 percent as its capital management target for the Total Corporation. However, ICBC has not filed any evidence indicating how this ratio selection relates to the DCAT analysis. ICBC’s external actuary testified: “I don’t believe there’s been any evidence filed on the DCAT work with respect to the total company” (T2: 304).

IBC submits that some adverse scenarios could affect both Basic and Optional (IBC Final Submissions, p. 40, para. 183). Also, IBC submits that ICBC’s proposed use of “Total Corporation” creates a situation where Basic capital could be used to subsidize the Optional, which is contrary to the governing legislation (IBC Final Submissions, p. 40, para. 184). ICBC disagrees and submits that the alleged subsidization will not occur (ICBC Reply Submissions, p. 28, para. 76).

<u>Basic Insurance MCT Ratios</u>

ICBC states:

> “The Basic Insurance business will use the regulatory target MCT of 100% as its capital management target. While the DCAT analysis indicates a management target greater than 100% for Basic Insurance if the Basic Insurance business were a private stand-alone company, such a target is not necessary because the capital of the total business is available to back the Basic insurance business” (Exhibit B-30, p. 6-10).

The Commission Panel notes that IC2 requires ICBC to attain and maintain a MCT ratio with respect to Optional Insurance of at least 200 percent. Under DCAT standards the management target would obviously have to be above the regulatory minimum, perhaps as high as 250 percent (ICBC Reply Submissions, footnote 4, pp. 28, 29).

IBC suggests that it might be appropriate for Optional Insurance net income to reduce Basic premiums (IBC Final Submissions, pp. 40, 41, para. 185). ICBC disagrees and states that there is no factual or legislative basis for IBC's suggestion (ICBC Reply Submissions, p. 29, para. 78).

It is also noted that ICBC's transfer of some $530 million from Optional Insurance retained earnings to Basic Insurance retained earnings required an order from the Lieutenant Governor in Council. The Board of Directors does not appear to have that authority to move capital between business lines.

The Commission Panel concludes that even if the Board of Directors of ICBC had the general authority to use Optional Insurance capital to "…back the Basic Insurance business", it could be precluded from doing so under IC2's MCT requirements for Optional, including the DCAT components of accepted actuarial practices.

IC2 requires the Commission to:

> "… set rates for the corporation's [Basic] insurance business in a way that will allow the corporation to achieve, … and to maintain … capital available in relation to its [Basic] insurance business equal to at least 100% of MCT;"

and to:

> "… fix [Basic Insurance] rates on the basis of accepted actuarial practice …"

It follows that the Commission cannot set rates that fail to meet these criteria. The Commission Panel is concerned that Basic Insurance rates reflecting a management capital target MCT ratio of only the statutory requirement, in this case 100 percent, will not be adequate to achieve and maintain that minimum MCT ratio on the basis of accepted actuarial practice, including the DCAT standards.

Eckler Partners, ICBC's consulting actuaries, undertook DCAT analysis and determined that if the Basic Insurance had a MCT ratio of 130 percent, it could withstand an event, such as the four adverse scenarios described in the Eckler report, once every six or seven years and still meet the minimum regulatory MCT requirement of a 100 percent MCT ratio (Exhibit B-1, Section 6.2, Eckler Report, pp. 29, 30).

ICBC's decision to limit the Basic Insurance capital management target MCT ratio to the statutory minimum of 100 percent effectively ignores, in the view of the Commission Panel, the results of the DCAT adverse scenarios and consideration of other plausible scenarios. The Commission Panel considers that by so doing, ICBC is exposing the Basic Insurance business to an unacceptable level of risk of failing to attain, and then maintain, at least the required statutory minimum.

In the view of the Commission Panel ICBC has strayed from the application of accepted actuarial practice by not establishing a capital management target for Basic that will result in at least "… a minimum satisfactory financial condition under all of the adverse scenarios tested and provides a reasonable buffer to decrease the likelihood of falling below the regulatory minimum 100% for the Basic Insurance business" (Exhibit B-1, p. 6-3). (The Commission Panel differentiates between the statutory minimum and the regulatory target to be established by the Commission.)

The Commission Panel determines that ICBC's establishment of a 100 percent management target for a MCT ratio for Basic Insurance is not adequate.

<u>Capital Provision in the Basic Insurance Rates</u>

ICBC discusses "Capital Provision in the Basic Insurance Rates" in Section A.4 of Exhibit B-30, pages 6-3 to 6-10. At page 6-3, ICBC points out that the August 2005 application indicated a MCT ratio of 63 percent. ICBC continues in the October 2005 filing, that the MCT forecast for December 31, 2005 was 113 percent and the year end 2006 MCT ratio was forecast to be 100 percent. At page 6-5, ICBC states that "… the Basic Insurance capital deficiency is estimated to be $65.9 million, and the MCT ratio for Basic Insurance is estimated to be 91%." This was subsequently updated to a 2005 year end outlook ratio of 79 percent (Exhibit B-35, 2006.2 BCOAPO.8.4). However, ICBC goes on to state that using the updated 2005 MCT ratio and rolling it forward, the MCT ratio for Basic Insurance is expected to be approximately 71 percent for the year ended 2006.

ICBC has indicated in its Final Submission in paragraph 134 that it does not fully understand the factors which have come to play in causing the significant changes in its loss experience in recent months, which in turn have resulted in a material fluctuation in its reserve requirements, with a related impact on the MCT ratio calculation. This phenomena seems demonstrative of the volatility of the reserve and capital requirements, and reinforces the Commission Panel's view that the management capital target MCT ratio should be greater than the minimum statutory regulatory requirement in order to avoid the risk of falling beneath that level in the event of plausible adverse events.

The Commission Panel is concerned about ICBC's incomplete understanding of the significant changes in its loss experience in recent months. This issue raises a number of questions, including:

- Does ICBC's claims tracking and reserve development system accurately and completely reflect and capture data necessary to evaluate and assess claim liabilities?

- Does the recently demonstrated volatility in calculated MCT ratios indicate a need for significantly higher ratios than management's stated "target" of 100 percent for Basic Insurance in order to facilitate compliance with the minimum statutory requirement for a MCT ratio of 100 percent?

- Is the MCT volatility demonstrated in the Basic Insurance business indicative of the degree of volatility occuring in the Optional Insurance business? If so, what should the minimum regulatory target ratios be, under DCAT, for *each* of Basic and Optional in order to ensure that the risk of MCT ratios for either of those lines of business dropping below the prescribed statutory minimums is acceptable?

<u>Capital Maintenance and Capital Build Provisions</u>

ICBC states: "… in the interest of rate stability, the capital maintenance provision for Basic Insurance should be based on the target MCT ratio of 100%, whether or not MCT ratio is actually 100%", and "… ICBC proposes that for the purpose of calculating the Basic Insurance capital maintenance provision, ICBC will deem the MCT ratio to be the target ratio of 100% MCT" (Exhibit B-30, p. 6-4). No Intervenor submitted that the management target for Basic Insurance should be other than 100 percent (ICBC Reply Submissions, p. 28, para. 75).

BCOAPO takes issue with ICBC's proposal to achieve the 100 percent MCT target at the end of 2013, one year ahead of the required target (BCOAPO Final Submissions, pp. 24-25). ICBC submits that the proposal of BCOAPO involves a high probability (due to the volatile nature of the insurance business and the potential for adverse events) that the capital target will not be achieved by the end of 2014 (ICBC Reply Submissions, p. 29, para. 81).

The Commission Panel accepts ICBC's approach for the capital maintenance provision for the Basic Insurance 2006 policy year. However, in future policy years the maintenance provision must reflect the Commission's prescribed regulatory target for Basic Insurance MCT.

Exhibit B-30, Table 6.1.1 illustrates ICBC's proposed method to complete its capital build requirements by 2014, in accordance with the requirements of IC2.

The Commission Panel accepts this methodology for achieving required MCT ratios as appropriate and agrees it is prudent to aim to achieve the minimum one year in advance. However, as discussed above, the Commission Panel considers that the management capital target MCT ratio reflected in the rate indication should be greater than the minimum statutory requirement in order to avoid the risk of falling beneath that level in the event of plausible adverse events.

<u>Optional Insurance MCT requirements: Impact on Basic MCT requirements.</u>

The Commission is directed, under the provisions of IC2, to:

- "require the corporation [Total Corporation] to achieve, by December 31, 2014, and to maintain, after that date, capital available equal to at least 110% of MCT, and, for that purpose,
  - (iii) [repealed]
  - (iv) the commission must set rates for the corporation's universal compulsory automobile insurance business in a way the will allow the corporation to achieve, by December 31, 2014, and to maintain after that date, capital available in relation to its universal compulsory automobile insurance business [Basic Insurance] equal to at least 100% of MCT", and

- "… require the corporation to achieve by December 31, 2010 and to maintain, after that date, capital available in relation to the corporation's optional automobile insurance business [Optional Insurance] equal to at least 200% of MCT."

The Commission Panel recognizes that ICBC's Application is for determination of its 2006 revenue requirements for its Basic Insurance business. It is also recognized that, with respect to ICBC's Optional Insurance business, certain information must be treated as confidential due to its commercially sensitive and competitive nature. However, the Commission Panel is of the view that the MCT requirements of IC2 with respect to the Total Corporation, Basic and Optional elements of ICBC's business are inextricably intertwined.

ICBC's capital management MCT target ratio of 100 percent for Basic Insurance implicitly relies on a healthy Optional Insurance MCT ratio in order to maintain Total Corporation capital available at 110 percent if the Basic MCT ratio falls below its IC2 minimum.

By Commission Order No. G-9-05, with respect to its 2005 Decision, the Commission directed ICBC to "… prepare a comprehensive capital management plan for the Corporation as a whole and for both the Basic and Optional Insurance lines of business". ICBC's capital plan evidence in this proceeding addressed Basic Insurance and Total Corporation. With respect to Optional Insurance, ICBC has filed an actuarial certification that the statutory minimum MCT requirement has been met. However, ICBC has not complied with Order No. G-9-05 as it has not provided any evidence with respect to its capital management plan for Optional Insurance.

Intervenor Submissions

BCOAPO submits the Corporation has not provided a sufficient evidentiary foundation related to the size of its capital deficiency, if any. Therefore, BCOAPO submits that it would be prudent to disallow any rate increase arising from the capital plan until the Corporation provides a reliable foundation (BCOAPO Final Submissions, p. 24). In its Reply Submissions ICBC submits that the evidence demonstrates, without question, that the Basic Insurance business has a capital deficiency (ICBC Reply Submissions, p. 31, para. 86).

Commission Panel Determination

The Commission Panel finds based on the evidence before the Commission that, for Basic Insurance, there is a large capital deficiency that is well below the statutory minimum 100 percent MCT level required by the end of 2014. For the 2006 policy year the Commission Panel approves the capital maintenance and build provision of $40,664,000.

The Commission Panel directs ICBC to prepare, and file within 120 days of the date of this Decision, a comprehensive capital management plan for its Optional Insurance line of business and for Total Corporation. The plan is to indicate (1) the DCAT indicated range for a capital management MCT ratio target based on a statutory minimum of 200 percent, and (2) in accordance with accepted actuarial practice how ICBC plans to achieve, by 2010, and maintain thereafter, the MCT result from (1). ICBC may file on a confidential basis if it considers this information to be commercially sensitive.

The Commission Panel determines that the MCT ratio requirements in IC2 of 100 percent, 110 percent and 200 percent for the Basic, Total and Optional lines of business respectively are to be considered minimums, and that ICBC should set capital management MCT ratio targets within the DCAT indicated range and establish capital

plans accordingly.

The Commission Panel determines that ICBC should, in its next revenue requirements application, include the following evidence:

1. **the DCAT indicated range for Basic Insurance;**

2. **supporting evidence and rationale in any case where the management capital target MCT ratios is less than DCAT indication, including support for deviation from accepted actuarial practice; and**

3. **the rate indication reflecting a capital management MCT ratio within the DCAT indicated range.**

2.4 Investment Management and Returns

ICBC has an investment portfolio with a market value of approximately $7.5 billion at December 31, 2004. The portfolio consists of fixed income securities, equities and real estate. In 2004 and 2005 ICBC recorded $395 million and $579 million, respectively in investment income. The fixed income and real-estate portfolios are managed in-house and the equity assets are outsourced to professional investment managers with expertise in the equity mandates as specified in the ICBC investment guidelines.

The Commission in its November 12, 2003 Decision directed ICBC in its next revenue requirements application to demonstrate asset safeguards that are in place and any incentive plans that ICBC has negotiated with its investment managers. The Corporation in its 2006 Application addressed the Investment Governance procedures in place at ICBC (Exhibit B-1, Chapter 11). ICBC outlines its legal requirements, role of the Board of Directors and the Investment Committee, governance mechanisms, Statement of Investment Policy and Procedures, Conflict of Interest Rules, monitoring of investments, performance measurement, operating expenses, investment management fees, and reporting.

2.4.1 Safeguards

ICBC submits that safeguards include the investment requirements stipulated in Section 29 of the Insurance Corporation Act and the "prudent person rule" as set out in Section 492 of the Insurance Companies Act (Canada). Further, ICBC submits that governance mechanisms include a clearly defined Statement of Investment Policy and Procedures, a code of ethics, and conflict of interest rules. ICBC performs compliance monitoring procedures in accordance with the Investment Policy and Procedures and that any breach is identified in a timely manner. Also, ICBC conducts assessments of investment performance.

The Investment Committee (a sub-committee of the Board of Directors) recommends to the Board of Directors an ICBC Statement of Investment Policy and Procedures. The Investment Committee is also responsible for monitoring the investment policies and approving management's recommendation for external investment management services. The internal auditor is responsible for the day-to-day monitoring of the Investment Department's compliance with the Investment Policy and Procedures. ICBC managers are independently monitored (by RBC Global Benchmark Services) in terms of added return and return volatility (risk) in reference to the performance benchmarks and assigned management mandates. ICBC submits that style drift could result in termination and at a minimum would likely prompt management to recommend a decrease in assets allocated to the manager (Exhibit B-1, pp. 11-2 to 11-8; Exhibit B-9, BCUC.109.7.3 and 2006.1 BCUC.111.1).

Statement of Investment Policy and Procedures

ICBC filed its March 3, 2005 Statement of Investment Policy and Procedures ("Investment Policy"). A revised Statement of Investment Policy and Procedures dated October 27, 2005 was also provided (Exhibit B-66, 2006.2 BCUC.UT.34). The Investment Policy is the key document that establishes the investment guidelines for the Corporation to ensure ICBC's assets are managed prudently. The Investment Policy establishes the eligible investments, asset allocation ranges and the discretion given to fund managers, and consequently, dictate the portfolio risk return profile.

The lag time between when premium revenues are collected and the time when the ultimate claims costs are paid provides funds to ICBC. These funds are invested in various fixed income, equity, and real estate assets on behalf of policyholders. ICBC states in its Investment Policy that the Corporation manages one investment portfolio for both Basic and Optional Insurance businesses since the duration of the liabilities for each respective business are similar. The Investment Policy states that the investment portfolio assets are invested to meet the corporate liability and risk profile. ICBC's Basic and Optional Insurance liabilities have a duration of under three years. As an automobile insurer the liabilities are subject to inflation risk. Also, the Corporation has significant cash needs due to the volatility of claims payments. The profile of ICBC's liabilities and the constraints imposed by the regulatory framework determines the risk and return objectives of the investment portfolio (Exhibit B-1, Chapter 11, Appendix A, pp. 3-4).

Asset Allocation

The Investment Policy identifies the asset allocation between fixed income, equity, and real estate. The optimal asset mix is based on the long-term forecast return and volatility for each asset class as well as liquidity, risk constraints, and cash flow considerations. The March 3, 2005 Investment Policy contains the asset mix ranges which identify the strategic mix, tactical minimum, and the tactical maximum percentages (Exhibit B-1, Chapter 11, Appendix A, p. 7). Fixed income has a strategic mix of 72 percent with a tactical minimum of 62 percent and a tactical maximum of 83 percent. Equity has a strategic mix of 23 percent with a tactical minimum of 20 percent and a tactical maximum of 28 percent. Real estate has a strategic mix of 5 percent with a tactical minimum of 4 percent and tactical maximum of 6 percent. ICBC states that the company was underweight in real estate (Exhibit B-23, 2006.2 BCUC.53.1). The 2004 actual real estate weighting of 2.1 percent was below the tactical minimum of 4.0 percent.

Equity and Real Estate Asset Weightings

A comparison of the ICBC investment portfolio was made to Manitoba Public Insurance ("MPI") and Saskatchewan Government Insurance: Autofund ("SGI") (Exhibit A-37). MPI and SGI both include equities but not real estate in the investment portfolio.

When questioned by Commission Counsel on the investment portfolio of private casualty and property insurers, Mr. Weiland, ICBC's external actuary, stated:

> "It's not usual for private insurers to hold real estate investments" (T4: 708).
> "It's quite common for P&C [property and casualty] insurers to own common stocks" (T4: 708).

Commission Counsel questioned ICBC's Director of Investments, on the aggressiveness of the equity portfolio noting that for 2004 ICBC had 23.6 percent of its portfolio in equities and the tactical maximum was 28.0 percent. She responded by stating:

> "I believe its 25 percent for federally regulated insurance companies. So anything beyond that I would deem as quite aggressive" (T7: 1444).

Also, Commission Counsel questioned her on the appropriateness of the real estate in the investment portfolio when most property and casualty insurers do not have real estate in their portfolios. She replied that the Corporation includes real estate for "diversification purposes and return" (T7: 1446).

2.4.2 Incentive Plan & Investment Performance

In the Application ICBC states that is was unable to disclose specific incentive plan arrangements as incentive plan arrangements are proprietary to each external equity investment manager and such disclosure could potentially harm the investment manager's business activities. However, ICBC does provide general incentive fee structures such as a minimal base fee, incentive component, and a fee cap (Exhibit B-1, p. 11-8).

The comparison of Annual Benchmark and Portfolio Returns table indicates that ICBC's investment performance has been consistent and favourable for most asset classes (Exhibit B-23, 2006.2 BCUC.54.1). ICBC also provides the information ratios for the Canadian Equity, U.S. Equity, and EAFE Equity portfolios (Exhibit B-9, 2006.1 BCUC.109.7.2). The information ratio measures the consistency of portfolio management's performance against risk and return relative to a benchmark. The higher the ratio, the more the investor is being rewarded for a given level of risk. ICBC states that the Canadian Equity portfolio has consistently achieved strong performance with a ratio in excess of +1.0. A negative information ratio as evidenced by the EAFE portfolio demonstrates a failure of the portfolio to outperform the market over a four year period. ICBC states that it replaced its EAFE equity manager in 2004.

