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February 20, 2009

British Columbia Utilities Commission  
Sixth Floor  
900 Howe Street  
Vancouver, BC V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

**Re: Proposal Plan for an Independent Third Party Review Pursuant to  
Order G-73-08 respecting ICBC's Regional Claim Centres Allocation  
ICBC's Reply Submission**

Dear Ms. Hamilton:

This reply submission addresses the submissions by the intervenors the Insurance Bureau of Canada (IBC), Canadian Direct Insurance (CDI), and Family Insurance received February 12 and 13, 2009. As discussed below, ICBC disagrees with the positions taken by IBC and CDI. ICBC submits that the Revised Terms of Reference dated February 20, 2009, attached as Appendix A to this submission, fully address the Commission's directive in its April 2008 Decision for an Independent Third Party (ITP) Review and should be approved as filed. ICBC's proposal addresses intervenor concerns while setting out a review that is manageable, efficient, and cost effective. The ITP's findings, along with the extensive record before the Commission on ICBC's financial allocation methodology, will then allow the Commission to resolve any outstanding issues with respect to financial allocation.

**Objectives and Scope of the ITP Review**

ICBC included objectives for the ITP's review in its Terms of Reference in order to focus the ITP on the issues directed by the Commission. ICBC's objectives are drafted so that the ITP will be able to conduct an effective and efficient review with findings that will reassure the Commission that ICBC is assessing Regional Claim Centres Allocation (RCCA) work effort in an appropriate manner, address intervenor issues, and (as the April 2008 Decision states<sup>1</sup>) allow the Commission to assess whether a second full comprehensive cost allocation study is needed.

IBC argues instead that the objectives be stated as follows:

1. Review, report on and make recommendations with respect to ICBC's financial methodology, including a review of specific allocators identified by the ITP;
2. Review ICBC's work effort study that underlies certain of the ICBC allocators, particularly those that underlie the Regional Claims Centre Allocation, so as to address specific concerns raised by the intervenors.<sup>2</sup>

First, IBC's proposed objectives are too broad to be instructive, and amount to a request that the ITP conduct a full cost allocation study. The Commission's April 2008 Decision was

<sup>1</sup> April 2008 Decision, page 5.

<sup>2</sup> IBC Submission filed February 12, 2009 (IBC Submission), page 3.

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in respect of the RCCA proceedings and the Commission's directive for ICBC to retain an ITP must be considered in this context. The Commission was very clear that it is not directing a full cost allocation study. No appeal or application for reconsideration of the April 2008 Decision was taken.

Second, IBC's objectives would have the ITP duplicate work already undertaken in the regulatory proceedings regarding allocation over the past five years. The Commission has already approved ICBC's pro-rata methodology based on cost causality and reviewed and approved the allocation functions associated with the majority of ICBC's operating costs. Duplication of work already done in transparent Commission processes would not be cost effective or add value to the cost allocation process, and thus would not be in the best interests of Basic insurance policyholders.<sup>3</sup> Therefore, ICBC submits that IBC's proposed objectives should not be accepted.

IBC has put forward a number of proposed changes to the scope of the ITP review and the Revised Terms of Reference. In response to comments made at ICBC's December 9, 2008 meeting with Commission staff and intervenors (the December 2008 Meeting), ICBC made a number of specific amendments to the wording of the Revised Terms of Reference, filed January 23, 2009. ICBC does not agree with IBC's arguments or its further proposed changes, but believes that having the Commission deal with further arguments on these minor points is not an effective use of the Commission's time. As such, ICBC responds below only to the main concerns identified by IBC in their submission. Some, but not all, of the other, minor issues raised by intervenors are addressed in the table attached as Appendix B to this submission.

#### Intervenor Concerns

IBC argues that ICBC's proposed objectives and scope for the ITP review are not responsive to IBC's concerns. Each of the concerns specifically identified by IBC in its submission<sup>4</sup> are listed in the left hand column of the table below. In the right hand column, ICBC has indicated for the Commission how its proposed objectives and scope already address IBC's concerns.

