



October 31, 2008

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**

Dear Ms. Hamilton:

As directed by the Commission in its letter approving the May 2005 Negotiated Settlement Agreement (NSA) on selected allocation functions,¹ ICBC submitted a filing on the Regional Claim Centres Allocation (the RCCA) in December 2007. ICBC and intervenors then participated in a Negotiated Settlement Process (NSP) in February 2008. 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.²

In its April 2008 Decision approving the RCCA NSA, the Commission directed ICBC as follows:

... 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 review. The Proposal Plan application is to be filed with the Commission no later than October 31, 2008.³

The Commission went on to specify that it is not directing a full cost allocation study, but rather the purpose of the ITP review is to provide objective third party analysis addressing some of the concerns raised in the RCCA NSP and to provide a basis for the Commission to evaluate whether or not a second full cost allocation proceeding is required.⁴

This letter is ICBC's application for approval of its Proposal Plan for the scope of the work required, including a review of the RCCA work effort study, and sets out ICBC's proposed processes for Commission approval of the Terms of Reference and identification and selection of an ITP. The Proposal Plan consists of the enclosed Terms of Reference (Appendix A) addressing the scope of the work required, proponent qualification criteria,

¹ Commission letter dated May 18, 2005, Order No. G-46-05.

² 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.

³ April 2008 Decision, page 5.

⁴ Ibid.

and the time frame for review. The rationale for the proposed scope of the ITP review beyond the review of the RCCA work effort study is explained in Appendix B.

Objectives of ITP Review

Based on the Commission's April 2008 Decision, ICBC has identified two objectives for the ITP review:

- 1) The primary objective, arising in response to specific concerns raised by intervenors about the RCCA work effort study, is to have an ITP provide independent validation that the approach used by ICBC resulted in a fair and equitable allocation of costs, and provide advice on specific identified intervenor issues.
- 2) The secondary objective is to have an ITP review and comment on ICBC's selection and application of the allocators used for four specified allocation functions, which together are material in dollar amount and are representative of each type of allocators used by ICBC.

Scope of the ITP Review

Below, ICBC discusses the scope of the examination of the RCCA work effort study and the scope of the ITP review of specified allocation functions contemplated in the Terms of Reference provided in Appendix A.

Examination of the RCCA Work Effort Study

Responding to intervenors' concerns about the RCCA, the Terms of Reference indicate that the ITP will provide independent validation that the approach used by ICBC resulted in a fair and equitable allocation of costs. The ITP will also be asked to provide advice on specific issues raised by intervenors⁵ during the course of the RCCA NSP.

ICBC believes that the ITP's findings on these matters will provide the Commission with greater comfort that ICBC is assessing work effort in an appropriate manner and address the specific issues raised by intervenors during the course of the RCCA NSP.

Review of Specified Allocation Functions

The Terms of Reference contemplate that the ITP will review a representative sample of ICBC's allocation functions that together comprise a material dollar value. This is consistent with the Commission's statement that it is not directing a full cost allocation study.

ICBC has selected the allocation functions for review based on objective factors identified in a screening matrix. The screening matrix is attached to this letter as Appendix B with an explanatory note describing the mechanics of ICBC's application of its financial allocation methodology and ICBC's process for identifying the specified allocation functions for the ITP's review. For each specified allocation function, the ITP will review and comment on ICBC's selection and application of the allocator.

⁵ 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 a letter dated March 27, 2008 directly to the Commission, after the time for comment had ended, which is referenced in the Commission's April 2008 Decision.

In selecting the specified allocation functions for review, ICBC has considered the percentage of its costs that are directly attributable as well as the percentage of costs that have already been specifically reviewed and approved by the Commission. ICBC's total costs are broken down in Table 1.