The Management Expense Ratio ("MER") is the percentage of expenses to total assets. For 2004 the Bonds asset class has an MER of 2.7 basis points which is well below other portfolios as indicated by the Towers and Perrin Management Fee Universe comparison (Exhibit B-9, 2006.1 BCUC.109.5). The comparison also shows the EAFE Equity and US Equity MERs were both below the median. However, the Canadian Equity MER was 39.0 basis points, which was higher than the median benchmark. ICBC explains this reflected the performance bonuses paid to its equity managers for outperforming the benchmark (Exhibit B-9, 2006.1 BCUC.109.6).

2.4.3 Investment Returns for Policy Year 2006

The ICBC Investment Policy states that the total fund investment return will be expected to exceed the weighted average of benchmark returns for the strategic asset mix plus an excess return over four years of 0.268 percent (Exhibit B-1, Chapter 11, Appendix A, p. 8). ICBC initially calculated its investment returns based on a 5.3 percent return (Exhibit B-1, Exhibit A.1.7, p. 4 of 5). In the October 24, 2005 filing, the Corporation updated the investment return forecast to be 5.0 percent (Exhibit B-12, Exhibit A.1.7, p. 4 of 5). The lower rate was primarily due to a lower forecast 5-year Canada Bonds return. The investment return of 5.0 percent is also the discount rate (or new money rate) for the October 2005 actuarial rate indication analysis for the 2006 policy year (T2: 271-272). Based on the October 2005 update, ICBC calculates Basic Insurance investment income on policyholder supplied funds to be $209.757 million and Basic Insurance investment income on retained earnings to be $27.702 million (Exhibit B-15).

Intervenor Submissions

The Intervenors do not comment on the appropriateness of ICBC's investment governance. However, ICBC disagrees with BCOAPO's suggestion that realizing capital gains would improve the MCT ratio (ICBC Reply Submissions, pp. 30-31, para. 85). ICBC submits that "churning" the investment portfolio to realize capital gains is not a sound investment strategy for maximizing investment returns in the long run and would have a negative impact on the long-term achievement and maintenance of the Basic Insurance capital target. CDI submits that the Commission should require ICBC to submit for approval an asset allocation policy with respect to its investments (CDI Submissions, p. 11, para. 53). ICBC believes the allocation (segregation for purposes of portfolio management) of investment assets between the Basic Insurance business and the Optional Insurance business would not be appropriate (ICBC Submissions, pp. 32-34, para. 107-113; ICBC Reply Submissions, p. 32, para. 91).

Commission Panel Determination

The Commission's role is to monitor ICBC's portfolio risk and return for adequacy to ensure rates to policyholders are not negatively impacted. The Commission Panel finds that the investment portfolio has been well managed with the proper safeguards in place to ensure prudent investment governance. ICBC's short-term cash need is indicated by its liabilities with a duration of under three years and the volatility of claims payments. An optimal asset liability management strategy would seek to optimize the portfolio assets in respect to the company's risks. Investments in equities provide enhanced returns compared to fixed income and it also provides a better match for the long tail portion of the liabilities. Though real estate does provide diversification and return benefits, the illiquid nature of the asset class may provide a poor fit to the liability and risk profile of the Corporation. The Commission Panel notes that compared to the typical property and casualty insurer the Corporation has higher equity and real estate weightings. The higher equity weighting combined with the real estate strategic weighting reduces the overall strategic weighting for fixed income securities. Also, a higher equity weighting and corresponding unrealized capital gains may impact negatively on the calculated available capital in the calculation of the Minimum Capital Test.

The Commission Panel approves ICBC's forecast investment returns for the 2006 policy year. The Commission Panel accepts ICBC's submission that churning the investment portfolio would not be a sound strategy to maximize returns over the long-term. The Commission Panel finds that the allocation (segregation for purposes of portfolio management) of investment assets between the Basic Insurance Business and the Optional Insurance Business is not warranted at this time.

2.5 Information Technology Infrastructure and Systems

2.5.1 Information Technology Governance

Strategy

ICBC's August 22, 2005 application (Exhibit B-1) discusses the Corporation's Information Technology ("IT") Governance in which the Technology and Systems Planning ("TSP") model has the objective of promoting a balance in capital spending, standardized technologies, secure IT assets, and existing investments (Exhibit B-1, p. 7-82). The Corporation explains that the TSP has a three-year outlook and due to the iterative approach, the technology plan is not uniformly developed across all possible technology topics (Exhibit B-1, p. 7-82) nor is the Technology Systems Plan a single document. The plans produced by the Technology Systems Planning process are specifications embedded in Strategy and Reference Architecture deliverables (Exhibit B-9, 2006.1 BCUC 67.3).

ICBC further submits that the Information Services Division's ("ISD") 2006 Strategies are being finalized and are not yet available; however, the ISD 2005 Strategies are provided. These strategies are part of ISD's annual divisional business plan which looks over an 18 month timeframe (Exhibit B-23, 2006.2 BCUC 31.1). Specifically, the strategy is a broad and general roadmap which provides an IT vision on an annual basis.

The Corporation confirmed that "… the last couple of years, our focus on technology and systems planning has been to look at specific elements of technology. As we speak today, we are standing back and looking at that in a broader perspective, and putting together an enterprise systems strategy" (T6: 1172). The Corporation further elaborated that this enterprise technology plan would be consistent with business and technology directions (T6: 1258).

The Commission Panel finds that the ICBC has not established a long range strategic IT plan for the Corporation which sets the overall direction in terms of infrastructure and resource requirements for IT activities over a three to five year period. An enterprise IT strategic plan has a profound impact on management decisions and rates as it is a key tool to ensure that IT costs and resources are managed effectively and efficiently. The Corporation acknowledges that it is working towards a comprehensive enterprise strategic IT plan focusing on the Business Strategies and where the business is going.

The Commission Panel expects to receive by the next revenue requirements application, the enterprise strategic IT plan and budgets which closely align with the long range needs of the business and will enable the Corporation to achieve economies of scale and appropriate allocation of IT resources.

Formal Metrics and Benchmarking

ICBC undertook three benchmark surveys from 2002 to 2005. In 2002 ICBC had the Gartner Group Inc. conduct a benchmark survey of its costs in comparison to other peer groups. This benchmark survey focused primarily on IT spending of various technical areas such as Mainframe Data Centre, IT Help Desk, and Midrange along with IT categories such as

Hardware, Software and Transmission costs (Exhibit B-23, 2006.2 BCUC 23.6). The executive summary of this survey showed that ICBC's spending in the various IT areas and categories were significantly lower than the composite peer group (Exhibit B-9, 2006.1 BCUC 61.1). However, ICBC submitted it was unable to provide information on the composite peer group used in this survey, noting that that names of organizations participating in benchmark studies were kept confidential by the benchmark vendors (Exhibit B-23, 2006.2 BCUC 23.2).

Commission Counsel asked whether ICBC has done any further research with the typical assumption that lower cost equates to lower service levels and ICBC responded that the Gartner report did not consider the relationship between cost and service levels (T6: 1216). The cost advantage ICBC is showing may be due to the maturity of its IT equipment as indicated by a mini benchmark report prepared by the Meta group in 2005 as part of the evaluation for Opportunity Analysis for Alternative Sourcing. This report showed ICBC's cost per processor is significantly better than industry and market averages, driven by very low hardware and software costs primarily due the equipment being fully depreciated (Exhibit B-23, 2006.2 BCUC 25.2, p. 16).

In 2004, ICBC also had the Meta Group prepare a benchmark report of its Application Development and Maintenance area focusing primarily on staff productivity and cost effectiveness. The report observed that one of the more significant improvements that can be made is the productivity of Release Development (Exhibit B-23, 2006.2 BCUC 24.2.2, p. 26).

These three benchmark reports all provide ICBC with recommendations for improving the delivery of its IT services. One of the recommendations made in the Gartner report identified the consolidation of the Mainframe Data Centres in Victoria into Vancouver which could potentially provide cost savings of up to $700,000 per year. To date, ICBC has implemented 64 percent of Gartner's recommendations (Exhibit B-23, 2006.2 BCUC 24.3) but provides few details on the cost savings and benefits arising from the implementation of these recommendations.

The Commission Panel notes that ICBC has undertaken Benchmarking surveys of its IT services and costs and has implemented some of the recommendations from these reports to ensure savings, effectiveness and efficiency for the organization. However, the Commission Panel finds the benchmark reports focused on selective technological functions and metrics and thus lack comprehensiveness. These benchmark surveys have provided recommendations for improvements in specific areas but have not shown the overall effectiveness and efficiency of ISD as a service provider to the Corporation.

The Commission Panel notes the impact of an effective IT operation on the efficiency of the organization and the depth of data available to address business issues, all of which ultimately affects rates. Therefore, the Commission orders ICBC to file with the next revenue requirements application, a Benchmarking Plan which encompasses a broader range of metrics along with a timeline which support the long term IT strategic direction of the Corporation. Further, ICBC is directed to prepare and file with the next revenue requirements application, a status report on the completion of the recommendations from the three benchmark reports along with the benefits and cost savings arising from their implementation.

2.5.2 Utilities Commission Act Section 45 and Regulatory Review

Under Section 45 of the UCA, energy utilities are required to obtain a Certificate of Public Convenience and Necessity ("CPCN") prior to the construction or operation of a public utility plant or system or an extension. The UCA further specifies that a public utility must file with the Commission, a plan of the capital expenditures that the public utility anticipates making over the period specified by the Commission. This section is a regulatory framework designed for public utilities with "rate base and rate of return" to ensure that major capital expenditures that have a material impact on rates would be subject to a prudency review by the Commission prior to construction.

The Insurance Corporation Amendment Act, 2003, S.B.C 2003, c.35 ("Act") sets out, in general, the regulatory environment for ICBC and specifies (in Section 44) how the UCA is to be applied. The above noted Act specifies that the UCA applies and Section 44(1) states:

> Subject to subsections (3), (6) and (7), the *Utilities Commission Act*, other than sections 22, 23 (1) (a) to (d) and (2), 25 to 38, 40, 41, 45 to 57, 59 (2) and (3), 60 (1) (b) (ii) and (2) to (4), 97, 98, 106 (1) (k), 107 to 109 and 114 and Parts 4 and 5 of that Act, applies to and in respect of the corporation as if it were a public utility, and a reference in this Part to the *Utilities Commission Act* or to a provision of that Act is deemed to be a reference to that Act or provision as it applies for the purposes of this Act.

ICBC is not subject to Section 45 of the UCA and hence does not have to file for CPCNs. BCOAPO submits that this deficiency in the regulatory regime calls for a statutory amendment to provide for the equivalent of the CPCN mechanism for prior review and approval of large-scale capital expenditures by ICBC (BCOAPO Final Submissions, p. 3). ICBC argues that no statutory amendment is required or desirable. As stated in paragraph 211 of the ICBC Submissions, the exemption from Section 45 of the Utilities Commission Act reflects a deliberate policy decision on the part of the legislature not requiring ICBC to bring forward applications to the Commission in advance of making capital expenditures. Excluding ICBC from the CPCN process is logical since ICBC's business is not as capital-intensive as, for instance, electrical or gas utilities (ICBC Reply Submissions, p. 54).

2.5.3 Capital Spending

ICBC's 2006 capital spending is forecast to be $30 million of which $14.9 million or 50 percent is for information technology (Exhibit B-23, 2006.2 BCUC 21.2, Attachment A). ISD's 2006 capital spending of $7.8 million is detailed in Table 67.2a (Exhibit B-9, 2006.1 BCUC 67) as part of the Five Year Capital Investment Plan along with IT projects already in progress totalling $7.05 million (Exhibit B-23, 2006.2 BCUC 21.2). ICBC submits that the 2006 capital spending is almost double that of 2003 and 2004 due to deferring upgrades and replacement of some of its capital assets such as the mainframe from an 18 month cycle to a 60 month cycle of upgrade. The extended upgrade cycle is achieved by further tuning of applications and removing some workload, which enabled negotiations with software vendors to provide higher level processing capacity at no further cost (T6: 1179).

The August 22, 2005 application identified ISD's capital planning process where investment needs are categorized into groupings indicating investment urgency using hardware failure risk or end of life, vendor support issues and maintenance costs as considerations (Exhibit B-1, p. 7-89). From this capital planning process, ISD has established a five-year Technology Investment Plan, the purpose of which is to identify and forecast financial requirements and manage cash flow (ICBC Submissions, p. 59).

ICBC submits that ISD's 2006 Strategies are being finalized and are not yet available, and these strategies are part of ISD's divisional business plan with an 18-month outlook (Exhibit B-23, 2006.2 BCUC 31.1). The Commission Panel notes the financial requirements of the Five Year Technology Investment Plan do not appear to be supported by IT infrastructure and resource requirements. ICBC submits that ISD is currently developing an enterprise technology and systems strategy with the business areas to estimate the amount of investment on a year by year basis (T6: 1235).

ICBC further explains its IT capital funding requirements are not constrained by financial borrowing limits. ICBC confirms that borrowing is generally not something that the organization has done because there is sufficient internal funds to be able to provide the services (T6: 1257). Commission Counsel asked ICBC about the IBM project, Next Generation Insurance System ("NGIS") and the project related costs written-off as a result of not moving forward with the application (T6: 1168). As an Undertaking, ICBC confirmed the project costs expensed for NGIS total $55.7 million for the years 1996 and 1997 (Exhibit B-64, BCUC.UT.18). ICBC was further asked its philosophy with regards to IT project failures and who should pay for them. The Corporation submitted "one might contemplate a reduction in operating expenses in the organization, but a possibility would be if reasonably thought to be something that could be done would be to pass the cost to the consumer" (T6: 1170). Given the significance of ISD's capital spending on the Corporation and the funding availability, IT project failure or abandonment such as the NGIS project could have a profound impact on capital erosion and lost opportunities which would impact rate stability.

The Commission Panel notes ICBC's requirement for asset replacement and upgrades in this year and approves the 2006 capital cost as filed. The Commission Panel finds ICBC's capital spending of $30 million with approximately half allocated for IT spending is significant and may have a material impact on the rates especially for multi-year capital projects. The Commission Panel requests ICBC to provide detail on projects of $500,000 or greater along with an annual capital expenditure plan for review and comment by the Commission prior to these projects being undertaken.

2.5.4 Operating Budget

The August 22, 2005 application (Exhibit B-1) showed that the 2006 Operating Expenses for ISD are forecast at $80.9 million, an increase of 9 percent over 2005 (Exhibit B-1, p. 7-85, Table 7.6.1). The ISD's 2006 forecast operating expenses further includes $3.1 million for infrastructure environments (servers, voice, data, desktops) that were transferred to operational areas of ICBC (Claims, Insurance, Driver Licensing and Road Safety) (Exhibit B-9, 2006.1 BCUC 65.2; BCUC 30.1, Table 30.1) along with depreciation expenses allocated to cost centres outside of ISD for $1.1 million (Exhibit B-64, 2006.BCUC.UT.22). Hence, ICBC's total IT cost forecast for 2006 is $85.1 million comprising of ISD's operating budget ($80.9 million) along with various infrastructure costs ($3.1 million) and depreciation expenses ($1.1 million) transferred to other operational areas and cost centres.

ISD's operating expenses are comprised of three categories: compensation, general expenses, and depreciation. The 2006 general expenses of $32.3 million reflect the most significant increase over 2005 of 17 percent or $4.7 million (Exhibit B-1, p. 7-85, Table 7.6.1). The 2006 forecasted increase in general expenses is due to the replacement of mainframe software reaching obsolescence/end of life and replacement of aging desktops and network printers (Exhibit B-1, p. 7-86). ICBC submits that its Corporate Accounting Policy is to expense computer equipment such as personal computers, laptops and printers with unit cost of $15,000 or less. This capitalization limit is also applicable for computer/telephone software (Exhibit B-

64, 2006.BCUC.UT.20 – Attachment A). However, ICBC confirmed that the capitalization limit for software could be significantly higher "… for systems investment it's the acquisition of software in excess of $50,000 is capitalized. Any amount under that is incurred as an operational expense" (T6: 1195).

In contrast the capitalization limits for other Crown Corporations, such as British Columbia Hydro and Power Authority ("BC Hydro") are $5,000 except for computers and related software purchased externally, which have a capitalization limit of $1,000 (BC Hydro, Accounting Policy Manual Section 5.01 – Criteria for Capitalization, January 2003). Being Crown Corporations regulated by the Commission, ICBC's ceiling for capitalizing IT assets is much higher than BC Hydro's and hence ICBC's higher capitalization ceiling has effectively served to increase its general operating expenses. The Commission notes this higher capitalization limit impacts rate stability since periodic investments such as replacement and upgrading of equipment causes spikes in general operating expenses.

The Intervenors did not provide any comments on IT operating expenses.

The Commission Panel accepts ICBC's 2006 IT operating expenses as filed but notes ICBC's high capitalization ceiling. A high capitalization ceiling could be an advantage for taxable entities but since ICBC is a Crown Corporation such tax advantages would be inconsequential. The Commission Panel notes this higher Capitalization Policy shifts ICBC's capital spending into operating expenses which could have a material impact on rates. ICBC is directed in its next revenue requirements application to show the effect on rates of the employment of a capitalization policy mirroring the practice of BC Hydro since the commencement of the 2005 policy year.

2.6 Operating Expenses

In the actuarial rate level indication contained in the August 22, 2005 application (Exhibit B-1) ICBC forecasts Basic Insurance operating expenses in the amount of $180,197,000. This amount remained unchanged in its subsequent revised filings dated October 24, 2005 and

January 27, 2006, respectively (Exhibits B-12 and B-30). As a result of further adjustments in the allocation of expenses between the Optional and Basic Insurance lines of business the final forecast for Basic Insurance operating expenses has been reduced by $3,746,000 to $176,450,000.

The following schedule illustrates the major operating expense categories and offsetting service fees.

Basic Insurance

Operating Expenses - Actuarial Rate Level Indication - Policy Year 2006

	(Dollars in Thousands)
Operating expenses - insurance services	$ 25,479
Operating expenses - administration and other	56,826
Road Safety and Loss management	46,686
Service Fees for Financing Plans	(27,019)
Non-Insurance expenses	78,225
Total Operating expenses (before adjustments)	180,197
Allocation adjustment (additional amounts allocated to Optional)	(3,746)
Adjusted Operating expenses for policy year 2006	$ 176,450
Reference for detailed amounts	Exhibit B-15

ICBC's Chief Financial Officer sums up ICBC's performance pertaining to operating expenses as follows:

> "If I think in terms of the operational costs, and things that are directly within the control of the management of ICBC, I think that we've done a very good job in reducing those costs and maintaining fairly tight management controls around

> those costs. And you can see that from the way the operating costs have looked year to year, from the high of about 2000 to the current date" (T3: 505).

Intervenor Submissions

Intervenors did not take issue with the amount of the above operating expenses.

Commission Panel Determination

The Commission Panel approves the above Basic Insurance operating expenses for the 2006 policy year.