<b>IBC's Concerns</b>	<b>ICBC's Response</b>
Whether the results of the Work Effort Study are objective <sup>5</sup>	By examining the process followed by the work effort study group and providing advice on the composition of the work effort study group, the data used, and whether the conclusions reached were reasonable based on that data, the ITP will be assessing the results of the Work Effort Study.
The assistance that an ITP could provide, particularly with assessing the appropriateness of proxies	The ITP is being specifically asked to provide advice on RCCA allocators previously raised by IBC, including the use of proxies.

<sup>3</sup> In its submission, Family Insurance stated, "We believe that the economic principle of the law of diminishing returns could apply to [intervenor concerns for which prima facie there appears to be merit], and it may not be money well spent to pursue them further and thus not in the best interests of policyholders."

<sup>4</sup> IBC Submission, pages 2-3.

<sup>5</sup> IBC's letter of comment on the RCCA NSA dated March 13, 2008 stated its full concern to be "...whether the results of the [work effort study] are objective when it was conducted only by persons within the ICBC organization", page 3.

IBC's Concerns	ICBC's Response
The focus on individual allocators in the absence of an opportunity to assess ICBC's costs as a whole	Through its review of the specified allocation functions, the ITP will be examining a representative sample of allocation functions that will allow it to examine how ICBC applies the financial allocation methodology for the four different types of allocators. ICBC's approach is not simply a validation of individual allocators. It represents a manageable and cost effective approach to allow the Commission to resolve outstanding allocation issues.
Whether the updated Work Effort Study is adequate	In assessing whether ICBC's RCCA work effort study resulted in a fair and equitable allocation costs, the ITP will be evaluating whether the work effort study was "adequate".

CDI argues that ICBC's proposal does not completely address the concerns raised by Mr. Sykes and IBC. CDI claims as an example that ICBC has failed to address intervenor concerns respecting the materials to be given to the ITP. As discussed above, ICBC submits that its proposed scope for the ITP review addresses the intervenors' concerns and disagrees with CDI's assertion that it has failed to do so. The specific issue regarding the materials to be provided to the ITP is discussed in more detail below.

Review of Specified Allocation Functions

IBC argues that the ITP should select which allocation functions to review.<sup>6</sup> The allocation functions specified for review were identified using objective screening criteria.<sup>7</sup> Identifying for review the allocation function with the highest associated dollar amount from each allocator type will maximize the benefit from the ITP review. It would be of less use to the Commission to have the ITP revisit allocation functions already addressed through a rigorous Commission process, or to review allocation functions that represent non-material dollar amounts.

**Materials to be Provided to the ITP**

ICBC disagrees with IBC and CDI that the materials to be given to the ITP must include the detailed and extensive record of prior Commission proceedings related to cost allocation, and further that all of the evidence relating to cost allocation (or at least the evidence filed by intervenors) be comprehensively listed in the Terms of Reference. The Commission has not asked for the ITP to examine the record from past proceedings or reconsider the Commission's past decisions on arguments that ICBC, IBC, or other intervenors have made previously. The ITP review should not be reduced to an opportunity for IBC to reargue its case from prior proceedings that the Commission has already addressed in its decisions. The ITP review is not a reconsideration.

<sup>6</sup> IBC Submission, page 5.

<sup>7</sup> The screening matrix and rationale behind it were attached as Appendix B to ICBC's October 31, 2008 Proposal Plan.

In order to conduct its review, the ITP needs only an understanding of what is being done by ICBC at present. Having the ITP review voluminous materials related to five years of past proceedings so that the ITP can see previous arguments is unnecessary. It is also not an effective use of the ITP's time, and the associated costs would not provide value to Basic insurance policyholders. However, if the Commission decides that the ITP must be given the materials identified by IBC, ICBC should be afforded the opportunity to add to the list additional materials that have been omitted from IBC's list (e.g., the cross-examination and information requests to intervenor witnesses and ICBC's reply and final submissions).