Table 1 – ICBC's Total Costs

Total Costs	2007 Actual (\$ million)	Percentage of total costs
Claims incurred	\$2,613	74%
Premium taxes and commissions	\$402	11%
Subtotal	\$3,015	85%
Operating costs: ⁶ <ul style="list-style-type: none"> • Claims services • Road safety and loss management services • Operating costs – Insurance and Non-insurance 	\$523	15%
TOTAL COSTS	\$3,538	100%

Table 1 shows that approximately 85% 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: Basic insurance, Non-insurance, or Optional insurance. Operating costs account for 15% of ICBC's total costs. Table 2 further identifies those operating costs that are directly attributable, associated with the RCCA, administrative operating costs being allocated pursuant to a Commission directive, or have already been reviewed and approved by the Commission.

Table 2 – ICBC's Operating Costs

Operating costs	2007 Actual (\$ million)	% of total operating costs	% of ICBC's \$3.5 billion total costs
Total operating costs	\$523	100%	14.8%
Directly attributable	\$109	21%	3.1%
Regional Claim Centres costs	\$134	25%	3.8%
Administrative operating costs allocated 50/50 pursuant to Commission direction ⁷	\$95	18%	2.7%
All other allocations reviewed and approved by the Commission or addressed in separate review	\$97	19%	2.7%
Not directly attributable and not specifically addressed by the Commission	\$88	17%	2.5%

⁶ See Table 2 for further breakdown of ICBC's operating costs.

⁷ January 2005 Decision, page 42.

As depicted in Tables 1 and 2, only 2.5% of ICBC's total costs are not directly attributable, have not already been specifically reviewed and approved by the Commission, or are not subject to a separate review. ICBC has selected four specified allocation functions for review that are representative of almost half of the 2.5% of total costs. Together, the four specified allocation functions are a material dollar amount of the operating costs that are not directly attributable, have not been already specifically reviewed and approved by the Commission, or are not subject to separate review.

In addition, the allocation functions selected for review are representative of each of the four types of allocators used by ICBC⁸ and will allow the ITP to review how ICBC applies each type of allocator. The ITP's validation of ICBC's use of these allocators is intended to provide the Commission with comfort that ICBC is appropriately applying its financial allocation methodology.

In proposing the scope of this review, ICBC has also considered that, as required by section 49 of the *Insurance Corporation Act* (the *ICA*), Pricewaterhouse Coopers (PWC) conducts an annual audit of ICBC's compliance with the criteria established by sections 23(1)(c)(ii) and 49 of the *ICA*⁹ for attributing revenue and costs to ICBC's Basic, Optional, and Non-insurance lines of business (the PWC Audit). The PWC Audit is intended to provide reasonable assurance that ICBC has complied with the criteria established by the provisions of the *ICA*. It includes examining, on a test basis, evidence supporting ICBC's compliance with the *ICA* and, where applicable, assessing the accounting principles used and significant estimates made by management. The last PWC Audit opinion was rendered on March 3, 2008.

In conclusion, only 2.5% of ICBC's total costs are not directly attributable, subject to separate review, or allocated in a manner that has already been specifically reviewed and approved by the Commission. The Terms of Reference contemplate that the ITP will review allocation functions representing almost half of these costs, as well as validating ICBC's application of each of its four types of allocators. In addition, ICBC annually obtains the PWC Audit of its application of its Commission-approved financial allocation methodology, as required by legislation. As such, the Terms of Reference fully address the Commission's direction in respect of the ITP review, while recognizing that the ITP review is not intended to be a full cost allocation study.

Proposed Process for Approval of the Proposal Plan

ICBC suggests a process for finalizing the Terms of Reference in which ICBC will meet with the Commission and interested intervenors to obtain feedback on the Terms of Reference prior to the Commission issuing a decision with respect to this Application. ICBC proposes that the most efficient way to obtain this feedback would be by means of a working session with ICBC, Commission staff, and interested intervenors held before November 28, 2008 with Commission approval of the Terms of Reference by early December 2008.

⁸ ICBC uses four types of allocators: averages, claims, premiums, and work effort, as discussed in the explanatory note to the screening matrix (Appendix B).