2.7 Staffing Levels

ICBC's total staffing level, expressed in full time equivalent ("FTE") positions, for the period from 2001 to 2006 is shown in the following schedule:

Year	Total FTE Count	Reference
2001	6,213	Exhibit B-1, p.8-3
2002	5,197	Exhibit B-1, p.8-3
2003	4,859	Exhibit B-1, p.8-4
2004	4,764	Exhibit B-1, p.8-4
2005	4,893	Exhibit B-1, p.8-5
2006	4,896	Exhibit B-9, 2006.1 BCUC.79.5

In 2006 the total FTE count remains approximately 21 percent below the level of FTEs in 2001 "…even though the number of ICBC policyholders and vehicles licensed in the province has steadily increased" (Exhibit B-1, p. 8-4). ICBC states that "…business continued to grow, increasing by 5.9% between 2001 and 2004. Policy growth is projected at 1.7% for 2005 and 2.2% for 2006" (Exhibit B-1, p. 7-42).

<u>Intervenor Submissions</u>

Counsel for CDI probed the matter of staffing levels in the context of the possible effect that a reduction in the number of claims adjusters may have on the cost of settlements:

> “MR. ELWICK: Q: It’s 232. Right at the back. You’re almost at the back. Now, if you look at the last item there, on the five-year comparison, the number of employees you’ll see a substantial decrease from 2000 through to 2003, and then a bit of an uptake in 2004. And I asked the first panel whether adjusters would have been involved in the downsizing, and if that was the case, then could excess case loads on the remaining adjusters affect settlements being made? And Ms. Prior did agree that claims adjusters were included in the staffing decreases” (T6: 970).

The Vice President, Loss Management and Operations Support for ICBC responded:

> “MR. WITHENSHAW: A: No, actually, as a result of our voluntary separation package [VSP], we had 66 full BI adjusters leave ICBC and we had four claims examiners leave at the same point in time. However, I think the thing to be kept in mind is at the time of this staff departing, we also changed our business model. As Mr. Tyller mentioned earlier, we had some programs such as the recovery management program that we had started pursuant to the recommendations out of the Allen Report, and we had looked at reviewing those type of programs to see how efficient or cost-effective they were for us. And through that type of business process review, we were able to reallocate adjusters from doing other functions to cover the departing BI adjusters who left with the VSP” (T6: 970-971).

> “MR. WITHENSHAW: A: You know, as I think is in evidence following the VSP, is that we had a series of BI adjusters leave. We were able to redeploy, fortunately, experienced existing BI adjusters from other roles back into the BI caseloads, so that we were able to cover for those people departing” (T6: 974-975).

Other Intervenors did not specifically comment on the staffing levels for the 2006 policy year.

Commission Panel Determination

The Commission Panel accepts the level of FTEs forecast by ICBC for the 2006 policy year.

2.8 Management Compensation

Prior to these proceedings, ICBC granted about $8.1 million in compensation bonuses to 852 management and non-union staff for 2005. These bonuses generated a great deal of negative comment by members of the public who saw, within a short space of time, significant bonus payments made to the Executive and Management Group at a time when ICBC was applying for rate increases. The timing was unfortunate.

Many of the letters of interest received by the Commission from members of the public seemed to say that no bonuses should be paid at all when rates are going up. It is trite to say that at a minimum, ICBC had a public perception problem on the issue and that there was a poor level of understanding on the part of the public of the role that “at risk” compensation (or performance pay) plays in the overall “total compensation” paid to employees. Nor was there any awareness on the part of the public of the recent changes that had been made in management total compensation -- loss of holiday time, car benefits reduced, prior wage freezes, corporate wide cost saving policies. The simplistic view was that if rates are going up, no bonuses should be earned or paid. This criticism of ICBC would seem to be unfair.

In fact, it appears that for the period 2003-2004, if post retirement benefits are removed, that total compensation on a corporate-wide basis, actually went down (T7: 1305-1306; Exhibit C-16-30, pp.1-2, Tables 8.2-8.4). However, executive compensation (excluding the top senior executives) experienced an average increase of 16.4 percent over the period 2002-2006 (T7: 1329).

The Commission Panel took note of the testimony of the Vice President Human Resources and Corporate Law. He reported that in respect of two searches to fill senior positions, the recruitment firms advise that ICBC’s compensation was “out of market” (T7: 1324). The result is that recruitment is often difficult. The witness noted that executive and management compensation scales were under review and that a consultant had been retained to assist the Corporation in this area and to formulate recommendations that would be presented to the Board of Directors and subsequently to the Public Sector Employers' Council ("PSEC") for approval (T7: 1337). Later in the proceeding, he indicated that the long term objective was to bring the compensation of the corporation into the median of a market sampling. He further noted that to fail to do so, would hurt the company in the long run (T7: 1461).

There is an extensive analysis of Performance Pay in the cross-examination by BCOAPO and it was noted that for individual employees below the level of director, the maximum performance pay was a possible 45 percent of base salary assuming that all targets had been exceeded (T7: 1342). It is not the Commission's role or jurisdiction to analyze the fairness or relative equity of a pay for performance plan, as between classes of employees; that would be a regulatory invasion of matters properly left to management, the Board of Directors, and the supervisory institutions that the government has put in place - namely the PSEC. However, if total compensation were to begin to have any undue impact on rates, then the Commission would have to take a more detailed look. No such impact is apparent at this time.

3.0 ALLOCATION MATTERS

3.1 "Additional Seven" Allocation functions

The 2005 Decision directed ICBC to provide information at a much more detailed level in respect of seven additional allocation functions (2005 Decision, pp. 38-39, 41). For reference the seven additional allocation functions are as follows:

(Based on 2003 actual costs)

	Cost Category	Allocator	$ in thousands Basic Insurance	Non-Insurance	Optional Insurance	Total	Allocation % Basic Insurance	Non-Insurance	Optional Insurance	Total
1	Salvage	Net Claims –MD	1,209	0	1,890	3,099	39.0%	0.0%	61.0%	100.0%
2	Customer Service (Liability Resolution)	Directly Attributable to Basic	1,373	0	0	1,373	100.0%	0.0%	0.0%	100.0%
3	Customer Service (Call Centre)	Weighted Average – Cost Centres	572	56	391	1,019	56.1%	5.5%	38.3%	99.9%
4	Marketing	Average of FTE & Advertising Expense	898	0	599	1,497	60.0%	0.0%	40.0%	100.0%
5	Insurance Corporate Cost	Finance Shared Services Ratio	688	0	405	1,093	63.0%	0.0%	37.0%	100.0%
6	Marketing & Underwriting Applications	Insurance Division Average	500	0	332	832	60.1%	0.0%	39.9%	100.0%
7	Customer Accounting	Weighted Average – Income	1,007	345	86	1,438	70.0%	24.0%	6.0%	100.0%
	TOTALS		**6,247**	**401**	**3,703**	**10,351**	**60%**	**4%**	**36%**	**100.0%**

In the Application ICBC refers to the above as the "Additional Seven" (Exhibit B-1, p. 10-1) and presents the requested additional information at a much more detailed level in Section 10.1 of Exhibit B-1.

ICBC in its Application has also changed the name of several of the cost centres used for the allocation process and in the case of what was "Customer Service (Liability Resolution)," has divided the centre into three separate divisions to more accurately define the work involved (Exhibit B-1, p. 10-6). A table is included to show a reconciliation of the old and new names (cost category) that are used (Exhibit B-1, p. 10-2).

The revised cost categories, allocators and percentages are as follows (Exhibit B-1, p. 10-23):

(Based on actual 2004 costs)

	Cost Category	**Allocator**	**$ in thousands**				**Allocation %**			
			Basic Insurance	**Non-Insurance**	**Optional Insurance**	**Total**	**Basic Insurance**	**Non-Insurance**	**Optional Insurance**	**Total**
1	Salvage	Net Claims – MD	1,203	0	1,731	2,934	41.0%	0.0%	59.0%	100.0%
2	Claims Dispute Resolution-MD	Collision/PD Split	156	0	303	459	34.0%	0.0%	66.0%	100.0%
	Claims Dispute Resolution-BI	Work Effort	409	0	21	430	95.0%	0.0%	5.0 %	100.0%
	Customer Advocacy	Claims Division Average	490	2	325	817	60.0%	0.3%	39.7%	100.0%
3	Customer Service Support	Weighted Average –cost Centres	1,204	243	1,366	2,813	42.8 %	8.6%	48.6%	100.0%
4	Marketing & Broker Services	Premiums Written-With Exception	1,834	0	597	2,431	75.5%	0.0%	24.5	100.0%
5	Insurance Corporate Cost	Finance Shared Services	814	0	535	1,349	60.4%	0.0%	39.6%	100.0%
6	Insurance Services Application Support	Insurance Division Average	425	0	281	706	60.2%	0.0%	39.8%	100.0%
7	Customer Accounting	Weighted Average – Transactions	645	395	276	1,316	49.0%	30.0%	21.0%	100.0%
	TOTALS		**7,180**	**640**	**5,435**	**13,255**	**54%**	**5%**	**41%**	**100.0%**

The Commission Panel notes that the total costs covered by the "Additional Seven" amount to $13,255,000 (or approximately 3 percent of the total costs subject to allocation) for 2004 and in terms of materiality, are less significant than the major areas of cost allocation that were dealt with and were disposed of in the 2005 Decision and the Negotiated Settlement Agreement dated May 18, 2005.

The result from the above analysis is an overall reduction in the allocation of these costs to Basic Insurance. The original study allocated approximately 64 percent of these costs to Basic Insurance whereas the revised study indicates that approximately 59 percent of these costs should now be allocated to Basic Insurance. Based on 2004 actual costs, this amounts to a shift of approximately $663,000 away from Basic Insurance.

Intervenor Comments

Intervenors addressed the continued reliance by ICBC on the integrated business model and the resulting lack of transparency in the filing in respect of allocation of costs generally (IBC Final Submissions, pp. 36, 41). There were continuing calls for greater separation in the two operating insurance business lines.

IBC noted that it had been frustrated in its examination of the operating expenses of various divisions of ICBC, and cited its finding that in order to understand the total cost of Specialized Claims, a category within ICBC's Operations Division, they had found it necessary to refer to nine different allocation functions (IBC Final Submissions, p. 28). This highlights the fact that any cost allocation methodology must strike a balance between precision and simplicity. The more you have of one, the less you may have of the other. And it may be that the allocation methodology does not mesh nicely with the statements of operating expenses, when these are presented to serve accounting purposes based on corporate organization. As ICBC stated, "I give you that it is a bit of a complicated path to follow…you have to be an accountant to follow through" (T7: 1366). IBC called for continuing attention by the Commission to the overall issue of allocation and asked that this policy area again be tested and form part of the 2007 revenue requirement proceeding (IBC Final Submissions, p. 44).

IBC noted that cost allocation was influenced if there were personnel changes or reorganizations under which personnel moved to corporate divisions that were subject to different cost allocators (IBC Final Submissions, p. 29). ICBC responded that this possibility was monitored manually and that the Corporate Planning Division looks at the implications of corporate reorganizations with a view to assessing what, if any, the impact might be on cost allocation (T7: 1284, 1287, 1367, 1368). The Commission Panel notes that it is current ICBC policy, upon a reorganization, that the appropriate allocator follows the employee to the new location. It is also noted that consideration is being given to automating this tracking of allocators. The Commission Panel is of the view that ICBC must retain an unrestrained power to make reorganizations to meet business objectives.

The Commission Panel accepts ICBC's current policy of tracking personnel moves and the resulting impact on allocation results.

Pemberton put forward the view that use of the Premiums Written allocator led to a skewing of allocation result; it argued that if Basic rates were increased and Optional rates were decreased (a not unlikely scenario given claims results, the pressures of the market and the existing market shares as between the corporation and the private insurers), there would be an increase in the Basic allocation percentage (Pemberton Submissions, p. 6). ICBC appears to accept this as a fact but goes on to say that "this will benefit the Basic policyholders in that the amount being allocated using the Premiums Written allocator is a net revenue item, not an expense" and in any event, "the overall impact is not significant" (ICBC Reply Submissions, p. 37). This result arises because of the large revenues from the Premium Financing Plan Recoveries and Minimum Retained Premiums (both shown in Administration and Other Costs) being greater than the costs of all other costs derived using the Premiums Written allocator (Exhibit B-1, Section 7.8, Appendix 1B).

The issue is not insignificant, but is out of scope for this proceeding and may be reviewed in the further detailed study of allocations to be submitted to the Commission before the end of calendar 2007 as detailed in the Commission cover letter dated May 18, 2005, which accompanied Order No. G-46-05 approving the Negotiated Settlement Agreement.

In the 2005 Decision, the Commission directed ICBC to allocate Operating Costs-Administration and Other, equally between Basic Insurance and Optional Insurance, after deducting the costs allocated to Non-Insurance (2005 Decision, p. 42).

The allocation percentages shown for Administration and Other in Section 7.8, Appendix 1B reflect the direction.

The Commission Panel commends ICBC's efforts to respond to the directions in the 2005 Decision and further notes that ICBC is attempting to introduce automated systems to track and record the allocated costs. The Commission encourages ICBC to continue work in this vein and to suggest revisions to the adopted methodology and detailed tracking of allocated costs if such revisions will significantly reduce corporation workload or cost, and simplify interpretation of results for the Commission and Intervenors. While cost allocation will always be a "work in progress" as the market changes, reorganizations occur, and tracking systems evolve, the Commission will continue to require a sufficient level of detail to satisfy the Commission's mandate that is set out in the Insurance Corporation Amendment Act.

3.1.1 Salvage Administration Cost Allocation

IBC contested the allocation of the administration costs associated with the handling of salvage operations. In short, its argument seems to be based upon three unrelated grounds. First, it claims that under current ICBC practice for subrogated claims, ICBC does not compensate a private insurer for handling costs associated with a salvage operation and yet, uses its own internal costs for these operations as part of the development of the Net Claims Cost-MD allocator (T5: 898). Second, by including the administrative costs, ICBC inflates the size of the costs allocated to Basic; and third, "the cost of handling the salvage, arises, subject to a few exceptions, because the vehicle in respect of which the salvage costs occur has ICBC Optional coverage" (IBC Final Submissions, p. 31, para. 138). IBC makes no reference to evidence on the record to support this latter view.

It is agreed that the allocator (Net Claims Cost-MD) allocates the cost of handling salvage on the basis of where the claim is paid (i.e., under which business line) and not necessarily on the basis of cost causality and where the work effort was expended (T5: 897).

ICBC in reply, ties the work expended and allocated to Basic Insurance, to ICBC's duty to defend all claimants, regardless of whether they have Optional Insurance coverage with ICBC, a private insurer, or none at all (ICBC Reply Submissions, pp. 38-39).

The Commission Panel determines that continued use of the Net Claims Cost-MD allocator is appropriate as currently employed by ICBC. However, the Commission Panel directs that ICBC, in its next revenue requirements proceeding explain why salvage administrative expenses incurred by a private insurer are not paid by ICBC when there is a subrogated claim against ICBC by the private insurer.

3.1.2 Customer Service (Liability Resolution)

As noted above, this title has been subdivided into three separate cost allocations, each with its own allocator. These are summarized at Tables 10.1.3 and 10.1.4 of the Application (Exhibit B-1, p. 10-7).

In respect of Claims Dispute Resolution-MD, CDI argues that as fault assessment and damage claims are initiated on the "Optional side" (i.e., Optional Insurance), 100 percent of these costs should be allocated to Optional with perhaps some reduction to account for those clients that do not have collision coverage. ICBC has allocated 34 percent to Basic and 66 percent to Optional on the basis of the Collision/PD Split allocator. ICBC responds that the chosen allocator was recognized in Exhibit B-27 of the October 2004 proceeding and the May 2005 Negotiated Settlement Agreement and as for Salvage costs, reflects ICBC's statutory duty to defend.

For Claims Dispute Resolution-BI, CDI states that the allocation does not take account of Regional Claims Head Office claims allocators. ICBC calculates a cost split of 95 percent to Basic and 5 percent to Optional, using work effort as the allocator. IBC proposes a split of 60 percent Basic and 40 percent Optional.

The third component of the renamed grouping is Customer Advocacy. ICBC has split the costs ($490,000 for 2004), 60 percent to Basic and 40 percent to Optional using the "Claims Division Average" as the allocator.

The Commission Panel finds that, in respect of Claims Dispute Resolution-MD costs, the Collision/PD allocator is appropriate. However, as with all allocation issues Intervenors at future proceedings are free to present new evidence and/or argument as to the use of any particular allocator. The Commission will require strong evidence to support any change and will also consider the materiality of any change, if it were to be granted.

3.1.3 Customer Service Support

CDI sought explanations as to why the allocations were different for the four components outlined in Table 10.1.7 of the Application (CDI Submissions, p. 12, para. 57). ICBC replied that the difference is related to the different cost centres relevant to work being undertaken (ICBC Reply Submissions, p. 40).

3.1.4 Marketing and Broker Services (formerly Marketing)

CDI questioned the need for any broker advertising at all and was of the view that all advertising for road safety and loss management programs ought to be collected under those specific cost centres rather than under a marketing or broker services rubric (CDI Submissions, p. 12, para. 58). ICBC replied that the advertising was directed at loss management programs, not marketing for the sale of products by brokers (ICBC Reply Submissions, p. 40).

ICBC notes that the costs at play here are not advertising costs for media but relate to the administrative costs involved in managing ICBC's outside advertising agency. ICBC is willing to consider alternative means to allocate these costs (ICBC Reply Submissions, p. 41).

The Commission encourages ICBC to do so and report on its progress in the next revenue requirements proceeding.

3.1.5 Insurance Corporate Cost

This allocation function is "an accounting cost category used to record the performance bonus and gain sharing accrual net of pension and post retirement benefit adjustments for Insurance Service employees. The allocator is the Finance Shared Services Ratio with 60.4 percent allocated to Basic. IBC questions the weighting given the relative performance of the two insurance business lines (IBC Final Submissions, pp. 33-34). Both CDI and IBC sought a lower allocation of these costs to Basic. ICBC noted in reply, that performance payouts were only marginally dependent upon corporate financial targets but related more to other corporate, divisional and personal objectives (ICBC Reply Submissions, p. 41). **The Commission Panel is of the view that Insurance Corporate Costs is an administrative expense common to both insurance business lines, and directs they be split 50/50 in accordance with the 2005 Decision (page 42) and as shown in the August 22, 2005 application, Section 7.8, page 7-122**.