ICBC submits that its application materials (with any associated errata and updates) and the Commission's decisions sufficiently set out ICBC's process for the application of the financial allocation methodology. As such, ICBC has amended the Terms of Reference to specify that it will provide the ITP with "All ICBC application materials and decisions of the Commission related to its financial allocation methodology". As discussed at the December 2008 Meeting, the Revised Terms of Reference contain a provision allowing the ITP to request additional materials as necessary.<sup>8</sup>

### **Conclusion**

ICBC submits that the February 20, 2009 Revised Terms of Reference as attached to this submission fully address the Commission's directive regarding an ITP review in its April 2008 Decision. ICBC's proposal addresses intervenor concerns while setting out a review that is manageable, efficient, and cost effective. The ITP's findings, along with the extensive record before the Commission on ICBC's financial allocation methodology, will allow the Commission to resolve any outstanding issues with respect to financial allocation. ICBC agrees with CDI that ICBC policyholders should be confident that their premiums have been based on accurately allocated expenses, and submits that the objectives and scope of the review set out in the Revised Terms of Reference are more than adequate to provide this reassurance. It is not in the best interest of, and does not represent value for, policyholders to engage an ITP to conduct a review that is not appropriately defined or that is focused on matters that have already been resolved through an extensive and transparent Commission process.

ICBC submits that the February 20, 2009 Revised Terms of Reference, attached as Appendix A to this submission, should be approved as filed.

Yours truly,



Kathy Parslow  
Director, Regulatory Affairs and Planning

Cc: Bill Grant, Consultant, BC Utilities Commission  
Doug Chong, Director Strategic Services, BC Utilities Commission  
Registered Intervenors  
Donnie Wing, CA, Senior Vice President, Insurance, Marketing and Underwriting, ICBC

Attachments

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<sup>8</sup> ICBC's Revised Terms of Reference filed January 23, 2009, page 4.



## **Appendix A – Revised Terms of Reference dated February 20, 2009**



## **BACKGROUND**

The Insurance Corporation of British Columbia (ICBC) operates three lines of business: Basic insurance, Optional insurance, and Non-insurance. ICBC's Basic insurance line of business is regulated by the British Columbia Utilities Commission (the Commission) pursuant to section 49 and Division 2 of the *Insurance Corporation Act* (the *ICA*).

To maintain economies of scale, ICBC operates as an integrated business. One purpose of ICBC's financial allocation methodology is to identify the operating costs associated with each line of business so that the required Basic insurance premium rates can be determined and the Commission can ensure that premiums from Basic insurance cover only those costs attributable to Basic insurance.

ICBC's current financial allocation methodology was approved by the Commission in its January 2005 Decision.<sup>1</sup> The Commission approved a fully allocated costing, or pro-rata, methodology as the most appropriate methodology for allocating costs among ICBC's three lines of business. The pro-rata method incorporates the principles of cost causality. Eighty-five percent of ICBC's total costs are claims incurred, premium taxes, and commissions, which are primarily directly attributed to one of ICBC's three lines of business. The remaining 15% are operating costs. Of these operating costs, 21% are direct costs. For indirect costs, which make up the remaining 79% of ICBC's operating costs, ICBC uses the principles of cost causality to determine the appropriate basis of allocation so that these costs are allocated in a fair and equitable manner.

In its January 2005 Decision, the Commission directed ICBC to conduct a workshop within 60 days to review the details of seven allocation functions, including the Regional Claim Centres allocation (the RCCA). ICBC allocates Regional Claim Centres costs using work effort based on transaction costing. The Commission also directed ICBC to address another seven allocation functions in subsequent revenue requirements applications. In regard to the allocation of ICBC's administrative operating costs, the Commission concluded that the fairest allocation method is to allocate the costs equally between Basic insurance and Optional insurance, after deducting the costs allocated to Non-insurance. This was on the basis that these cost categories are required by both Basic and Optional insurance and are truly joint costs of ICBC's business.<sup>2</sup> Administrative operating costs represent 18% of ICBC's operating costs (2.7% of ICBC's total costs).