⁹ The *ICA*, section 23(1)(c)(ii) states that ICBC must annually prepare and provide to the Minister, for the preceding fiscal year (if ICBC is engaged in the business of Optional insurance) a report, prepared by an external accountant, as to whether (A) ICBC's Optional insurance costs have been attributed to Optional insurance in accordance with generally accepted accounting principles (GAAP) and in compliance with section 49, and (B) ICBC's Basic insurance and Non-insurance costs have been attributed to Basic insurance in accordance with GAAP and in compliance with section 49. Pursuant to section 49(1) of the *ICA*, the Commission must ensure that ICBC does not use Basic insurance revenue to subsidize its Optional insurance business. Section 49(2) of the *ICA* states that for the purpose of subsection 49(1), the Commission may issue any orders it considers necessary to ensure that ICBC's Optional insurance business and activities are segregated from ICBC's other businesses and activities for accounting purposes.

Proposed Process for Retaining an Independent Third Party

ICBC proposes the following process and timeline for retention of the ITP:

1. After Commission approval of the Terms of Reference, ICBC will issue an Expression of Interest (EOI) based on the Proposal Plan. The EOI will be posted on BC Bid¹⁰ and provided to any potential qualified suppliers identified by ICBC, the Commission, and intervenors.¹¹ ICBC will issue the EOI by December 31, 2008 with responses requested by January 30, 2009.
2. ICBC will collect the responses from the interested suppliers. ICBC will evaluate the responses and advise the Commission of its selected supplier by mid-February 2009. If any of the potential suppliers, and in particular the chosen ITP, have identified a need for modifications to the Terms of Reference, ICBC will advise the Commission of those potential modifications.
3. ICBC will select and retain the ITP, including contract negotiation and development, by mid-March 2009.
4. The ITP review will take place over approximately two weeks beginning in April 2009 and concluding no later than May 31, 2009.
5. The ITP's report, including recommendations, will be provided to ICBC and the Commission no later than June 30, 2009.

Conclusion

ICBC believes that the Terms of Reference and proposed processes for identification and selection of an ITP comply with the Commission's direction in the April 2008 Decision, and will permit an appropriate level of review of ICBC's allocation methodology involving reasonable costs and effort.

Yours truly,



Kathy Parslow
Director, Regulatory Affairs and Planning

Cc: Donnie Wing, CA, Chief Financial Officer, ICBC
Participants in the 2008 Regional Claim Centres Allocation Negotiated Settlement
Process

Attachments

¹⁰ BC Bid is the central Provincial government website on which the BC Public Sector posts Tenders and Bids.

¹¹ The acquisition process will be conducted in compliance with ICBC's acquisition guidelines.



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



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.¹ 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.² 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.³ 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.

¹ January 2005 Decision, page 25.

² *Ibid.*, pages 42-43.

³ 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

ICBC filed information regarding seven additional allocation functions, as directed in the January 2005 Decision,⁴ 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.⁵ 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.⁶ 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.⁷

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

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

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 the review. The Proposal Plan application is to be filed with the Commission no later than October 31, 2008.⁹

The Commission further stated that it is not directing a full cost allocation study, and that the current allocations will stay in place until amended by the Commission as a result of any second comprehensive cost allocation study. The purpose of the ITP review is to provide objective third party analysis that will address some of the concerns raised in the RCCA NSP and to provide a basis for the Commission to evaluate whether or not a second full cost allocation proceeding is required.¹⁰

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

⁴ January 2005 Decision, pages 38-39, 41.

⁵ July 2006 Decision, pages 57, 60, and 61.

⁶ January 2008 Revenue Requirements Decision, pages 20-24.

⁷ 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.

⁸ 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.

⁹ April 2008 Decision, page 5.

¹⁰ Ibid.



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 that 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.
 - Materials describing the current allocators used for the specified allocation functions.
 - 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, the letters of comment filed by intervenors following the NSP, and the letter filed by the Insurance Bureau of Canada directly with the 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.¹¹

¹¹ 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.



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

- 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.

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 Canadian automobile insurance business in the tort environment, in particular experience with claims servicing roles and processes.
- 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.

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 that the approach used by ICBC resulted in a fair and equitable allocation of costs. The ITP will also provide advice on the following issues:

- 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: 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). PWC has already reviewed and validated ICBC's overall application and implementation of the financial allocation



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

methodology and its principles as reasonable. The last PWC Audit report was rendered on March 3, 2008.