3.1.6 Customer Accounting

The issue here is how to allocate costs associated with claims recovery and defaulted premiums. IBC opined that the allocation of these costs was too heavily weighted against Basic (IBC Final Submissions, p. 33) and pointed out that ICBC does not track defaulted premiums by average (i.e., line of business). But in its Application, ICBC sets out the allocators as the Accounts Receivable Ratio, which is a weighed average of three secondary allocators, supposedly indicative of the various activities within Customer Accounting. One of these secondary indicators is "Claims Recovery" which is developed "based on actual dollars paid by coverage" (emphasis added). So it appears to the Commission Panel that ICBC, in this instance, does track where payments are sourced. In like manner, it may be possible for ICBC to track defaulted premiums by coverage and allocate these costs accordingly.

ICBC is encouraged to investigate this option and report back to the Commission, any significant impediments, prior to filing its next revenue requirements application.

3.1.7 Insurance Services Application Support

These costs represent the compensation and other general expenses of the Information Services Division personnel who provide technical support for applications dedicated to the Insurance Division. Details are set out in Exhibit B-1, Section 10.1, page 10-18. The allocator is the Insurance Division Average. No Intervenor suggested alternative allocations for these costs.

Commission Panel Determination

The Commission Panel approves the allocators as presented and amended by ICBC and set out in the above sections.

3.2 Allocation of Auto Crime Prevention Costs

In the 2005 Decision the Commission did not agree with ICBC with respect to the methodology being proposed to allocate auto crime prevention costs. ICBC's stated view was that "auto crime prevention costs were included in the definition of "Road Safety Initiatives" and, as a result, were directly allocated to Basic Insurance in accordance with Special Direction IC2." ICBC submitted that this was appropriate on the basis that the reduction in auto crime and the injury and property damage caused by stolen vehicles benefits all British Columbians through the reduction in Basic Insurance claims payments including accident benefits, third-party liability and uninsured motorist protection (2004 Application, Chapter 1, Section 4.2.3, p. 1-45).

The 2005 Decision stated:

> "The Commission Panel has considered ICBC's argument that certain initiatives benefit both Basic and Optional Insurance and the competing products of other insurance companies and that is reason to allocate the entire cost of the program to Basic Insurance. While the Commission Panel recognizes the benefit to private insurers it rejects the suggestion that this is sufficient reason why the entire cost should be allocated to Basic Insurance. However, to the extent that a 'subsidy' to private optional insurers' results from these programs it may be reasonable that a portion of the cost, perhaps based on an estimate of market share of these insurers, be charged to Basic Insurance" (2005 Decision p. 60).

In the Application, ICBC is "proposing that the allocation of auto crime prevention costs recognize that both private insurers and self-insured motorists benefit from reduced auto theft costs" (Exhibit B-1, p. 10-28). As a result, ICBC proposes the following allocation of auto crime prevention costs for future filings:

> "Allocate the auto crime prevention costs between Basic Insurance and Optional Insurance based on the percentage of comprehensive insurance market share held by ICBC. The portion of the market that ICBC provides with comprehensive insurance coverage is 73.6 percent as of 2004 year end. ICBC's portion of the market is calculated based on the percentage of all Basic Insurance policies purchased by ICBC customers and those ICBC customers who have purchased comprehensive insurance" (Exhibit B-1, p. 10-28).

ICBC points out that "auto crime prevention costs incurred by ICBC under the Traffic and Road Safety Law Enforcement Funding Memorandum of Understanding between ICBC and the Minister of Public Safety and Solicitor General will continue to be allocated to Basic Insurance in accordance with Section 3(1)(c)(ii)(E) of Special Direction IC2" (Exhibit B-1, p. 10-28).

<u>Intervenor Submissions</u>

CDI questions the validity of this allocation of market share as it is calculated on the percentage of Basic policies purchased by ICBC customers and those ICBC customers who have purchased comprehensive insurance. CDI is of the view that this is a flawed allocation because it presupposes that 100 percent of Basic policyholders purchase comprehensive either from ICBC or private carriers. CDI also questions why there is any allocation at all to Basic when theft is an Optional coverage. It is submitted there should be no allocation to Basic for auto crime prevention costs (CDI Submissions, p. 14).

IBC states "with regards to ICBC's 'Alternative Allocation,' the rationale for the 26.4% allocation to Basic remains a puzzle" (IBC Final Submissions, p. 35, para. 159). IBC submits that in response to an Information Request ICBC was only able to provide anecdotal evidence with respect to the impact of auto crime on Basic Insurance: "Many auto thefts involve thieves driving stolen vehicles. These vehicles are often driven aggressively and at unsafe speeds" (Exhibit B-23, 2006.1 IBC.161.1). IBC also points out that in the course of the hearing ICBC also provided information that auto thieves cost ICBC $10 million per year in damage to innocent persons, however, this number is not broken down between material damage and bodily injury claims (T5: 936; T6: 1087-1088). IBC submits "the fact is that ICBC's Basic product does not provide auto crime coverage. ICBC's auto crime prevention is aimed at reducing ICBC comprehensive and collision claims" (IBC Final Submissions, p. 35).

Commission Panel Determination

In the 2005 Decision the Commission Panel recognized the benefit to private insurers resulting from auto crime prevention programs and related costs and stated "it may be reasonable that a portion of the cost, perhaps based on an estimate of market share of these insurers, be charged to Basic Insurance" (2005 Decision, p. 60). In its Application ICBC suggests that motorists who self insure also benefit from these programs (Exhibit B-1, p. 10-28).

The Commission Panel recognizes that the suggestion made in the 2005 Decision to apportion some cost to Basic Insurance based on an *estimate* of the market share of private insurers presents its own problems and the potential for controversy.

The Commission Panel considered the proposal made by ICBC to "[a]llocate the auto crime prevention costs between Basic insurance and Optional insurance based on the percentage of comprehensive insurance market share held by ICBC…ICBC's portion of the market is calculated based on the percentage of all Basic insurance policies purchased by ICBC customers and those ICBC customers who have purchased comprehensive insurance" (Exhibit B-1, p. 10-28). **The Commission Panel considers this approach to be reasonable and consistent with the general direction provided in the 2005 Decision and therefore approves this proposal.**

3.3 Corporate Project Costs

Project Allocation

ICBC proposes that in future years ICBC will review projects and identify significant corporate projects which are appropriately allocated 100 percent to either Basic or Optional Insurance and reflect this in the allocation of corporate project costs. ICBC submits this will be based on information available about proposed projects with planned development costs in excess of $500,000. Allocating these projects 100 percent to Basic Insurance, Non-Insurance or Optional Insurance would result in a shift of 2006 costs from Basic Insurance to Optional Insurance of approximately $1.7 million (Exhibit B-1, p. 10-32). Based on the analysis undertaken for the July 2004 Application and the proposed business changes for 2006, four projects were identified as directly attributable to Basic Insurance or Optional Insurance (Exhibit B-9, 2006.1 BCUC 105.2-105.3).

IBC in paragraph 153 of its Final Submissions indicates its general agreement to ICBC's proposal but also suggests that corporate projects under $500,000 should be allocated in the same manner. ICBC does not agree. ICBC submits that the $500,000 threshold strikes a better balance between the additional work effort associated with further refinements and the benefits that such further refinements would yield (ICBC Reply Submissions, p. 44, para. 133).

Commission Panel Determination

The Commission Panel approves ICBC's project allocation of significant corporate projects which are appropriately allocated 100 percent to either Basic or Optional Insurance. ICBC should identify and quantify these specific projects when allocating costs. Also, ICBC should review these projects for scope changes to ensure that they would continue to be identified as either 100 percent Basic or Optional Insurance costs.

4.0 THE RATE DECISION

Relatively Stable and Predictable Rates

The Commission is required, under Section 3(1)(e) of IC2, to "… ensure that increases or decreases in [Basic] insurance rates are phased in in[sic] such a way that those rates remain *relatively stable and predicable*." The Commission notes that ICBC, in its Application and evidence refers to its own objective of "… maintaining *low and stable* rates …" (emphasis added in both cases) (Exhibit B-1, p. 2-3).

The Commission's view is that the criteria of rates remaining *relatively* stable and predicable must be applied in light of the mandatory requirements for the minimum MCT ratios set out in IC2. In other words, once the Commission is satisfied that ICBC's rates, revenue requirements and capital management programs are adequate to both attain and maintain the minimum MCT ratio requirements, then rate stability and predictability should be factored into the rate setting management process to balance these somewhat competing objectives.

Intervenor Submissions

Pemberton suggests that a rate increase in line with inflation would be reasonable (Pemberton Submissions, p. 7). CACBC suggests that a rate increase no greater than the provincial rate of inflation or no greater than ICBC's ten-year average increase would be appropriate (CACBC Final Submission, Sections 4.2 and 5.1). ICBC submits that there is no actuarial basis for such suggestions (ICBC Reply Submissions, p. 2, para. 6).

Commission Panel Determination

ICBC has applied for an "across the board" rate increase of 6.5 percent effective after March 14, 2006. The Commission Panel does not find any regulatory basis to support the suggestion by Intervenors that rate increases should be tied to inflation without an actuarial basis. Intervenors have suggested various modifications to ICBC's revenue requirement determination, but there has been no empirical or other evidence supporting these suggestions.

The Commission Panel has considered the Intervenor and Applicant submissions and has determined that, considering the direction in governing legislation, Special Direction, and *relatively stable and predictable* criteria described above, ICBC's application for a 6.5 percent rate increase is warranted.

The Commission Panel approves as permanent the 6.5 percent interim refundable rate increase effective after March 14, 2006, granted pursuant to Order No. G-9-06.

5.0 GENERAL CORPORATE MATTERS

5.1 Alternatives to Broker Distribution

In the 2005 Decision, the Commission requested ICBC "to provide enough information for the Commission to determine whether there are acceptable, cost effective alternatives to renewal through brokers" (2005 Decision, p. 90). In the Application, ICBC reports that it has examined two types of direct distribution: internet and telephone. ICBC concludes that "considering the challenges surrounding signature requirements and decal delivery as a result of legislative requirements; cost of distribution; anticipated low uptake for direct service; and the valuable role the broker plays in ensuring correct coverage, a broker distribution system continues to be the most cost effective and customer-friendly method of processing renewals" (Exhibit B-1, Chapter 12, p. 12-1). The application then cites over 50 benefits to Broker distribution and/or in the opinion of ICBC, impediments to any other form of distribution of the Basic product.

In cross-examination, ICBC seemed to defend the status quo and offered anecdotal evidence in support of its position.

Further, ICBC testified that "ICBC's current relationship with the brokers is governed in part by the Strategic Accord that will be in effect until December 31, 2007. As part of that Strategic Accord, ICBC has committed to brokers as the sole distributor of ICBC insurance products during the term of the Strategic Accord (with the exception of limited direct sales at ICBC's head office). Internet sales or telephone sales in direct competition with the brokers would be contrary to the Strategic Accord (T6: 992).

In reply to a question by Pemberton as to why ICBC has generally opposed the BCUC request to investigate renewals by internet, ICBC replied:

> "The Commission requested ICBC to provide information to determine whether there are acceptable cost-effective alternatives to renewal through brokers. So it's -- it's not as if there's a direction that we're going against, but rather we explored whether or not there were alternatives to the broker distribution that

> were acceptable and cost effective, and of course our conclusion was that there are none" (T6: 1048).

BCUC Jurisdiction

BCOAPO in its Final Submissions questions the jurisdiction of the BCUC on this matter submitting "that the Commission has no jurisdiction to require ICBC to make any operational change in its distribution system, and even if it did, to do so would entail unacceptable risks for policy-holders. Nothing in the current legislation confers any authority on the Commission to tell ICBC how to run its day-to-day business. On the contrary, the statutory scheme recognizes and permits the use of private insurance brokers as sales agents of the Corporation. There is no apparent jurisdiction for the Commission to make an order restricting that practice" (BCOAPO Final Submissions, p. 27).

ICBC supports that position but considers that it has responded to the BCUC request. ICBC states: "ICBC notes BCOAPO's submission that the Commission has no jurisdiction to require ICBC to pursue alternatives to broker distribution. ICBC has considered the issue further, and respectfully concurs with BCOAPO's assessment. Regardless, ICBC has willingly undertaken the assessment of alternatives to broker distribution as directed by the Commission" (ICBC Reply Submissions, p. 45, para. 136).

Commission Panel Determination

In making the request for this information in the 2005 Decision, the Commission was generally aware of the services provided by brokers in the renewal process and the fees paid to brokers for these services. While the individual transaction fee of $8.60 for renewal of a Basic Insurance policy is considered by ICBC to be "very cost effective" (T6: 1261) and represent "very good value" (ICBC Reply Submissions, p. 84), in total, the cost to provide this service to almost three million policy holders is substantial.

The Commission Panel does not need to make a decision on the Submission by BCOAPO with respect to the jurisdiction of the Commission. The Commission Panel has no intention at this point to "tell ICBC how to run its business". The Commission Panel is concerned that the manner in which Basic Insurance is made available to the public, including related costs, is adequate, efficient, just and reasonable and broker payments for renewals of Basic Insurance represent a significant cost to policy holders. In examining this matter the Commission Panel's key concern is what best serves the public interest. The Commission Panel is of the view that ICBC has not responded appropriately to the request made in its 2005 Decision "to provide enough information for the Commission to determine whether there are acceptable, cost-effective alternatives to renewal through brokers" (2005 Decision, p. 90).

This matter remains unresolved. The filings and cross-examination did provide useful information, however. Rather than readdress the direction by the Commission in the 2005 Decision, ICBC is requested to explore and evaluate business methods, with or without the involvement of brokers, that have the potential to reduce or at least contain, on a go forward basis, the cost of renewing a Basic Insurance policy and report back to the Commission before the next revenue requirements application**.**

5.2 Compliance with the 2005 Decision Respecting Road Safety, Road Safety Definition and Allocation of Auto Crime Prevention Costs

In 2005 ICBC estimated total spending to be $46.6 million on Loss Management operating expenses and budgeted $47.3 million for 2006 (Exhibit B-1, p. 7-21, Table 7.2.2).

5.2.1 Compliance with the 2005 Decision Respecting Road Safety

In the 2005 Decision, the Commission expressed concern about the measurement of effectiveness of Road Safety and Loss Management ("RSLM") programs and the ability of ICBC to take action to influence the effectiveness of these programs. In that Decision the Commission Panel stated:

> "In future filings the Commission Panel will expect to see the use of clear funding tests such as a zero-based budgeting type methodology employed for establishing the budget for RSLM programs. Further, all projects should be targeted to produce measurable claims cost reduction outcomes, and periodic or post-project evaluation should be carried out in a manner appropriate to the program. It is recognized that partnering, including interjurisdictional involvement, is inevitable and at times beneficial to the intended result; however, ICBC must be in a position to manage the project outcomes to ensure the achievement of program objectives thereby maximizing its return on investment. The Graduated Licensing Program is a particularly disturbing example of interjurisdictional inefficiency. In this case, ICBC reports clear evidence that an aspect of the current program model is causing an increase in claims activity but is unable to initiate prompt remedial action. The Commission Panel has determined that if a program does not have measurable outcome targets, or is not being managed by ICBC to ensure its effectiveness in terms of claims cost savings outcomes, it should not be in RSLM. A more appropriate place for the activity and expense might be to parallel the action taken by ICBC with respect to the Autoplan Broker MOU road safety program and consider such programs primarily a marketing activity and expense" (2005 Decision, p. 56).

In response to various Information Requests, ICBC has provided lists of Road Safety programs (2006.1 BCOAPO 27.2 2006.1, IBC 76.1 2006.1, IBC 79.1). Also in response to Information Requests, ICBC advised that it is in the process of adopting a modified zero based budgeting approach and will "continue to evolve this approach as part of future years budgeting processes" (Exhibit B-9, 2006.1 BCUC.43.8).

<u>Intervenor Submissions</u>

IBC takes the position that "ICBC's failure to move ahead more quickly means that it can continue with its "money in search of projects" approach. This is particularly troubling at a time when ICBC has proposed Road Safety Programs as one possible approach for reducing bodily injury costs" (IBC Final Submissions, p. 21).

ICBC did not respond to this issue.

Commission Panel Determination

The Commission Panel is concerned that ICBC appears to have not made progress in this area as directed in the 2005 Decision. Particularly troubling is ICBC's failure to address issues around the Graduated Licensing Program ("GLP") "time incentive." There was evidence presented during the previous Hearing that an Ontario study (completed before ICBC's studies) concluded that the "time incentive" lead to an increased crash rate (October 5, 2004, T1: 164). In response to an Information Request made in the course of the present Application, ICBC advised that a preliminary assessment was expected in December 2005 and that a benefits analysis would be completed by March 31, 2006 (Exhibit B-23, 2006.1 IBC.28.1 IBC.29).

ICBC also advised:

> "Due to the scope and effects on the driver training industry, ICBC is planning further consultations with a number of stakeholders and partners including the driver training industry, road safety groups, government, police agencies and the BC Confederation of Parent Advisory Councils. It is anticipated that these consultation meetings will start in the first quarter of 2006" (Exhibit B-23, 2006.1 IBC.218).

In cross-examination ICBC was not aware whether the goal date of March 31, 2006 had been met although ICBC did explain: "The results of the preliminary assessment indicate that GLP participants who complete the approved driver training course and leave the program earlier have had a higher crash rate than those who completed the full 12-month learners stage" (T5: 914-915).

Mr. Johnson, Counsel for ICBC, subsequently advised that the report expected at the end of March was not completed. However, ICBC was able to file an evaluation report summary, the GLP Year 6 Evaluation Report Summary, which states in paragraph 5: "Consistent with the year 3 interim report, this evaluation found a higher crash rate associated with novice drivers who had taken an approved driver education course and left the learner stage 3 months early. The time reduction in the learner stage, even with the longer learner stage introduced within GLP, remains counter productive to GLP's road safety objectives" (Exhibit B-44).

The 2005 Decision was very clear in its expectations of clear funding tests, targeted programs to produce measurable claims cost reduction outcomes, and periodic or post-project evaluation carried out in a manner appropriate to the program. It was recognized that partnering, including inter-jurisdictional involvement, is inevitable and at times beneficial to the intended result; however, ICBC must be in a position to manage the project outcomes to ensure the achievement of program objectives thereby maximizing its return on investment. In this respect, specific reference was made to the GLP where evidence existed that certain aspects of the program were counter productive. The Commission Panel is particularly concerned about the lack of progress on these matters. As a result, the Commission Panel has a lack of confidence in the ability of ICBC to deliver cost effectively and with an appropriate measure of urgency in this area.

The apparent lack of effectiveness in this area has a direct connection to ICBC operating costs and containment of claims costs and a resulting impact on rates. **The Commission Panel directs ICBC to file a comprehensive Road Safety action plan, including program objectives, within 90 days of this Decision and to file progress reports on the implementation of the plan on a quarterly basis thereafter. The filing is to show how these programs will be planned and monitored effectively by ICBC in order to achieve the expected results. Should ICBC not be able to comply with the 90 day deadline it should notify the Commission with an explanation as to why an extension is required.**

5.2.2 Road Safety Definition Background

In the July 2004 Application seeking approval of ICBC's financial allocation methodology, ICBC also filed information with respect to Road Safety and Loss Management effectiveness. That information, as well as testimony at the October Hearing, reviewed ICBC's various activities grouped under the umbrella of "road safety and loss management". As a result of the information provided, the Commission determined that a "distinction must be made between road safety and loss management programs. In complying with this direction, ICBC should develop a defendable methodology that will achieve the desired distinction and be understandable and practical" (2005 Decision, p. 59).