A negotiated settlement process (NSP) on the initial seven allocation functions including the RCCA was held in April 2005. In its letter approving the May 2005 negotiated settlement agreement (NSA), the Commission stated that it was satisfied that the workshop and ensuing settlement process had correctly and comprehensively dealt with the seven allocation functions of particular concern identified in its January 2005 Decision.<sup>3</sup> The Commission also confirmed ICBC and the intervenors' agreement to the use of the work effort allocator based on transaction costing for the RCCA. The RCCA represents 25% of ICBC's operating costs, or 3.8% of total costs. ICBC was directed to file an updated work effort study in 2007, including any revisions that ICBC proposed for the RCCA.

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<sup>1</sup> January 2005 Decision, page 25.

<sup>2</sup> *Ibid.*, pages 42-43.

<sup>3</sup> Commission letter dated May 18, 2005, Order No. G-46-05.



## Terms of Reference for an Independent Third Party Review of Regional Claim Centres Allocation and Specified Allocation Functions

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ICBC filed information regarding seven additional allocation functions, as directed in the January 2005 Decision,<sup>4</sup> in its 2006 Revenue Requirements Application. The Commission approved the allocators for these allocation functions and addressed other allocation matters in its July 2006 Decision.<sup>5</sup> Additional allocation matters including two more allocation functions, the use of the premiums written allocator, and reorganizations were addressed in the 2007 Revenue Requirements proceeding.<sup>6</sup> In total, the matters specifically addressed by the Commission, including administrative operating costs and the RCCA, represent 62% of ICBC's operating costs.

As required by the Commission, ICBC submitted a filing on the RCCA including an updated work effort study in December 2007. ICBC and intervenors participated in an NSP and in the NSA reached in February 2008 parties agreed on the allocation of Regional Claim Centres compensation and other operating costs on the basis of overall work effort percentage.<sup>7</sup>

Following the RCCA NSP, some intervenors submitted comments to the Commission expressing concern with the lack of independent validation of the work effort study.<sup>8</sup>

In its April 22, 2008 Decision, the Commission directed ICBC as follows:

The Commission Panel acknowledges the concerns expressed by IBC and Mr. Sykes regarding the independence of the Work Effort Study and the validation of the Work Effort Study and the proper allocation of costs between Basic and Optional Insurance. The Commission Panel determines that these issues are to be addressed by ICBC in the course of preparing for its next application with respect to financial allocation methodology. The Commission Panel considers that the importance of appropriate cost allocation between Basic and Optional Insurance indicates a need for an independent professional assessment. The Commission Panel determines that, for the purposes of this proceeding, the internal work undertaken by ICBC in support of its application, together with the results of the negotiated settlement process are adequate to support Order No. G-73-08. The Commission received a number of Letters of Comment that accepts the 2008 NSA with one dissent. **The Commission approves for ICBC the February 20, 2008 NSA, attached as Appendix B to this Order.**

**The Commission directs ICBC to prepare and file an application for approval of a Proposal Plan for the identification and selection of an independent third party ("ITP") to review, report on and make recommendations with respect to ICBC's financial allocation methodology. The Proposal Plan should address proponent qualification criteria, the detailed scope of the work required including a review of the Work Effort Study, and the time frame for**

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<sup>4</sup> January 2005 Decision, pages 38-39, 41.

<sup>5</sup> July 2006 Decision, pages 57, 60, and 61.

<sup>6</sup> January 2008 Revenue Requirements Decision, pages 20-24.

<sup>7</sup> Facilities costs related to the "tubes" in claim centres are allocated on the same basis as the collision/property damage transaction type rather than the overall work effort percentage.

<sup>8</sup> Letters of comment expressing concern with the lack of independent validation of the work effort study were submitted by intervenors Russell Sykes and the Insurance Bureau of Canada (IBC). IBC also submitted another letter on March 27, 2008 directly to the Commission, after the time for comment had ended, which is referenced in the Commission's April 2008 Decision.



**the review. The Proposal Plan application is to be filed with the Commission no later than October 31, 2008.**

In ordering this independent review of the current cost allocation methodologies employed by ICBC, the Commission Panel is not directing a full cost allocation study. The current allocations will stay in place until amended by the Commission as a result of any second comprehensive cost allocation study. The purpose to be served by the ITP study would be to provide objective third party analysis that would address some of the concerns raised in this proceeding and provide a base for the Commission to evaluate whether or not a second full cost allocation proceeding is required.<sup>9</sup>

This Terms of Reference is the Proposal Plan directed by the Commission.