- 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.

TIME FRAME

Based on the ITP being finally retained on or before mid-March 2008, the ITP's review will begin in April 2009 and conclude no later than May 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 June 30, 2009.



Appendix B – Screening Matrix and Explanatory Note



Overview

Apart from the review of the Regional Claim Centres Allocation (the RCCA) work effort study, ICBC's Proposal Plan involves the independent third party (ITP) examining four specified allocation functions representative of the four types of allocators used by ICBC. ICBC applied objective criteria to identify the most representative allocation functions for the ITP to review. The application of the objective criteria is demonstrated in the screening matrix in this document.

In this explanatory note, ICBC addresses:

- The mechanics of how it allocates costs under the Commission-approved pro-rata methodology.
- Allocation matters addressed by the Commission since 2004.
- The application of the screening matrix to identify the specified allocation functions for review.

Allocation of Costs under the Commission-approved Pro-rata Methodology

As discussed further in the Terms of Reference, the Commission approved ICBC's use of a pro-rata methodology to allocate costs between ICBC's Basic insurance, Optional insurance, and Non-insurance lines of business in its January 2005 Decision.¹

ICBC's operating costs are tracked using cost centres, which are the most granular breakdown of cost categories in ICBC's accounting system. Cost centres that are functionally consistent and can be allocated among the three lines of business using a single allocator have been aggregated into approximately 100 allocation functions. For each allocation function, ICBC selects the type of allocator that best indicates the extent to which the associated costs are caused by ICBC's lines of business. ICBC uses the following four types of allocators:

- 1) Averages
- 2) Claims
- 3) Premiums
- 4) Work effort

In applying each type of allocator, ICBC assigns a specific allocator for each allocation function that best reflects cost causality. For example, for the "premiums" type of allocator, ICBC may use an allocator based on Autoplan premiums or commercial vehicle premiums.

Allocation Matters Addressed by the Commission Since 2004

As set out in the Terms of Reference, in proceedings since the July 2004 Application regarding the financial allocation methodology the Commission has addressed a number of allocation matters. The Commission has conducted two close examinations of the RCCA, specifically addressed 14 other allocation functions, and reviewed and approved other allocation matters such as Road Safety and Auto Crime and Corporate Projects. The Commission has also given direction regarding the allocation of administrative operating costs, representing an additional 30 allocation functions.

¹ January 2005 Decision, page 25.



Only 2.5% of ICBC's total costs are not directly attributable or have not already been specifically addressed by the Commission. Almost half of these costs are represented by the allocation functions that ICBC has selected for the ITP's review.

Application of Screening Matrix to Identify Specified Allocation Functions for ITP Review

ICBC applied the attached screening matrix to identify the allocation functions specified for review.

The screening matrix includes the allocation functions used for operating costs from Appendix 1B to Chapter 7.8 of ICBC's 2007 Revenue Requirements Application, except those allocation functions that are directly attributable to one line of business or which no longer have costs associated with them. The allocation functions are sorted into four tables representing the four types of allocators identified above.

The application of the screening matrix results in the identification of the four specified allocation functions for the ITP to review. The steps in the process are described below.

STEP 1: ICBC created four tables containing the allocation functions sorted by the four types of allocators identified above. ICBC screened out and identified in a separate table allocation functions allocated 50% to Basic insurance and 50% to Optional insurance (after deducting Non-insurance costs) as a result of the Commission's January 2005 Decision on administrative operating costs.² ICBC then screened out and identified in another table the allocation functions that have already specifically been reviewed and approved by the Commission or are subject to separate review.³ A final table identifies the RCCA costs.

Given the limited scope of the review directed by the Commission and the previous regulatory proceedings with respect to financial allocation, it is appropriate to exclude from the scope of the ITP review items that have already been specifically reviewed and approved by the Commission and costs that are directly attributable. The remaining allocators are identified in the matrix as candidates for review.

STEP 2: For each type of allocator, ICBC then identified the allocation function representing the highest associated dollar amount from the candidates for review.

Based on this two-step screening process, ICBC identified the allocation functions in Table 1 for the ITP to review.

² January 2005 Decision, page 42.