Section 7(i) of the Insurance Corporation Act sets out ICBC's mandate to engage in road safety programs. That Section provides that it is "the function of the corporation and it has the power and capacity" to "promote and improve highway safety". The breadth of ICBC's function to promote and improve highway safety is illustrated by the term "highway", as defined in The Insurance (Motor Vehicle) Act, which includes:

- every highway within the meaning of the Transportation Act;
- every road, street, lane or right of way designed or intended for or used by the general public for the passage of vehicles; and
- every private place or passageway to which the public, for the purpose of the parking or servicing of vehicles, has access or is invited.

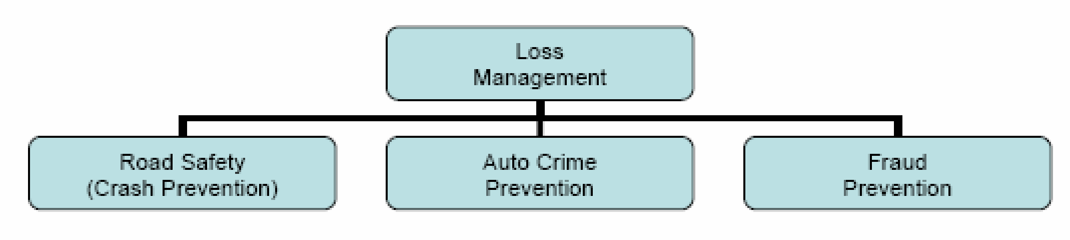
Section 3(1)(c)(ii)(A) of Special Direction IC2 requires the Commission to set rates which allow ICBC to collect sufficient revenue to pay "the costs that are to be incurred by the corporation in that year for road safety programs under section 7(i) of the Act".

<u>Proposed Definitions</u>

In response to the direction provided by the Commission in the 2005 Decision, ICBC is proposing new definitions that ICBC feels will be more practical and understandable.

ICBC is proposing the term "Loss Management" will be used as a high-level category to summarize three types of prevention activities in which ICBC engages: road safety (crash prevention); auto crime prevention; and fraud prevention.

The organization of the activities is described graphically as follows:



(Exhibit B-1, p. 10-26)

ICBC suggests the following definitions (Exhibit B-1, pp. 10-26 & 10-27):

Definition of Road Safety

Making reference to the legislative authority in the Insurance Corporation Act, ICBC's definition for road safety is as follows:

Road Safety -- Initiatives that are designed to promote or improve highway safety. This includes initiatives to prevent traffic crashes and initiatives to prevent injuries or reduce the severity of injuries resulting from traffic crashes. For further clarity and to enhance the understanding of the above definition, ICBC also wishes to provide information on the terms "road safety programs", "road safety strategies" and "road safety tactics" that are often used to describe Road Safety initiatives. ICBC defines Road Safety programs, strategies and tactics as follows:

Road Safety Program

A Road Safety program is a set of strategies designed to address a specific road safety issue. A Road Safety issue is either a specific factor that causes traffic crashes (e.g., impaired driving, aggressive driving, road design), a specific factor that affects the severity of traffic crashes (e.g., seat belt use, unsafe speed), or a specific group of road users that experiences high rates of traffic crashes (e.g., inexperienced drivers.)

Road Safety Strategy

A Road Safety strategy is a high-level approach to addressing a road safety issue (e.g., research, enforcement, road engineering, public awareness, education, regulation).

Road Safety Tactic

A Road Safety tactic is a specific component of a strategy (e.g., Seat Belt Campaign, Child Seat Inspection Clinic, SpeedWatch).

Definition of Auto Crime Prevention

Auto crime prevention initiatives are intended to prevent vehicle thefts, vehicle break-ins, and vehicle vandalism.

Definition of Fraud Prevention

Fraud prevention and investigation initiatives are designed to prevent and detect fraudulent claims and fraudulent business practices, both of which result in increased claims costs.

Intervenor Comments

IBC was the only Intervenor to comment on the suggested definitions. IBC takes the position that "ICBC's attempt in Chapter 10.2 of the August 22, 2005 filing to address the Commission's direction is far from adequate. Rather than presenting a methodology ICBC has presented a series of definitions that are at a high level and specifically avoid the distinction …. where the main beneficiary is Basic and programs that benefit Basic, Optional or both" (IBC Final Submissions, p. 24, para. 106).

ICBC argued “by applying the principles and the definitions in section 10.2 of Exhibit B-1, it is possible to determine whether a program is or is not a Road Safety program. ICBC has essentially adopted the Commission’s ‘suggested’ approach by characterizing as Road Safety programs those programs ‘that are intended to modify driving behaviour or that contribute to a safer driving environment’. ICBC rejects IBC’s suggestion that ICBC has only confused matters by adopting new terminology” (ICBC Reply Submissions, p. 42).

Practical Application

In cross-examination, ICBC’s Vice President, Loss Management, was able to explain that the “Zack Spencer Advertisements” were not part of Road Safety and were allocated 100 percent to Optional Insurance (T6: 988-989; Exhibit C6-18, p. 7). However, with the Vancouver Police Department (“VPD”) Program, the ICBC witness first advised the program was paid under the insurance side of the business as a marketing campaign; subsequently advised it was a road safety program; and finally, in redirect, explained that “it is funded under the road safety department but the allocation is completely to the auto crime program” (T5: 910-911; T6: 987, 1271). IBC argues that while ICBC was careful to emphasize that the VPD program only cost $100,000, the amount is not the issue. The issue is whether ICBC knows how it is funding these campaigns and whether Basic or Optional Insurance is bearing the cost.

Commission Panel Determination

The Commission Panel has determined that the definitions within Loss Management as provided by ICBC are adequate to distinguish between the various initiatives. It would appear however, based on cross-examination, that these definitions have not yet become the “official” lexicon used in the department, nor does the department name “Road Safety” seem helpful in building and understanding of the definitions as suggested by ICBC.

5.3 Detailed Billing and the Premium Tax

ICBC annually invoices its policyholders in the approximate amount of $3 billion (Annual Report, 2005) for insurance premiums in all business lines. Typically, a policyholder attends at a broker's office and coverage is reviewed. The broker either includes any optional coverage desired by the owner (beyond the $200,000 compulsory Basic Insurance for third party liability, such as collision, comprehensive or higher third party liability limits) in the ICBC summary invoice or may choose to offer such optional coverage with another private sector insurer. A vehicle licence fee is also collected. The policyholder is issued an ICBC "Owner's Certificate of Insurance and Vehicle Licence")" ("Certificate") together with a decal that is to be affixed to the licence plate of the insured vehicle to indicate that Basic Insurance coverage is in place and the vehicle is legally licensed.

Changes in legislation governing ICBC (Bill 93) will, in the future, require ICBC to issue two separate invoices and policies so that the consumer is aware that there are two separate coverages (Basic and Optional) and the premium costs of each will be set out. The Commission does not have jurisdiction in respect of the Optional Insurance line of business and what follows is restricted to Basic Insurance and the policy documentation issued by ICBC in respect of the Basic coverage.

Today, the Certificate lists the base cost for the appropriate territory and rate class (e.g. Territory W, Rate Class 021) and applies any discount that the policyholder is entitled to. Also, at present, any Optional coverages are shown together with the base costs and the amount owed after any applicable discounts. Finally, the vehicle licence fee is shown and a "TOTAL AMOUNT OWED" is shown as the bottom line.

As was discussed in the proceeding, ICBC discharges non-insurance roles (such as contributing to Road Safety and Loss Management programs) and contributes under various memoranda to other government programs such as enhanced law enforcement. The costs associated with these non-insurance costs are included in the Basic premiums for each owner/vehicle and are not separately identified for the consumer. Moreover, the application of a tax on the total premium in accord with the Premium Tax Act is not separately shown on the Certificate, but is buried in the premium stated. As a result, it is not transparent to the consumer what he/she is paying for in respect of the total invoice price and the “TOTAL AMOUNT OWED”.

Representatives of the Corporation stated that the IT technology and the billing systems presently deployed by the Corporation have the technical capability of providing a more detailed billing statement but opined that there did not seem to be much consumer interest in the cost breakdowns that additional billing transparency might bring (T6: 296).

The Commission Panel has determined that greater transparency in the detailed cost components of the TOTAL AMOUNT OWED (as that term is employed on the “Owner’s Certificate of Insurance and Vehicle Licence”) will serve the public interest and provide the policyholder with a greater appreciation of the non-insurance services provided through the Crown corporation, and the associated costs. This will provide a greater understanding of the true cost of Basic Insurance.

The Commission Panel directs that ICBC report back to the Commission within a period of 90 days from the date of this decision, with a suggested revised format for the Owner’s Certificate that would set out all of the non-insurance costs now included in the Basic Insurance premium including, without limitation, such items as:

- **the contributions made to government programs under any memoranda;**
- **Road Safety and Loss Management programs;**
- **enhanced law enforcement contributions;**
- **Premium Tax amounts.**

Upon review and consideration of the report and the revised format and content of the Owner’s Certificate by the Commission, the Commission will issue further direction.

There was a brief discussion during the proceeding as to whether or not it might be useful for the Corporation to consider seeking an exemption from the Premium Tax of the non-insurance cost items recovered as part of what is now referred to as the Basic Insurance premium (T7: 194). The Commission Panel considers that there may be some advantage for consumers, both currently and prospectively, in having the non-insurance costs now included in the ICBC Basic Insurance premium, exempted from the premium tax by following the procedure set out in Section 17 of the Premium Tax Act. ICBC is requested to report back to the Commission on management's views of such action, the estimated total current cost saving that would accrue to Basic and Optional Insurance policyholders if the exemption were granted by government for all non-insurance costs, and any negatives or costs that may be incurred were such a policy to be followed up. Of course, the Corporation may request such an exemption on its own accord at any time.

6.0 CORPORATE PERFORMANCE MEASURES

ICBC reports on a broad range of customer service, financial and efficiency performance statistics. These performance measures were developed through a negotiated settlement process ("NSP") involving ICBC, Intervenor groups and Commission staff. The negotiated settlement proposal "Performance Measures and Basic Insurance Information Sharing" was approved by Commission Order No. G-49-04. The purpose of the performance measures, as described in the May 2004 negotiated settlement agreement, "is to provide key performance metrics that will enable the Commission, Intervenors and the public to assess whether ICBC's provision of Basic insurance is adequate, efficient, just and reasonable. They are also intended to provide an indication of the financial quality of service performance of the Basic insurance line of business" (Exhibit B-30, pp. 9-1, 9-2).

The attached Appendix B of Chapter 9.0 of the Application (Exhibit B-30, p. 9-22) provides the most up to date performance statistics proposed by ICBC. ICBC has proposed three refinements to the performance measures.

Service Measures

Of the nine customer service performance measures tabulated on Appendix B, the statistics are relatively stable except for Insurance Services Satisfaction and Legal Representation Rate. The small forecast deterioration in Insurance Satisfaction was forecast based on an expectation that the government would proceed with Bill 93 in 2006, which would increase the transaction time of the insurance purchase. ICBC testified that it has been advised by the government to proceed with Bill 93 in 2006 for implementation in early 2007 (T6: 1162). With this new information ICBC now anticipates that the Insurance Satisfaction statistics for 2006 will remain stable with previous years.

APPENDIX B – TABLE OF PERFORMANCE STATISTICS

	Measures	2003 Actual	2004 Actual	2005 Outlook[f]	2006 Forecast[g]
Service	Insurance Services Satisfaction	95%	96%	95%	93%
	Driver Services Satisfaction	91%	91%	90%	90%
	Claims Services Satisfaction (BCUC)	n/a [a]	80%	79%	79%
	Accident Benefit Only (BCUC)	n/a [a]	62%	63%	63%
	New Claims Initiation				
	Percent of calls answered in 210 seconds	71%	62%	n/a [b]	n/a [b]
	Percent of calls answered in 120 seconds	63%	52%	n/a [b]	n/a [b]
	Customer Contact Service Level Percent of calls answered in 90 seconds	72%	64%	n/a [b]	n/a [b]
	Customer Approval Index	n/a	59%	58%	n/a [c]
	Legal Representative Rate	33%	32%	35%	35%
Financial	Basic Loss Ratio	95.7 [d]	97.0 [e]	109.8%	103.3%
	Basic Insurance Expense Ratio:				
	Basic Administrative Cost Ratio	3.9% [d]	3.1%	3.0%	2.9%
	Basic Premium Tax Ratio	4.0%	4.2%	4.4%	4.4%
	Basic Commission Ratio	2.0%	2.0%	2.1%	2.1%
	Basic Insurance Expense Ratio	9.9% [d]	9.3%	9.5%	9.4%
	Basic Non-Insurance Expense Ratio	6.3	6.2	6.3	5.3
	Investment Return	benchmark + 1.1	benchmark + 0.46	benchmark + 0.268	benchmark + 0.268
	Injury Severity				
	Bodily Injury Paid Severity	$20,526	$21,024	$23,904	$25,052
	Accident Benefit Paid Severity	$1,823	$1,584	$1,800	$1,876
Efficiency	Cost per Policy in Force	$277	$297	$328	$325
	Claims Efficiency Ratio	20.7%	20.3%	20.1%	20.2%

(Exhibit B-30, p. 9-22)

The Legal Representation Rate measures the ratio of newly represented files to the number of newly opened bodily injury exposures. ICBC is reviewing the recent increase in the Legal Representation Rate to determine what factors may be causing this increase and what measures can be implemented to address these factors. ICBC anticipates developing an action plan to counter the higher legal representation rates during 2006. Therefore, the 2006 forecast is the same as the 2005 outlook and is based upon the information currently available. In its Final Submissions ICBC states: “Customer choice for legal representation is subject to a variety of influences, only some of which are capable of being influenced by ICBC (for instance, media-wide advertising by law firms and preconceived notions about insurance companies and government organizations, are beyond ICBC’s control)” (ICBC Final Submissions, p. 70, para. 232). ICBC supports initiatives to enhance customer service and transparency in the claims process through such measures as streamlined handling of minor bodily injury claims, and the use of the internet and brochures to provide assistance to claimants.

ICBC acknowledges that the call-centre statistics for 2004 were too low (ICBC Final Submission, p. 69, para. 229). The Corporation points to a number of factors including ICBC staff spending longer on each call to explain a number of recently introduced initiatives; fluctuation in claims by coverage type and call volume; and limited flexibility in scheduling of staff to respond to these short-term changes. During 2005 ICBC implemented a number of measures to improve call centre service levels, such as realigning staff schedules to match changing customer calling patterns; scheduling additional staff hours to cover peak call volume and service disruptions; and hiring additional telephone claims adjusters. In May 2005 ICBC introduced new call centre technology, which enables ICBC to better direct calls and provides an opportunity to increase ICBC’s service response rate. ICBC testified that it has established a new service level target for 2006 of 80 percent of calls answered in 100 seconds (T6: 1153). This target will be a substantial improvement on the previous new claims initiation statistics for 2003 and 2004.

ICBC believes that its Customer Approval Index statistics are not unacceptably low and are higher than most other companies. The 2005 actual statistic is 61 percent approval compared with the 2005 outlook of 58 percent. ICBC testified that the index is sensitive to events external to ICBC's control and that the measure should be considered more as a directional measure (T6: 1155).

Financial Measures

The financial statistics have been significantly impacted by the revised actuarial expectations for bodily injury costs. The Commission's evaluation of bodily injury cost estimates is a major factor in ICBC's requested rate increase and is discussed in detail in other Sections of this Decision.

The Basic Loss Ratio is a measure of the insurance products profitability (the ratio of Basic Insurance claims related costs, to Basic Insurance premium dollars earned). The deterioration in this ratio is largely due to the higher estimates of bodily injury costs, but also higher road safety and loss management services expenditures as specified in ICBC's Agreement with the Provincial government. The increase in injury cost is partially reduced by a non-recurring accounting adjustment of approximately of $179 million resulting from margin removal from unpaid claims in 2005. The Basic Insurance Expense Ratio statistics are standard measures to assess the operational efficiency of an insurance company. These statistics are forecast to remain stable in 2006. The increase in the Basic Premium Ratio to 4.4 percent is the result of the government's increase in this tax effective January 2004.

The Basic Non-Insurance Expense Ratio represents the ratio of the operations and administration costs of ICBC's Non-Insurance business to Basic Insurance premium dollars current. The significant reduction in this statistic for 2006 is primarily due to the reduction of the payment to government for compliance operations which ends March 31, 2006.

ICBC's value added objective for Investment Return is to out-perform the policy benchmark return by 0.268 percent. ICBC's investment portfolio has performed very well since 2003, exceeding benchmark returns.

The Injury Severity performance statistics highlight the recent increase in bodily injury claims costs. ICBC identified that the 2005 actual Bodily Injury Paid Severity statistic has increased to $24,488. During the course of the hearing, ICBC testified that its analysis of bodily injury claims indicated a significant "break point" for bodily injury claims below and above $40,000.

The Accident Benefit Paid Severity statistic represents payments for such things as medical, dental and rehabilitation costs. These costs remain reasonably stable with a marked decrease in 2004 as a result of a revision to the low velocity impact policy, followed by an increase in 2005 which ICBC has under review to determine what factors may be causing the increase and what measures can be implemented to address these factors.

<u>Efficiency Measures</u>

The Cost per Policy in Force statistic is a standard insurance industry measure for assessing the overall costs of operating the corporation. This measure is calculated as the ratio of internal costs plus external expense payments incurred to investigate and settle claims, to the number of policies in force. ICBC broke down the cost components of this performance statistic in Table 9.14 of the October 24, 2005 revision.

Table 9.14 Performance Statistics – Cost per Policy in Force

Cost per Policy in Force	2003 Actual (Restated)*	2004 Actual	2005 Outlook	2006 Forecast
1 Internal Operating costs	$131	$131	$130	$134
2 External Expenses	55	57	58	58
3 Premium Taxes and Commissions	107	117	119	123
Cost per Policy in Force Before Unusual Items	**$293**	**$305**	**$307**	**$315**
4 Deferred Premium Acquisition Costs (DPAC) Adjustments	(11)	(7)	12	10
5 Gain on Sale of Property	(5)	(1)	--	--
Cost per Policy in Force	**$277**	**$297**	**$319**	**$325**

*Restated to conform to the presentation used in 2004 financial statements.
(Exhibit B-12, p. 9-15)

The table indicates that ICBC is maintaining reasonable control on its internal operating costs and external expenses.