### **OBJECTIVES**

- The primary objective of the ITP review, arising in response to specific concerns raised by intervenors about the RCCA work effort study, is to have an ITP provide independent validation whether the approach used by ICBC resulted in a fair and equitable allocation of costs, and to provide advice on the specific issues identified below.
- A secondary objective is to have an ITP review and comment on ICBC's selection and application of the allocators used for the specified allocation functions identified below.

### **REQUIREMENTS**

- ICBC will provide the ITP with the following materials:
  - Materials describing the current RCCA work effort methodology including materials filed with the Commission from ICBC's 2002 Transaction Costing Study up to and including the 2007 update to the work effort study.
  - All ICBC application materials and decisions of the Commission related to its financial allocation methodology.
  - PricewaterhouseCoopers' annual audit report (described below) regarding ICBC's compliance with the criteria in the *ICA* for allocating costs and revenues to the Basic insurance, Optional insurance, and Non-insurance lines of business, dated March 3, 2008.
  - The following Commission decisions and orders:
    - January 19, 2005 Decision approving the principles of ICBC's financial allocation methodology.
    - Commission letter dated May 18, 2005, Order No. G-46-05, approving the April 2005 NSA.
    - Excerpts of the July 13, 2006 Decision relating to allocation.
    - Excerpts of the January 2008 Revenue Requirements Decision relating to allocation.
    - April 22, 2008 Decision approving the February 2008 RCCA NSA (including appendices), the letters of comment filed by intervenors following the NSP, and the letter filed by the Insurance Bureau of Canada directly with the

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<sup>9</sup> April 2008 Decision, pages 4-5.



## Terms of Reference for an Independent Third Party Review of Regional Claim Centres Allocation and Specified Allocation Functions

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Commission, after the comment period had ended, which is referenced in the Commission's April 2008 Decision.

- Relevant legislation defining the Commission's jurisdiction and ICBC's responsibilities with respect to financial allocation.
- The ITP will review the materials provided, obtain any further information necessary for its review, as required, from ICBC, and prepare a written report addressed to ICBC and the Commission. The report will address the two objectives outlined above and provide appropriate analysis and explanation for any recommendations.
- In making any recommendations, the ITP will consider the legal requirement to keep sensitive Optional insurance data confidential.<sup>10</sup>
- The review will be completed in approximately two weeks over a two month period after the ITP agrees to the Terms of Reference and has been provided with the above information from ICBC to begin its assessment. The report will be due one month after the ITP's completion of the assessment.
- The ITP will address questions on the contents of the report from the Commission and intervenors in writing or in person as required by the Commission.
- The ITP will complete the work in a cost-efficient manner.
- The ITP will confirm that it had access to the materials and persons necessary to complete the report.
- The ITP will confirm that it has no concerns regarding its independence.

### **QUALIFICATIONS**

ICBC is seeking the services of a firm with one or more individuals with the following qualifications:

- Significant and related experience with cost allocation methodologies in a regulatory environment.
- Significant experience working for organizations (but not intervenors) operating in a regulatory environment.
- Significant experience with the automobile insurance business in the tort environment, in particular experience with claims servicing roles and processes. Experience with Canadian automobile insurance business is preferred.
- Capable of completing the review and issuing a final report within the time frames.
- Ability to abide by ICBC's and the B.C. government's terms and conditions regarding confidentiality of information obtained as a result of the engagement.
- Not in a conflict of interest position due to recent work for ICBC, the Commission, an intervenor, or a competitor of ICBC.

A firm may partner with one or more other firms to provide the services in the Terms of Reference. In such a case, one firm will be the lead to provide overall accountability for the services provided.

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<sup>10</sup> Per section 4(2) of *Special Direction IC2 to the BC Utilities Commission, BC Regulation 307/2004* in determining, under section 12 of the *Utilities Commission Act*, whether disclosure of information with respect to ICBC's Optional insurance business is necessary for the administration of the *Utilities Commission Act* as it applies to ICBC, the Commission must consider the effect of disclosure of the information on ICBC's ability to compete in the Optional insurance market on a basis similar to its competitors and the harm to ICBC's competitive position that may result from the disclosure of the information.



## **SCOPE**

The scope of the ITP review will consist primarily of an examination of the RCCA work effort study, but will also include a limited review of the allocators used for specified allocation functions, as set out below.

**1) Examination of the RCCA work effort study:** The ITP will provide independent validation whether the approach used by ICBC for the RCCA, which is based on transaction costing, resulted in a fair and equitable allocation of costs. The transaction costing process involves having a team of experienced ICBC Claims and Finance personnel (the work effort study group) meet to determine the percentage of work effort of employees at a regional level, by identified job categories, with respect to the specific types of transactions undertaken. The team determines work effort percentages on the basis of data provided to the group in advance of the session and the team's experience and knowledge of ICBC's claims handling processes and the work being performed in each region.

- The ITP will meet with the work effort study group to understand the work effort study process and evaluate that process in meeting the objectives of a fair and equitable allocation of costs. If it deems necessary, to gain a better understanding of ICBC's overall business and operations, the ITP may meet with appropriate ICBC Claims Division and Finance Division staff outside of the work effort study group.
- The ITP will also provide advice on the following issues:
  - The reasonableness of the composition of the work effort study group.
  - Whether the conclusions reached by the work effort study group were reasonable based on the data provided, and whether the data was reasonable and the same type typically used in transaction costing exercises.
  - Where proxies for work effort are used to allocate the costs between lines of business, whether the proxies selected reasonably reflect work effort.
  - For the bodily-injury-represented and bodily-injury-litigated transaction types, whether there is a requirement to allocate a portion of the work effort to Optional insurance for claims settling under \$200,000.
  - For the Material Damage-collision/property damage and Material Damage-customer care transaction types, whether file count is an appropriate proxy and reasonably reflective of relative work effort for the purpose of allocating costs among the lines of business.

## **2) Review of specified allocation functions:**

- ICBC uses four types of allocators for indirect costs: averages, claims, premiums, and work effort. The ITP will review one pre-selected allocation function from each of these categories, as follows:
  - Averages: Fraud Management (Weighted average – cost centres)
  - Claims: Call Centre Department (Newly opened exposures – TCD)
  - Premiums: Chief Underwriter (Premiums written with exception)
  - Work effort: Field Broker Support
- For each of the specified allocation functions, the ITP will review and comment on ICBC's selection and application of the allocator.



## Terms of Reference for an Independent Third Party Review of Regional Claim Centres Allocation and Specified Allocation Functions

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PricewaterhouseCoopers (PWC) conducts an annual audit of ICBC's compliance with the criteria established by sections 23(1)(c)(ii) and 49 of the *ICA* for attributing revenue and costs to ICBC's Basic, Optional, and Non-insurance lines of business (the PWC Audit). The last PWC Audit report was rendered on March 3, 2008.

### **TIME FRAME**

Based on the ITP being finally retained on or before early July 2009, the ITP's review will begin in September 2009 and conclude no later than October 31, 2009. ICBC expects that the review will take approximately two weeks of actual work time over a two month period, depending on the availability of ICBC personnel and the ITP.

The ITP will report its findings and any recommendations to the Commission and ICBC by November 30, 2009.



## Appendix B – Minor Intervenor Issues



Minor Intervenor Issues

As discussed at page 2 of ICBC's Reply Submission, ICBC does not believe that having the Commission deal with further arguments on the minor points raised by intervenors is an effective use of the Commission's time. As such, ICBC has responded to some, but not all, of the minor issues raised by intervenors in the table below.