The Claims Efficiency Ratio is defined as the percentage of claims handling costs per dollar of claims paid. It is calculated as the sum of claims services and external costs divided by claims paid net of external costs. Claims services costs consists primarily of salaries and benefits, and external costs mainly include outside legal counsel, medical reports, private investigators, independent adjustors and towing costs. The Claims Efficiency Ratio remains flat even though ICBC indicates a number of cost pressures remain, such as increasing legal costs and a newer fleet of vehicles that cost more to repair.

Refinements to Performance Measures

ICBC views the development of performance measures as something of a "work in progress" and proposes to cease providing the results of the following measures to the Commission:

1. Complaints Heard by the Fairness Commissioner

ICBC argues that the number of complaints to the Fairness Commissioner is too small to be statistically significant. The number of complaints range from 160 to 200 complaints per year. ICBC believes that complaints to the Fairness Commissioner are not indicative of the overall corporate service level since these complaints are only one of the avenues available to be pursued by a dissatisfied customer and therefore is not representative of overall service satisfaction levels. ICBC will continue to monitor complaints for internal purposes.

Pemberton opposes ICBC's proposal to no longer report on complaints heard by the Fairness Commissioner. Pemberton believes that this measure continues to be a statistically relevant measure of severe claims handling issues at ICBC, and should not be [discontinued] (Pemberton Submissions, p. 8).

2. Claims Productivity Measures

ICBC proposes to replace the Injury Productivity and Property Damage Productivity measures with the Claims Efficiency Ratio. The Corporation argues that the Claims Efficiency Ratio delivers the same information as the Injury Productivity and Property Damage Productivity measures, but in a more transparent manner (ICBC Submissions, p. 72, para. 240). ICBC testified that the previous Injury Productivity and Property Damage Productivity measures involve nearly 20 variables, making them difficult to analyze and understand compared to the three variables involved in the Claims Efficiency Ratio. The Claims Efficiency Ratio is used internally by ICBC for measuring corporate performance of claims efficiency. By using the same efficiency measure for both corporate performance and Commission reporting, the objectives and measurements are believed to be more aligned (T6: 1164-1165).

3. Directional Measures

ICBC proposes to discontinue reporting three directional measures: New Driver Crash Rate, Crash Rate and Injured Person Rate. These directional measures will continue to be used internally to monitor loss management programs. Claims trends ultimately affect the loss ratio, which is already included as a performance measure and, therefore, ICBC believes it would be redundant to require ICBC to report on these directional measures. The directional measures statistics were provided in response to BCUC Information Requests and are shown as follows:

Description	**RATE**		
	2002 Actual	**2003 Actual**	**2004 Actual**
Crash Rate per 10,000 Active Vehicles	1,097	1,044	1,029
Injured Person Rate per 10,000 Active Vehicles	338	342	330
New Driver Crash Rate	1.43	1.36	1.25

Commission Panel Determination

The Commission Panel is generally satisfied that the performance metrics reported by ICBC provide a valuable snapshot to indicate whether ICBC's provision of Basic Insurance is adequate, efficient, just and reasonable. The statistics are relatively stable except for the very poor call centre statistics and the impact of rising awards for Bodily Injury claims over $40,000.

Although ICBC has implemented measures to improve call centre service levels and has adopted a new service level target of 80 percent of calls answered in 100 seconds, the Commission Panel is alarmed by the 2005 service levels and expects to see significant improvement in next year's filing. **To better understand the trend of higher awards for Bodily Injury Paid Severity claims over $40,000, the Commission Panel directs ICBC to report this performance measure above and below the break point of $40,000.**

ICBC has committed to developing an action plan in 2006 to counter the trend to higher legal representation rates. **The Commission Panel directs ICBC to advise the Commission when the plan is complete and to advise progress in respect of its implementation.**

The Commission Panel finds the break down of the cost components of the Cost per Policy in Force statistic as shown in Table 9.14 of the Revised Application to be very informative and, therefore, directs ICBC to provide this detail in future filings.

ICBC proposes to cease providing the results of complaints heard by the Fairness Commissioner and the three directional measures. Although the Commission Panel accepts that the number of complaints heard by the Fairness Commissioner are too small to be statistically significant, the Commission Panel views this statistic as something of a bellweather statistic to alert it to any future concerns in ICBC's treatment of its customers. **The Commission Panel therefore directs this performance measure continues to be reported.**

The Commission Panel also finds that the three directional measures provide valuable data and notes the improving trend in these statistics. They should continue to be reported.

The Commission Panel has determined that ICBC's proposal to replace the Injury Productivity and Property Productivity measures with the Claims Efficiency Ratio should be accepted.

7.0 MONITORING PERFORMANCE AND RECOMMENDATIONS FOR FUTURE FILINGS

7.1 Monitoring Performance

7.1.1 Background

In this Application, initially filed on August 22, 2005, ICBC chose to file a revision on October 24, 2005 and following Commission Order No. G-142-05, filed a further revision on January 27, 2006. In its Submissions, ICBC comments on the events and circumstances over this period and related to the filings.

> “The actuarial rate indication in the August 2005 Filing was based on December 31, 2004 claims data. The actuarial rate indication was 0.0% (revised to –0.4% in Exhibit B-4). The August Filing took into account the 2005 financial outlook for investment income, the impact on Basic Insurance income and capital from the elimination of the 5% margin on unpaid claims as directed by the Commission, and the impact on capital of the deterioration on claims costs seen in the May meeting of the Claims Forecast Committee (“CFC”). The Application filed in August sought no increase in Basic Insurance rates” (ICBC Submissions, p. 11, para. 3).

> “ICBC’s internal and external actuaries evaluated Basic Insurance claims using the most current claims data then available, being data to August 31, 2005. The review of that data indicated a substantial deterioration in claims costs. ICBC’s actuaries noted a significant unfavourable development on the Basic Insurance bodily injury claims costs, particularly the ultimate claims costs estimates of those accident years used for the actuarial rate level indication analysis included in the October 2005 Filing. The increase in bodily injury claims costs resulted in an increase in 2005 accident year claims costs of $156 million and an increase in prior years’ claims costs of $193 million. On September 20, 2005 ICBC advised the Commission (Exhibit B-4) that the increase in claims costs needed to be factored into the actuarial rate indication, and proposed filing updated information” (ICBC Submissions, p. 11, para. 38, 39).

> “ICBC did not seek an increase in Basic Insurance rates in the October 2005 Filing due to the unique circumstances that existed at that time. The unique circumstances are described in Chapter 4 of the October 2005 Filing. At that time ICBC was forecasting the level of capital available for the Basic Insurance business to be approximately 113% of MCT by year-end 2005 and approximately 100% by year-end 2006. ICBC concluded that the capital available for Basic

> Insurance above the 100% MCT level should be used in 2006 to keep Basic Insurance rates at their 2005 levels… While it was likely that the Basic Insurance business would incur a net loss in 2006, it was forecast that the capital available in the Basic Insurance business could absorb the loss for one year and still end 2006 with capital available of approximately 100% MCT" (ICBC Submissions, p. 12, para. 42).
>
> "The actuarial review for that meeting examined claims data to November 30, 2005. The information presented at the CFC meeting confirmed the increases in claims costs seen in the September review, and indicated that there had been further deterioration in Basic Insurance claims costs" (ICBC Submissions, p. 12, para. 43).
>
> "The January 2006 Filing uses the actuarial rate analysis developed for the October 2005 Filing (a rate indication of a 4.2% increase) and also takes into account the decrease in Basic Insurance capital resulting from the impact of the November 30, 2005 claims data on Basic Insurance capital (i.e. the decrease in Basic Insurance retained earnings)" (ICBC Submissions, p. 13, para. 44).

The above describes how rapidly circumstances can change and the significant effect those changing circumstances can have on both indicated rates for future rate setting and changes to Basic Insurance capital, presumably both positive and negative but in this case on the negative side. Over the course of only six months the Application moved, by revision, from no rate increase being recommended, to an indicated increase being "buffered" by capital adequacy resulting in no rate increase being requested, to a requested increase based on an indicated need and the decrease in Basic Insurance retained earnings due to the impact of recent claims data. In total, a significant change in the "fortunes" of Basic Insurance and related rate requirements over a relatively short period of time.

This proceeding has highlighted the dynamic nature of the business, the volatility of losses, the DCAT and MCT results, and the apparent difficulty of the Corporation to make reliable and stable predictions of its business results – even in a relatively short-term timeframe.

That being the case, at least for some time into the future, the Commission Panel is of the view that in order to provide the Commission with some confidence that the achievement of targets for MCT is "on plan", there must be timely and regular reporting to the Commission of some tracking parameters that would give an early warning of any significant change in the operations and results of the Corporation. ICBC has offered to provide the Commission with quarterly reporting of the MCT ratio for the Total Corporation (ICBC Submissions, p. 36). ICBC noted that quarterly reporting of the MCT for Basic (the prime area of responsibility for the Commission) could not be done as the financial allocations are not performed on a quarterly basis and if the previous year-end allocators were used, the results might be misleading.

IBC submits that ICBC continues to argue that it is best run as an integrated operation. Nevertheless, it continues to be difficult to obtain any true measurement regarding the performance and cost of the Basic product (IBC Final Submissions, p. 36).

In the Commission Panel's view, a quarterly reporting of MCT on a Total Corporation basis will provide little useful information by itself.

IBC is of the view that "ICBC has the data and should be managing the data such that trends are apparent as they develop" (IBC Final Submissions, p. 41). BCOAPO explored in cross-examination and in its Final Submissions, a number of issues that might be helpful in developing a frequent, transparent and discrete view of the performance and future rate indication for Basic Insurance (BCOAPO Final Submissions, pp. 29-34).

Commission Panel Determination

ICBC reports that it carries out periodic reviews of its business lines for management purposes. Rather than directing the details of the parameters that the Commission would like to receive on a quarterly basis, the Commission Panel is of the view that in order to preclude unnecessary duplication, ICBC should report back to the Commission. The report should indicate what parameters and business drivers the Corporation can make available that would enable the Commission to track operating results and outlook, particularly for the Basic Insurance line of business, on a quarterly basis. At a minimum, the operating results of the Basic Insurance line are driven by a combination of losses, loss development, investment returns on retained earnings, MCT result and DCAT analysis. If, in the future a simplified regulatory process can be put in place, as is the case with a number of regulated utilities, a regular reporting regimen of this nature will be essential.

The Commission Panel directs ICBC to report to the Commission, within 90 days of the date of this decision, on what operating parameters the Corporation could provide to the Commission to enable timely tracking of the Basic Insurance line of business and the MCT status of the Optional line of business, in order for the Commission to be in a position to track the ability of the Corporation to meet or exceed the various MCT targets established from time to time and to anticipate possible changes to rates. This direction does not preclude ICBC filing certain information on a confidential basis if this will facilitate fulfilling the intended purpose.

7.2 Recommendations for Future Filings

7.2.1 Information included in the Filing

In this proceeding, several of the Intervenors commented on the adequacy of the information presented by ICBC, both in the Application itself and throughout the Information Request/Response process. Further, there was concern expressed concerning the "procedural disarray" that was precipitated as a result of the multiple filings made by ICBC as their claims experience and losses deteriorated over the span of the proceeding (BCOAPO Final Submissions, p. 4).

IBC noted that "…it should not be necessary for Intervenors or the Commission to seek fundamental information regarding the programs by way of Information Requests or cross-examination" (IBC Final Subsmissions, p. 34). The Commission Panel endorses this critique and encourages ICBC to review the Information Requests from the Commission and Intervenors (and the themes in cross-examination) with a view to isolating areas in their Application where more detail should have been provided. The saving in time and resulting procedural simplicity in future proceedings will more than reward the Corporation for the additional up-front effort required to present a full and comprehensive Application.

7.2.2 Responses to Information Requests and Reference Books

There was recognition of the work effort expended by ICBC in meeting the Information Requests and assembling the vast data sets that were required to provide the degree of openness and transparency required to test the regulatory issues that were before the Commission Panel. IBC found ICBC's efforts in putting the Applications and Filings forward commendable (IBC Final Submissions, p. 1). BCOAPO offered the staff of ICBC, plaudits on their "… diligent efforts to comply with the enormous demands for detailed information from the other participants in the proceeding, and particularly the huge wave of Information Requests that have been filed since August of last year" (BCOAPO Final Submissions, p. 35). The Commission Panel joins in this commendation. Also, the Commission Panel thanks the Intervenors who produced "cross-examination reference booklets". This saved a great deal of time, thumbing through the volumes of record and searching for relevant pages. Hopefully, this will become a standard practice before the Commission at least where there is an extended record such as was the case in this proceeding.

Dated at the City of Vancouver, in the Province of British Columbia, this 13th day of July 2006.

Leonard F. Kelsey
Commissioner and Panel Chair

Peter E. Vivian
Commissioner

A.W. Keith Anderson
Commissioner

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-86-06

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IN THE MATTER OF

the Insurance Corporation Act, RSBC 1996, Chapter 228, as amended

and

the Utilities Commission Act, RSBC 1996, Chapter 473, as amended

and

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

and

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

and

An application for approval of refinements to certain performance measures

and

A filing of information on seven financial allocation functions

and

An application for approval of changes to certain allocation functions

BEFORE: L.F. Kelsey, Commissioner and Panel Chair
A.W. K. Anderson, Commissioner
P.E. Vivian, Commissioner

July 13, 2006

O R D E R

WHEREAS:

A. On August 22, 2005 the Insurance Corporation of British Columbia ("ICBC") submitted an application for approval of the 2006 Revenue Requirements for Universal Compulsory Automobile Insurance ("Basic Insurance"), a filing relating to ICBC's Basic Insurance Capital Management Plan, an application for approval of refinements to certain performance measures, a filing of information on seven financial allocation functions and an application for approval of changes to certain allocation functions (the "Application"). The Application is in response to the directive in Letter No. L-40-05 and directives issued by the British Columbia Utilities Commission ("Commission") in its Decision dated January 19, 2005 and includes additional information and applications. In the Application, ICBC advised that it is not applying for a change to Universal Compulsory Automobile Insurance rates; and

B. The Commission subsequently issued Orders No. G-78-05, G-85-05, G-108-05, G-117-05, G-125-05, G-142-05, G-2-06 and Letter No. L-88-05 dealing with various aspects of the Application and the October 24, 2005 and January 27, 2006 revisions thereto. The Orders and the Letter provide detailed information about the significant events and actions, which have occurred in the proceeding to-date; and

C. In the January 27, 2006 revision ICBC applied for an increase in Basic Insurance rates of 6.5 percent for all new or renewal policies with an effective date after March 14, 2006. ICBC also applied for this increase in Basic Insurance rates for all new or renewal policies with an effective date after March 14, 2006, on an interim basis, pursuant to Section 89 of the Utilities Commission Act. ICBC also requested that, if in the Commission's final decision relating to its application it is determined that a portion of the interim increase be refunded, any refunds be dealt with in the manner set out in Appendix A of the January 27, 2006 revision; and

D. The Commission Panel approved the requested interim increase by Order No. G-9-06; and

E. An Oral Public Hearing was held in Vancouver, B.C. and commenced on April 3, 2006 and concluded on April 11, 2006; and

F. ICBC filed its Submissions on April 25, 2006. Registered Intervenors filed their Final Submissions on May 3, 2006 and ICBC filed its Reply Submissions on May 10, 2006; and

G. The Commission Panel has reviewed and considered all the evidence on the record for this proceeding.

NOW THEREFORE the Commission orders as follows:

1. The 6.5 percent increase in Basic Insurance rates for all new or renewal policies with an effective date after March 14, 2006, is approved on a permanent basis.

2. Policyholders who renewed or purchased new policies in the period between March 15, 2006 and the effective date of this Order, are to be notified of the permanent increase in the most cost effective manner, which is to be determined by ICBC. The notice must be reviewed by the Commission in advance of its release. For policyholders renewing or purchasing new policies after the effective date of this Order, notice of the permanent increase will be given with the Notice to Renew or other similar form issued by ICBC to Basic Insurance policyholders in the ordinary course of business for renewal policies, and at the time of purchase for new policies.

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

…/3

4. ICBC is directed to comply with all determinations and instructions set out in the Decision that is issued concurrently with this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 13th day of July 2006.