Concern	ICBC's Response
A point should be added seeking the ITP's advice "whether the questions asked and choices made by the Work Effort Study group were correct..." <sup>1</sup>	The ITP should not be asked whether the choices made by the Work Effort Study group were "correct". In its April 2008 Decision the Commission stated that the internal work undertaken by ICBC in support of its application, together with the results of the Negotiated Settlement Process, was adequate to support Order No. G-73-08 regarding the allocation of RCCA costs. <sup>2</sup> IBC is, in effect, asking the ITP to reconsider the Commission's April 2008 Decision as to whether or not the Commission was correct. ICBC believes that this is not a useful or appropriate exercise.
ICBC's reference to "experienced" Claims personnel should be removed. <sup>3</sup>	This reference is found in ICBC's description of the transaction costing process, provided to give the ITP context for its review. The 2007 work effort study group included ICBC personnel with 366 years of experience combined. The reference to "experience" is a statement of fact. ICBC has not removed the reference, but has added "Finance" personnel (in addition to "Claims" personnel) to the description to ensure its accuracy.
ICBC's use of the word "validate" to describe the ITP's Review. <sup>4</sup>	ICBC chose the word "validate" to characterize the ITP's review of the RCCA because it was used by the Commission in the April 2008 Decision to describe intervenors' concerns. Because IBC expressed concern at the December 2008 Meeting about the word "validation", ICBC amended the January 23, 2009 Revised Terms of Reference to state that the ITP would "validate whether", rather than "validate that", the approach used by ICBC for the RCCA resulted in a fair and equitable allocation of costs. ICBC disagrees with IBC that "validate" connotes approval of or agreement with the existing study.

<sup>1</sup> IBC Submission, page 4.

<sup>2</sup> Commission's April 2008 Decision, pages 4-5.

<sup>3</sup> IBC Submission, page 5.

<sup>4</sup> IBC Submission, page 3.



Concern	ICBC's Response
Requirements that the ITP will attest to its independence and that it had access to materials and persons as necessary. <sup>5</sup>	ICBC has made these changes, as set out in the Revised Terms of Reference attached as Appendix A, but believes that nothing is to be gained by these additions. The January 23, 2009 Revised Terms of Reference, state that the ITP, as it deems necessary to gain a better understanding of ICBC's overall business and operations, may meet with appropriate staff, and ICBC will provide the ITP with information as it requires. ICBC agrees with IBC that the ITP be procured through an objective process and remain independent throughout its review.
Family Insurance suggests that the matters under review are uniquely Canadian and the ITP should be required to have Canadian automobile insurance experience. <sup>6</sup>	Participants at the December 2008 Meeting agreed to delete this requirement because of a belief that this experience was not required and concerns that, given the degree of specialized knowledge required for the ITP already specified, the requirements should not be further limited. Given the anticipated difficulties with retaining an ITP with relevant expertise, ICBC submits that the ITP should not be required to have Canadian automobile insurance experience. However, the Revised Terms of Reference have been amended to indicate that Canadian automobile insurance experience is preferred.
IBC alleges that "any reference to [the PWC] audits is at best misleading". <sup>7</sup>	ICBC's January 23, 2009 Revised Terms of Reference revised the discussion of the annual audit by PricewaterhouseCoopers (the PWC Audit). The changes made to the January 23, 2009 Revised Terms of Reference were those specifically discussed at the December 2008 Meeting and made at IBC's suggestion. ICBC disagrees that the reference to PWC is misleading. The PWC Audit assesses ICBC's compliance with provisions of the <i>Insurance Corporation Act</i> and ICBC's application of its financial allocation methodology. ICBC has not deleted the reference to the PWC Audit from the Revised Terms of Reference.
IBC expresses concern that the ITP will not be independent or will somehow become biased during its review.	This concern was not raised at the December 2008 Meeting. ICBC equally expects that the ITP is an independent professional and free of bias. ICBC will procure the ITP using an

<sup>5</sup> IBC Submission, page 8.

<sup>6</sup> Family Insurance Submission received February 13, 2009.

<sup>7</sup> IBC Submission, page 6.



**ICBC's February 20, 2009 Filing with the BC Utilities Commission**

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<b>Concern</b>	<b>ICBC's Response</b>
	open and transparent procurement process and is fully confident that the ITP will be independent and free of bias.