BY ORDER

L.F. Kelsey
Commissioner and Panel Chair

GLOSSARY AND ABBREVIATIONS

Acronym	**Term**
Act	Insurance Corporation Amendment Act
ALAE	Allocated Loss Adjustment Expense
BC Hydro	British Columbia Hydro and Power Authority
BCOAPO	B.C. Old Age Pensioners' Organization et al.
BCUC or Commission	British Columbia Utilities Commission
Basic Insurance	Universal Compulsory Automobile Insurance
CACBC	Consumers' Association of Canada (BC)
CDI	Canadian Direct Insurance Inc.
Certificate	ICBC Owner's Certificate of Insurance and Vehicle Licence
CPCN	Certificate of Public Convenience and Necessity
DCAT	Dynamic capital adequacy testing
FTE	Full time equivalent
GLP	Graduated Licensing Program
IBC	Insurance Bureau of Canada
IC2	Special Direction IC2 to the British Columbia Utilities Commission
ICBC or Corporation	Insurance Corporation of British Columbia
ISD	Information Services Division
IT	Information Technology
Investment Policy	ICBC's Statement of Investment Policy and Procedures
KOL	Kind of Loss

2005 Decision	January 19, 2005 Decision
LDFs	Loss Development Factors
MCT	Minimum Capital Test
MER	Management Expense Ratio
MPI	Manitoba Public Insurance
NGIS	Next Generation Insurance System
NSP	Negotiated Settlement Process
Optional Insurance	Optional automobile insurance
Pemberton	Pemberton Insurance Corporation
PSEC	Public Sector Employers' Council
RSLM	Road Safety and Loss Management
SGI	Saskatchewan Government Insurance
Total or Total Corporation	ICBC's Capital Management Plan for the Corporation as a whole
TSP	Technology and Systems Planning
UCA	Utilities Commission Act
ULAE	Unallocated Loss of Adjustment Expenses
VPD	Vancouver Police Department

LIST OF APPEARANCES

P. MILLER	British Columbia Utilities Commission Counsel
C. JOHNSON M. GHIKAS	Insurance Corporation of British Columbia
J. QUAIL L. WORTH	B.C. Old Age Pensioners' Organization Council of Senior Citizens' Organizations Federated Anti-Poverty Groups of British Columbia End Legislated Poverty Active Support Against Poverty Tenants' Rights Action Coalition
L. MUNN	Insurance Bureau of Canada
J. ELWICK	Canadian Direct Insurance Inc.
G. BASHAM	Consumers Association of Canada (B.C. Branch)
D. MCPHERSON S. TOOMEY	COPE Local 378
G. ADAIR	Coalition Against No-Fault in B.C.
C.J. BYRNE	Insurance Brokers Association of British Columbia
R. FINNIE	Pemberton Insurance Corporation
P.G. THROWER	Family Insurance Solutions Inc.
D. NIXDORF	B.C. Chiropractic Association
R. SYKES	On his own behalf
L. MANSKOPF	Canadian Northern Shield Insurance Company

W. KRAMPL D. CHONG F. KWOK W.J. GRANT	Commission Staff
M. TOLEDANO	J.S. Cheng & Partners Inc.
ALLWEST REPORTING LTD.	Court Reporters

EXHIBIT LIST

Exhibit No.	Description
COMMISSION DOCUMENTS	
A-1	Letter dated August 24, 2005 and Order No. G-78-05 establishing a Pre-hearing Conference and Oral Public Hearing
A-2	Letter dated September 12, 2005 and Order No. G-85-05 establishing Regulatory Agenda and Timetable
A-3	Letter dated September 14, 2005 and Commission Information Request No. 1
A-4	Letter dated September 23 – Change to Regulatory Agenda
A-5	Letter dated September 30, 2005 – Response to CDI
A-6	Letter dated October 6, 2005 responding to Mr. Finnie's request for an extension of the Intervenor Information Requests filing date (Exhibit C15-2)
A-7	Letter No. L-88-05 issuing a revised Regulatory Timetable for comment
A-8	Letter No. L-89-05 dated October 13, 2005 – Response to CDI Letters of September 28 and 29, 2005
A-9	Letter dated October 19, 2005 inviting Intervenors to comment on BCPIAC's request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
A-10	Letter dated October 27, 2005 and Order No. G-108-05 issuing the amended Regulatory Timetable
A-11	Letter No. L-93-05 dated October 27, 2005 – Response to Exhibit B-10
A-12	Letter No. L-94-05 dated October 31, 2005 amending the review process outlined in Letter No. L-93-05 (Exhibit A-11)
A-13	Letter dated November 4, 2005 - Commission Information Request No. 2 to ICBC
A-14	UNASSIGNED
A-15	Letter dated November 8, 2005 and Order No. G-117-05 issuing Reasons for Decision regarding the confidentiality of Exhibit B-10

Exhibit No.	Description
A-16	Letter No. L-101-05 dated November 18, 2005 directing ICBC to file a final reply to Pemberton's and IBC's submissions
A-17	Letter and Order No. G-125-05 dated November 29, 2005 – Direct ICBC to respond to Information Requests
A-18	Letter dated December 12, 2005 listing the hours of operation for the public hearing
A-19	Letter dated December 16, 2005 requesting comments from Participants regarding ICBC's request to adjourn the January 2006 public hearing (Exhibit B-26)
A-20	Letter dated December 21, 2005 and Order No. G-142-05 adjourning the January 2006 Public Hearing
A-21	Letter dated December 23, 2005 to Canadian Direct Insurance deferring its request for clarification of two points regarding a portion of Order No. G-125-05 regarding timing to the public hearing
A-22	Letter dated December 23, 2005 issuing a proposed Revised Regulatory Timetable for comment
A-23	Letter dated January 5, 2006 to Mr. Peter Thrower, Family Insurance Solutions Inc. regarding Exhibit A-20 and Order No. G-142-05
A-24	Letter dated January 11, 2006 issuing Order No. G-2-06 and Revised Regulatory Timetable
A-25	Letter dated January 19, 2006 to Canadian Direct Insurance Inc. denying its request that Canadian Direct's cross-examination period be scheduled for no earlier than March 14, 2006 due to a schedule conflict (Exhibit C6-12)
A-26	Letter dated January 31, 2006 and Order No. G-9-06 approving a 6.5 percent increase in Basic Insurance rates on an interim basis
A-27	Letter dated February 13, 2006 to Mr. R. Sykes regarding "Reasons for Decision"
A-28	Letter dated February 15, 2006 Information Request No. 3 to ICBC
A-29	Letter dated February 24, 2006 to ICBC and Intervenors advising of the change in the Public Hearing commencement date, time and location
A-30	Letter dated March 14, 2006 responding to Pemberton Insurance Corporation (Exhibit C15-10)

Exhibit No.	Description
A-31	Letter dated March 29, 2006 to ICBC and Registered Intervenors advising of the appointment of Mr. Keith Anderson to the Commission Panel, effective April 1, 2006
A-32	Submission at Public Hearing – Excerpt from the Eckler Report
A-33	Submission at Public Hearing – CICA Backgrounder to new financial instrument standard for recognition and measurement
A-34	Submission at Public Hearing – ICBC 2005-2007 Service Plan, Updated as of September 2005
A-35	Submission at Public Hearing – Witness Aid Prepared by Commission Staff
A-36	Submission at Public Hearing – ICBC Financial Allocation Methodology Trend
A-37	Submission at Public Hearing – Witness Aid – 2004 Equity Mix for ICBC, MPI and SGI
A-38	Submission at Public Hearing – Response to Information Request Re: faxed signatures

APPLICANT DOCUMENTS

B-1	Insurance Corporation of British Columbia 2006 Revenue Requirements Application dated August 22, 2005
B-2	Letter dated September 15, 2005 – Errata to Application
B-3	Letter dated September 15, 2005 Insurance Corporation of British Columbia Service Plan 2005-2007 Update
B-4	Letter dated September 20, 2005 – Actuarial Rate Level Adjustment
B-5	Letter dated September 21, 2005 – Responses to IBC
B-6	Letter dated September 28, 2005 – Agreement with Revised Schedule
B-7	Letter dated September 28, 2005 – Submission
B-8	Letter dated October 4, 2005 – Further details regarding CDI submission

Exhibit No.	Description
B-9	Letter and Responses to Commission Information Requests No. 1 dated October 6, 2005
B-10	**CONFIDENTIAL** – October 6 letter and Confidential Response to Commission Information Request 43.3
B-11	Letter dated October 21, 2005 commenting on BCPIAC's request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
B-12	Letter dated October 24, 2005 filing revisions to ICBC's 2006 Revenue Requirements Application
B-13	Letter dated October 26, 2005 – Propose minor adjustment to proposed Regulatory Agenda
B-14	Letter dated October 28, 2005 confirming the publication of the Notice of Pre-hearing Conference and Notice of Oral Public Hearing
B-15	REVISED Response to Commission IR 1.1 dated October 31, 2005
B-16	Letter dated November 1, 2005 – Response to Commission request for evidence regarding Confidentiality of Exhibit B-10
B-17	Letter dated November 3, 2005 responding to Intervenor submissions regarding the Commission's request for evidence regarding Confidentiality of Exhibit B-10
B-18	Letter dated November 15, 2005 – Objection to certain Information Requests as discussed at Pre-Hearing Conference
B-19	Letter dated November 16, 2005 – Severed version of Confidential response to Commission IR 2006.1 BCUC.43.3 (Exhibit B-10)
B-20	Letter dated November 23, 2005 responding to submissions made by Pemberton and IBC regarding ICBC Exhibit B-18
B-21	Letter dated November 28, 2005 – Response to IBC Exhibit C1-9 dated November 25, 2005
B-22	**CONFIDENTIAL** Submission dated November 28, 2005
B-23	Letter dated November 28, 2005 – Response to Commission and Intervenor Information Requests
B-24	Letter dated December 9, 2005 filing responses to Intervenor Information Requests pursuant to Order No. G-125-05

Exhibit No.	Description
B-25	Letter dated December 9, 2005 filing Information Requests to Pemberton Insurance Corporation
B-26	Letter dated December 15, 2005 requesting that the public hearing be adjourned
B-27	Letter dated December 21, 2005 responding to BCOAPO’s comments on ICBC’s proposal to adjourn the revenue requirements portion of the January public hearing
B-28	Letter dated January 6, 2006 commenting on the revised Regulatory Timetable
B-29	Letter dated January 19, 2006 filing an amendment to IBC’s information request 2006.1.IBC 226.2
B-30	Letter dated January 27, 2006 filing the Revised 2006 Revenue Requirements Application
B-31	Letter dated February 1, 2006 responding to Peter Thrower/ Family Insurance Solutions Inc.’s concerns regarding ICBC’s response to his Information Request re: applicable reinsurance costs to be charged to Basic insurance (Exhibit C3-11)
B-32	Letter dated February 8, 2006 filing revised responses to BCUC’s Information Request No. 2 and Intervenor Information Requests No. 1 (Exhibit B-30)
B-33	Response dated February 13, 2006 filing confirmation to Exhibit C3-12 regarding Basic reinsurance costs
B-34	Letter dated February 20, 2006 filing Errata to BCUC’s Information Request No. 2 and Intervenor Information Request No. 1
B-35	Letter dated February 24, 2006 responding to BCUC Information Request No. 3 and Various Registered Intervenors’ Information Request No. 2
B-36	Letter dated March 1, 2006 filing amended ICBC Schedule of 2006 Basic insurance premiums
B-37	Letter dated March 21, 2006 filing the Direct testimony of ICBC's witness panels for upcoming oral hearing on April 3, 2006
B-38	Letter dated March 30, 2006 filing outstanding Information Requests, Errata and Opening Statement

Exhibit No.	Description
B-39	**CONFIDENTIAL** - Submission at Public Hearing – Confidential Copies of January Claims Forecast Committee Minutes
B-40	Submission at Public Hearing – Response concerning testing of a model for homoscedasticity
B-41	Submission at Public Hearing – Response concerning retrospective rating for fleet vehicles
B-42	Submission at Public Hearing – Table with information relating to reserves on claims for the Years 200 through 2005
B-43	Submission at Public Hearing – Handy reference to Claims History and the Determination of Insurance Rates, and the Underlying Regulations
B-44	Submission at Public Hearing – Response Re: Evaluation Report Summary including findings and recommendations with respect to the enhanced Graduated Licensing Program
B-45	Submission at Public Hearing – Documentation relating to the setting of the reserves
B-46	Submission at Public Hearing – Undertaking re: Transcript page 936, Volume 5, Lines 16 to 20
B-47	Submission at Public Hearing – Undertaking to Transcript page 947, Volume 5, Lines 11 to 12
B-48	Submission at Public Hearing – Response to Undertaking, Page 742 of Transcript
B-49	Submission at Public Hearing – Response to Mr. Finnie Re: Fleet Premium Adjustment Agreement
B-50	Submission at Public Hearing – Vancouver Police Department Property Crime Campaign Radio Script
B-51	Response to Information Request at Transcript Pages 607 and 608
B-52	Submission at Public Hearing – Response to Information Request at Transcript pages 965 and 966
B-53	Submission at Public Hearing – Response to Information Request at Transcript pages 1033 and 1034

Exhibit No.	Description
B-54	Submission at Public Hearing – Response to Information Request from Mr. Basham Re: Number of Basic Insurance Bodily Injury Exposures that went to Mediation
B-55	Submission at Public Hearing – Response to Information Request at Transcript Page 1095
B-56	Submission at Public Hearing – Response to Information Request at Transcript Pages 1101-1102
B-57	Submission at Public Hearing – Response to Information Request at Transcript Page 1059
B-58	Submission at Public Hearing – Customer Service Centre Pilot Final Evaluation, Response to Information Request at Transcript Page 1113 and 1114
B-59	Submission at Public Hearing – Status Update Reports for Quarter 1 of Years 2004, 2005 and 2006 for Customer Service Centre, Response to Information Request at Transcript Page 1119
B-60	Submission at Public Hearing – One page document in response to Information Request at Transcript Pages 1138-9
B-61	Submission at Public Hearing – Response to Information Request at Transcript page 1237
B-62	Submission at Public Hearing – Response to Information Request at Transcript pages 1249 and 1250
B-63	Submission at Public Hearing – Response to Information Request re: faxed signatures
B-64	Letter dated April 20, 2006 filing responses to outstanding Undertakings
B-65	**CONFIDENTIAL** - Confidential filing of Undertaking at Transcript, Volume 3 Transcript, page 407

Exhibit No.	Description
INTERVENOR DOCUMENTS	
C1-1	**INSURANCE BUREAU OF CANADA** – Notice of Intervention dated July 7, 2005
C1-2	Letter dated September 23, 2005 – Documentation regarding NSP
C1-3	E-mail dated September 28, 2005 – Agreement with Exhibit A-4
C1-4	Letter dated October 17, 2005 – Agree with proposed Agenda and Timetable
C1-5	Letter dated October 21, 2005 commenting on BCPIAC's request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
C1-6	Letter dated November 4, 2005 – Information Request No. 1 to ICBC
C1-7	Letter dated November 16, 2005 – Response to ICBC Information Request Objection
C1-8	Letter dated November 17, 2005 – Request Commission determine validity of ICBC Information Request Objection
C1-9	Letter dated November 25, 2005 responding to ICBC's objection to answering IBC IRs No. 8.1, 12.1 and 210.1
C1-10	Letter dated December 20, 2005 commenting on ICBC's request to adjourn the January public hearing
C1-11	Letter dated January 4, 2006 supporting the revised Regulatory Timetable
C1-12	Letter dated February 15, 2006 filing Information Request No. 2 to ICBC
C1-13	Submission at Public Hearing – Green Book of documents
C1-14	Submission at Public Hearing – News Release from ICBC of November 1, 2005
C1-15	Submission at Public Hearing – Selection of Court Decisions
C1-16	Submission at Public Hearing – IBC Reference documents book
C1-17	Submission at Public Hearing – Excerpts from the Province dated December 29, 2005
C1-18	Submission at Public Hearing – Excerpts from the Province dated April 2, 2006
C1-19	Submission at Public Hearing – ICB Reference documents

Exhibit No.	Description
C2-1	**CREDIT UNION INSURANCE SERVICES ASSOCIATION** – Notice of Intervention dated August 16, 2005 from Lesley Maddison
C2-2	E-mail dated September 28, 2005 – Agreement to Exhibit A-4
C2-3	E-mail dated October 20, 2005 commenting on BCPIAC's request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
C2-4	E-mail dated October 21, 2005 stating that the Credit Union Insurance Services Association is no longer in agreement of deferring the revised timetable as proposed by BCPIAC
C2-5	Notice of Change in Company Contact dated January 4, 2006
C3-1	**FAMILY INSURANCE SOLUTIONS INC.** – Notice of Intervention dated August 24, 2005 from Peter G. Thrower
C3-2	E-mail dated September 26, 2005 Response to Exhibit A-4
C3-3	E-mail dated October 13, 2005 – Revised Regulatory Agenda and Timetable is acceptable
C3-4	Letter dated October 21, 2005 commenting on BCPIAC's request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
C3-5	Letter dated November 2, 2005 – Reply to Confidentiality of Exhibit B-10
C3-6	Letter dated November 4, 2005 – Information Request to ICBC
C3-7	Letter dated December 19, 2005 commenting on ICBC's request to adjourn the January public hearing
C3-8	Letter dated December 28, 2005 supporting the revised Regulatory Timetable as proposed in Exhibit A-22
C3-9	Letter dated January 3, 2006 supporting Canadian Direct Insurance's request for clarification and reconsideration of two points contained in Order No. G-125-05 of Exhibit A-21 (Exhibit C6-9)
C3-10	E-mail dated December 21, 2005 requesting the Commission amend Order No. G-142-05 to include the comments of Family Insurance
C3-11	Letter dated January 20, 2006 to ICBC requesting that a correction be made to its response to Family IR No. 2006.1 F15a to reflect that the applicable reinsurance costs to be charged to Basic insurance

Exhibit No.	Description
C3-12	Letter dated February 2, 2006 to ICBC filing responses and request for reconsideration on previous decision (Exhibit B-31)
C4-1	**SYKES, RUSSELL** – Notice of Intervention dated August 24, 2005
C4-2	Submission dated September 1, 2005
C4-3	Complaint Submission dated September 6, 2005
C4-4	Submission dated September 6, 2005
C4-5	Letter dated September 15, 2005 requesting information
C4-6	Letter dated September 14, 2005 inquiring as to procedures should ICBC or any Intervenor disagree with all or parts of an Order or Appendices
C4-7	Letter dated September 16, 2005 providing corrections/clarifications to the Transcript of "Pre-hearing Proceedings" September 8, 2005 (63 pages, Allwest Reporting Ltd.
C4-8	Letter dated September 30, 2005 indicating that writers of letters (or other communications) have the onus to prove that all statements made are "true and complete" and that all relevant statements are made (that is, no "omissions" in the context of the **issues** involve
C4-9	Letter dated October 17, 2005 – Request clarification of Order
C4-10	Letter dated October 20, 2005 commenting on BCPIAC's request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
C4-11	Letter dated November 3, 2005 – Submission regarding ICBC letter of November 1, 2005
C4-12	Letter dated February 2, 2006 filing request for information and clarifying the Reasons for Decision for Order No. G-9-06
C4-13	Letter dated March 30, 2006 filing Hearing notice and request for Hearing documentation
C5-1	**BCAA INSURANCE CORPORATION** – E-mail dated August 25, 2005 from Patricia Stirling
C5-2	E-mail dated October 13, 2005 – Accepting proposed schedule
C6-1	**CANADIAN DIRECT INSURANCE INC.** – Notice of Intervention dated August 26, 2005 from Karen Hopkins-Lee

Exhibit No.	Description
C6-2	E-mail dated September 28, 2005 – Agreement with Revised Regulatory Timetable
C6-3	E-mail dated September 28, 2005 – Follow-up to Exhibit A-2
C6-4	E-mail dated September 28, 2005 – Clarification of previous Submission
C6-5	E-mail dated October 13, 2005 –Agree with proposed Regulatory Timetable and Agenda
C6-6	Letter dated October 21, 2005 commenting on BCPIAC’s request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
C6-7	Letter dated November 4, 2005 – Information Request to ICBC
C6-8	Letter dated November 17, 2005 responding to ICBC’s November 15, 2005 objection to certain Information Requests
C6-9	Letter dated December 13, 2005 requesting clarification regarding Order No. G-125-05 (Exhibit A-17)
C6-10	Letter dated December 16, 2005 commenting on ICBC’s request to delay the January public hearing (Exhibit B-26)
C6-11	Letter dated January 3, 2006 commenting on the revised Regulatory Timetable
C6-12	Letter dated January 11, 2006 responding to the Regulatory Timetable issued in Order No. G-2-06 (Exhibit A-24) and requesting that Canadian Direct's cross-examination period be scheduled for no earlier than March 14, 2006 due to a schedule conflict
C6-13	Letter dated February 1, 2006 response to the recent decision on the Interim Increase of 6.5% and letter of comment opposing ICBC’s request for this increase
C6-14	Letter dated February 15, 2006 filing Information Request No. 2 to ICBC
C6-15	Submission at Public Hearing – Canadian Direct Insurance reference documents
C6-16	Submission at Public Hearing – Copies of a section excerpted from an ICBC Review
C6-17	Submission at Public Hearing – Canadian Direct Insurance reference documents

Exhibit No.	Description
C6-18	Submission at Public Hearing – Zack Spender Advertisements
C6-19	Submission at Public Hearing – Document from Autoplan Broker
C6-20	Submission at Public Hearing – Extract from the Reid Report
C7-1	**CANADIAN OFFICE PROFESSIONAL EMPLOYEES' UNION (COPE) – LOCAL 378** – Notice of Intervention received August 29, 2005
C7-2	Letter and Information Request dated October 7, 2005
C7-3	Letter dated October 7, 2005 commenting on BCPIAC's request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
C8-1	**AUTOMOTIVE RETAILERS ASSOCIATION** – Notice of Intervention dated August 29, 2005 from D. Robert Clarke
C9-1	**INSURANCE BROKERS ASSOCIATION OF BRITISH COLUMBIA** – Notice of Intervention dated August 31, 2005 from C.J. Byrne
C9-2	E-mail dated October 20, 2005 commenting on BCPIAC's request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
C9-3	E-mail dated October 21, 2005 – Rescind prior correspondence in support of deferral
C9-4	Letter dated December 20, 2005 commenting on ICBC's request to adjourn the January public hearing
C10-1	**TRIAL LAWYERS ASSOCIATION OF BRITISH COLUMBIA** – Notice of Intervention dated September 1, 2005
C11-1	**THE CONSUMERS' ASSOCIATION OF CANADA (BC)** – Notice of Intervention dated September 1, 2005 from Greg Basham
C11-2	E-mail dated September 27, 2005 – Satisfied with proposed Regulatory Timetable and Agenda Revisions
C11-3	E-mail dated October 14, 2005 accepting the proposed amended Regulatory Timetable
C11-4	Letter dated October 21, 2005 commenting on BCPIAC's request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
C11-5	E-mail dated October 25, 2005 – Request to view Exhibit B-10

Exhibit No.	Description
C11-6	Letter dated November 2, 2005 – Response to Commission Letter No. L-93-05
C11-7	E-mail dated November 4, 2005 – Information Request to ICBC
C11-8	Letter dated December 21 (sic), 2005 commenting on ICBC's request to adjourn the January public hearing
C11-9	Letter dated January 6, 2006 supporting the proposed revised Timetable (Exhibit A-22)
C11-10	Letter dated February 15, 2006 filing Information Request No. 2 to ICBC
C11-11	Submission at Public Hearing – Excerpt from Automobile Insurance Review, March
C11-12	Submission at Public Hearing –Excerpts from "At the Cross Roads, Volume II, Options and Choices"
C11-13	Submission at Public Hearing – Document from Consumers Association of Canada
C12-1	**COALITION AGAINST NO FAULT IN BC** – Notice of Intervention dated September 1, 2005 from Gordon Adair
C12-2	Email dated March 27, 2006 filing notice of attendance at Public Hearing
C12-3	Submission at Public Hearing – Book of documents from the Coalition Against No-Fault
C13-1	**CANADIAN NORTHERN SHIELD INSURANCE COMPANY** – Notice of Intervention dated September 1, 2005 from Lori Manskopf
C13-2	E-mail dated September 28, 2005 – Regulatory Timetable Change Acceptable
C13-3	E-mail dated October 13, 2005 – Satisfied with proposed Regulatory Agenda and Timetable
C13-4	E-mail dated October 21, 2005 commenting on BCPIAC's request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
C13-5	Letter dated December 20, 2005 responding to ICBC's request to delay part of the January hearing

Exhibit No.	Description
C13-6	E-mail dated January 4, 2006 supporting the revised Regulatory Timetable
C14-1	**BC CHIROPRACTIC ASSOCIATION** – Notice of Intervention dated August 30, 2005 from Dr. Don Nixdorf
C14-2	E-mail dated September 28, 2005 – Agreement with Exhibit A-4
C14-3	Letter dated October 12, 2005 – Information Requests to ICBC
C14-4	Letter dated October 21, 2005 – Response to Commission Exhibit A-9
C14-5	Letter dated November 3, 2005 – Information Request regarding Exhibit B-12
C14-6	E-mail dated December 16, 2005 commenting on ICBC's request to adjourn the January public hearing (Exhibit B-26)
C14-7	Letter dated February 15, 2006 filing Information Request No. 2 to ICBC
C15-1	**PEMBERTON INSURANCE CORPORATION** – Notice of Intervention dated September 1, 2005
C15-2	E-mail dated September 29, 2005 – Request Information Request Extension
C15-3	Letter dated October 21, 2005 commenting on BCPIAC's request to postpone the final determination of the regulatory agenda (Exhibit C16-4)
C15-4	Received via the Web November 4, 2005 - Information Request No. 1 to ICBC
C15-5	Letter November 16, 2005 – Response to ICBC Information Request No. 1 Objection
C15-6	Web submission received December 6, 2006 - Evidence
C15-7	Letter dated December 16, 2005 commenting on ICBC's request to adjourn the January public hearing (Exhibit B-26)
C15-8	Letter dated January 6, 2006 commenting on the revised Regulatory Timetable
C15-9	January 20, 2006 - reply to ICBC Information Request (Exhibit B-25)
C15-10	Letter dated March 8, 2006 requesting the Commission to consider reopening Intervenor registrations as the Application has been significantly altered

Exhibit No.	**Description**
C15-11	Submission at Public Hearing – Excerpt from Accounting Theory by Eldon S. Hendriksen
C15-12	Submission at Public Hearing – Flyer from Insurance Trade Journal
C15-13	Submission at Public Hearing – Document titled "Local Monopoly"
C15-14	Submission at Public Hearing – Article from Insurance Brokers Trade Journal
C16-1	**BRITISH COLUMBIA OLD AGE PENSIONERS' ORGANIZATION (BCOAPO)** – Notice of Intervention dated September 1, 2005
C16-2	E-mail dated September 26, 2005 – Agree with Regulatory Timetable Change
C16-3	E-mail dated September 29, 2005 – Submission regarding Exhibit C6-3
C16-4	Letter dated October 14, 2005 commenting on the proposed amended Regulatory Timetable
C16-5	E-mail dated October 25, 2005 –Court Challenge to IC2 Amendments
C16-6	E-mail dated October 26, 2005 – Comments regarding Exhibit C11-5
C16-7	Letter dated November 2, 2005 – Submission regarding Exhibit B-10 Confidentiality
C16-8	Letter dated November 3, 2005 – Information Request No. 1 to ICBC
C16-9	Letter dated December 16, 2005 commenting on ICBC's request to adjourn the January public hearing (Exhibit B-26)
C16-10	Letter dated January 3, 2006 commenting on the proposed revised Timetable (Exhibit A-22)
C16-11	Letter dated January 6, 2006 providing additional comments on the proposed revised Regulatory Timetable
C16-12	Letter dated January 9, 2006 filing Information Request No. 2 to ICBC
C16-13	Letter dated February 14, 2006 to BCUC filing additional Information Request No. 18.1 to ICBC
C16-14	Email dated March 7, 2006 filing ICBC's recently-published Service Plan 2006-08 and reference to Canadian Institute of Actuaries Consolidated Standards of Practice as evidence

Exhibit No.	Description
C16-15	Email dated March 16, 2006 filing reference to documentation published by the Actuarial Education and Research Fund for purposes of cross-examination
C16-16	Email dated March 29, 2006 filing change of Consultant Co-Counsel
C16-17	Submission at Public Hearing – BCOAPO et al Actuarial Panel Exhibits
C16-18	Submission at Public Hearing – Extract from ICBC Service Plan
C16-19	Submission at Public Hearing - Extract from Trowbridge's Fundamental Concepts of Actuarial Science
C16-20	Submission at Public Hearing – Witness Aid concerning August to October Bodily Injury Projection
C16-21	Submission at Public Hearing – August to October Bodily Injury per Policy Witness Aid
C16-22	Submission at Public Hearing – Extracts from the Canadian Institute of Actuaries' Consolidated Standards of Practice
C16-23	Submission at Public Hearing – Extract from ICBC October 24 Filing with the BC Utilities Commission
C16-24	Submission at Public Hearing – Graph entitled "Basic Insurance Capital Build" – Witness Aid
C16-25	Submission at Public Hearing – Transcript Extracts, cover page and pages 1267 -1268, October 14, 2004
C16-26	Submission at Public Hearing – Frequency of BI Losses over $40,000 - 3.5 Percent Error in LDF in 2005
C16-27	Submission at Public Hearing – Frequency of BI Losses over $75,000 – Based on 2006.2 BCOAPO 14.4
C16-28	Submission at Public Hearing – Capital Adequacy and Allocation using dynamic financial analysis by Donald Mango and John Mulvey
C16-29	Submission at Public Hearing – Excerpt from Transcript of October 13, 2004 – Volume 6
C16-30	Submission at Public Hearing – BCOAPO Et Al reference documents

Exhibit No.	Description
INTERESTED PARTY DOCUMENTS	
D-1	BCAA Insurance Corp. - E-mail dated August 25, 2005 from Patricia Stirling **WITHDRAWN** – Change in Status to Intervenor (see Exhibit C5-1)
D-2	DAVIS, C – Web registration received August 29, 2005
D-3	Canadian Association of Direct Response Insurers (CADRI) – Letter dated September 1, 2005 requesting Interested Party status
D-4	LOCKEN, Mike – Emails received March 15, 2006 and March 16, 2006 requesting Interested Party status
LETTERS OF COMMENT	
E-1	The Corporation of the Village of Telkwa – Letter of Comment dated October 26, 2005 from Mayor Sharon L. Hartwell
E-2	Letter of Comment dated February 2, 2006 received from David Gates
E-3	Letter of Comment dated February 2, 2006 received from Lucky Braich
E-4	Letter of Comment dated February 2, 2006 received from Helen Sahs
E-5	Letter of Comment dated February 2, 2006 received from Anne Delage
E-6	Letter of Comment emailed February 13, 2006 received from Pat Carlson
E-7	Letter of Comment emailed February 16, 2006 received from Adrian Barry
E-8	Letter of Comment dated February 17, 2006 received from Alveen Prasad
E-9	Letter of Comment dated February 16, 2006 received from Mayor Derek R. Corrigan, Mayor of Burnaby, BC
E-10	Letter of Comment dated March 2, 2006 received from Mayor Sharon Smith, Mayor of District of Houston, BC
E-11	Letter of Comment dated March 18, 2006 received from Dave Gosse
E-12	Letter of Comment received March 20, 2006 from Marie J. Baller
E-13	Letter of Comment dated March 21, 2006 from Darlene Haggerty
E-14	Letter of Comment dated March 25, 2006 from Jean H. Broeckx

Exhibit No.	Description
E-15	Letter of Comment dated March 31, 2006 from Rex Holley
E-16	Letter of Comment dated April 2, 2006 from Joyce Cook and Lottie Bonin
E-17	Letter of Comment dated April 5, 2006 from Karen Tuckwood
E-18	Letter of Comment dated April 4, 2006 from Jet D. Malong
E-19	Letter of Comment dated April 6, 2006 from Carolyn Clark
E-20	Letter of Comment dated April 9, 2006 from R.E. Coulter

Glossary of Terms

Accident Benefits	Wage loss, medical, rehabilitation and death benefits under Part 7 of the Revised Regulation (1984) under the *Insurance (Motor Vehicle) Act* for injury to or death of an insured occurring anywhere in Canada or the United States. Subject to exclusions in the *Insurance (Motor Vehicle) Act* and its regulations, an insured can receive benefits for injuries resulting from the use and operation of a Motor Vehicle, regardless of fault.
Allocated Loss Adjustment Expenses (ALAE)	Allocated Loss Adjustment Expenses are costs charged to specific claim files for legal fees and disbursements, medical reports, independent adjusters, private investigators, etc.
Acquisition Costs	Acquisition costs are the commissions paid on the sale of insurance policies and for vehicle licensing and registration transactions and premium taxes paid under the *Insurance Premium Tax Act.*
Basic Insurance	See Universal Compulsory Automobile Insurance below
Claim-Rated Scale (CRS)	A program which reduces or increases the vehicle premium according to the number of Collision and/or Third Party Legal Liability claims paid to or on behalf of a vehicle owner (or principle operator) and the length of driving experience with which the principle operator has been credited.
Claims Incurred Costs	Claims incurred represents the actuarially estimated costs of settling claims that occurred during a given period.
Collision Coverage	A contract with an insurer that covers loss or damage to the insured's own vehicle resulting from a collision with another object for which the insured is responsible.
Combined Ratio	Percentage of each premium dollar spent on claims and related costs, acquisition costs and operating expenses.
Comprehensive Coverage	Comprehensive coverage covers loss, or damage to the insured's own vehicle, from many causes other than collision, such as fire, theft and vandalism.
Compulsory Special Coverages	Coverages for less common vehicles and insurance exposures, such as unlicensed farm tractor, garages, vintage vehicles, and all terrain vehicles.
Court Tariff	Court Tariff under the Supreme Court Rules used to determine the Party-and-Party costs for indemnification of successful litigants.
Deferred Premium Acquisiton Cost (DPAC)	Deferred portion of Acquisition Costs (see above) which are amortized to income over the term of the policies.
Development on Known Claims	The provision for open claims that provides for any increase or decrease in the amount of claims until settlement.

Driver Premium or Driver Point Penalty Premium	The driver point penalty premium (DPP) is payable on a driver's birthday and is calculated by taking into account the number of driver point penalties recorded against the driving record of the driver for: • driving offences committed and added to the driver's record during the12-month period ending five months prior to the birthday, and • driving offences committed during an earlier period which have been recorded on the driving record since the last assessment. Related Definition: Driver's Certificate
Driver's Certificate	The driver's certificate provides: • $200,000 third party legal liability coverage under Part 6 of the Revised Regulation (1984) under the *Insurance (Motor Vehicle) Act* where the holder has no other insurance or where primary coverage is less than $200,000; and • no-fault accidents benefits coverage under Part 7 of the Revised Regulation (1984) under the *Insurance (Motor Vehicle) Act* to the driver license holder and to any member of the driver license holder's household. As a result of section 43 of the Revised Regulation (1984) under the *Insurance (Motor Vehicle) Act*, a driver's certificate is deemed to be incorporated into every valid and subsisting driver's licence. The annual premium payable for a driver's certificate is the total of the driver point penalty premium and the multiple crash premium. Related definition: Driver Point Penalty Premium
Expense Ratio	The amount of each premium dollar earned that is spent on acquisition costs and operating expenses (including non-insurance costs in ICBC's case). This ratio measures the company's operational efficiency in underwriting its book of business.
Incurred But Not Reported Reserves (IBNR)	Reserves for losses that have been incurred, but have not yet been reported to ICBC by the insured.
Job Family	A job family is a group of jobs having the same nature of work (for example, adjusting) but requiring different levels of skill, effort, responsibility or working conditions (for example, Telephone Claims Adjuster, Bodily Injury Adjuster).
Loss Ratio	The percentage of claims incurred costs, prior years' adjustments, claims services and road safety and loss management services to earned premiums.
Non-insurance Services	The driver licensing, vehicle licensing and registration, violation ticket administration and debt collection services provided by ICBC on behalf of the provincial government as set out in the Service Agreement made effective September 1, 2003 between ICBC and the provincial government.

Operating Expenses	Operating expenses are defined as costs (compensation and general operating) required to operate the insurance and non-insurance business with the exception of claims payments, commissions, and premium taxes.
Optional Automobile Insurance	Optional automobile insurance includes, but is not limited to, the following: • Comprehensive coverage (Part 9 IMVA Regulation) • Collision coverage (Part 9 IMVA Regulation) • Specified perils (Part 9 IMVA Regulation) • Excess third party legal liability – bodily injury and property damage (Part 9 IMVA Regulation) • Excess underinsured motorist protection (UMP) (Part 10, Division 2 IMVA Regulation) • Optional special coverages (section 153 of Part 11, IMVA Regulation) Related definitions: Collision Coverage, Comprehensive Coverage, Underinsured Motorist Protection
Owner's Certificate of Insurance	Certificate of insurance issued under the *Insurance (Motor) Vehicle Act* and the *Insurance (Motor) Vehicle Act Regulation* to a vehicle owner. This certificate of insurance is paid for by vehicle premium. Related definition: Driver's Certificate
Policy Year	A grouping of claims or premiums according to the period during which policies become effective. For example, all policies with effective dates in 2003 belong to policy year 2003.
Premiums Earned	The amount of premium relating to the expired portion of a policy term within a calendar year. Related definition: Unearned Premium
Premiums Written	Total premiums (driver point penalty premium and vehicle premium) from sale of a policy.
Prior Years' Claims Adjustment or Prior Years' Adjustment (PYA)	Each year, monies are set aside as a reserve in anticipation of future payments that will be made on account of claims that occurred in that year (the "unpaid claims"). Unpaid claims are re-evaluated annually and any change to the amount anticipated to be required for the unpaid claims is called a "Prior Years' Claims Adjustment".
Third Party Legal Liability Coverage	Indemnity for liability imposed upon an insured by law for bodily injury or death, or loss of or damage to property of another or others arising out of the ownership, use or operation either by an insured owner of an insured vehicle, or if the driver is not the owner, by a driver who operates the insured vehicle with the consent of the owner.
Ultimate Claims	The estimate of what will ultimately be paid for claims that occurred in a given period.

Unallocated Loss Adjustment Expenses (ULAE)	All internal claims settlement processing costs, excluding allocated loss adjustment expenses (see above) that will be used to pay for claims that have already taken place. These costs include staff adjusters, estimators, advisors, internal lawyers, clerical support and a portion of general expenses reasonably attributable to the claims function. The paid ULAE are the Claims Servicing Costs. The unpaid ULAE is known as the ULAE reserve. Related definition: Claims Servicing Costs
Underinsured Motorist Protection (UMP)	This coverage provides compensation for those insured persons who suffer bodily injury or death as a result of an accident caused by a motorist who does not carry sufficient insurance to pay for claims for which he is liable.
Unearned Premium	Insurance premium is not earned by an insurance company at the time that a contract of insurance is entered into, but over the course of delivering coverage in the policy period. An unearned premium is that portion of the original premium that has not yet been "earned" as the policy still has some time to run. If the policy is cancelled before the policy expiry date, the unearned premium must be refunded, less any applicable cancellation fees. Related definition: Earned Premium
Universal Compulsory Automobile Insurance	Universal compulsory automobile insurance includes the following: • $200,000 third party legal liability coverage – bodily injury and property damage (Part 6 IMVA Regulation) • Accident benefits (Part 7 IMVA Regulation) • Unidentified motorist (hit and run) (Part 8 IMVA Regulation) • Underinsured motorist protection (UMP) (Part 10, Division 2 IMVA Regulation) • Compulsory special coverages (sections 149 and 150 of Part 11 Regulation)
Unpaid Claims	The unpaid claims are the monies set aside in anticipation of future claims payments on claims that have already occurred.