³ ICBC has also excluded the Marketing and Broker Services allocation function from the scope of the ITP review. In its January 2008 Revenue Requirements Decision, the Commission directed ICBC to address the allocation of costs within the Marketing and Broker Services department at the first opportunity. On September 30, 2008, ICBC submitted its Marketing and Broker Services Allocation filing. Since the filing identified a number of alternative allocators and does not significantly impact Basic insurance rates, ICBC has proposed that this item be included for review as part of ICBC's next revenue requirements application.



Table 1 – Allocation Functions Identified for ITP Review

Allocation function	Type of Allocator	Allocator (Note 1)	Basic %	Non-ins %	Opt %	(\$M) 2007 Actual
Fraud Management	Averages	Weighted average – Cost centres	63%	0%	37%	\$8.1
Call Centre Department	Claims	Newly opened exposures – TCD	40%	0%	60%	\$22.1
Chief Underwriter	Premiums	Premiums written – with exception	50%	0%	50%	\$2.6
Field Broker Support	Work effort	Work effort	39%	10%	51%	\$7.1
Total						<u>\$39.9</u>

Note 1: For each type of allocator, ICBC assigns a specific allocator that best reflects cost causality. For example, for the “premiums” type of allocator, ICBC may use allocators based on Autoplan premiums or commercial vehicle premiums.

The four selected allocation functions represent almost half of the costs that are not directly attributable and have not already been specifically reviewed by the Commission. Although each type of allocator (i.e., averages, claims, premiums, and work effort) may encompass more than one specific allocator (e.g., the “premiums” type of allocator may use an allocator based on Autoplan premiums or commercial vehicle premiums), ICBC uses the same principles in selecting and applying the allocators used within each type of allocator. Thus, ICBC believes that the selected allocation functions are a representative sample on which to test ICBC’s application of its financial allocation methodology.



**Independent Third Party Review of Specified Allocations
Screening Matrix and Explanatory Note**

NOT PREVIOUSLY SPECIFICALLY REVIEWED AND APPROVED BY THE COMMISSION

Allocation Functions (not directly allocated)		Allocator	Basic %	Non-ins %	Opt %	(\$ M) 2007 Actual \$
ALLOCATOR TYPE: AVERAGES						
Candidate allocations for possible ITP review	Fraud Management	Weighted Average - Cost Centres	63%	0%	37%	8.1
	Call Centre Support	Weighted Average - Cost Centres	48%	3%	49%	2.8
	Insurance Business Support	Weighted Average - Cost Centres	44%	10%	46%	2.6
	Actuarial	Weighted Average - FTE	50%	0%	50%	2.2
	Garage and Fleet	Weighted Average - FTE	49%	5%	46%	1.5
	Registration and Licensing (Autoplan)	Directly attributable to Non-insurance except for some minor costs that are allocated based on transaction volume	0%	98%	2%	1.5
	Road Safety Project Operations	Road Safety Division Average	92%	0%	8%	1.3
	Market Research	Weighted Average - Projects	49%	0%	51%	1.1
	Insurance Business Analysis	Weighted Average - Cost Centres	42%	16%	42%	1.1
	Specialty Licensing & Insurance	Weighted Average - Special Coverages	10%	35%	55%	1.0
	Insurance Support (Autoplan)	Weighted Average - Cost Centres	18%	65%	17%	.4
	Collector Vehicle Program	Weighted Average - FTE	10%	50%	40%	.1
Subtotal						23.8

ALLOCATOR TYPE: CLAIMS						
Candidate allocations for possible ITP review	Call Centre Department	Newly opened exposures - TCD	40%	0%	60%	22.1
	Centralized Estimating Facilities	Net Claims Cost - MD	41%	0%	59%	7.1
	Material Damage Support	Net Claims Cost - MD	41%	0%	59%	5.6
	Head Office Claims	Net Claims Cost - HOC	38%	0%	62%	5.1
	Heavy Equipment	Net Claims Cost - HE	16%	0%	84%	2.0
	Ongoing Claim Services	Net Claims Cost - OOP MD	39%	0%	61%	1.4
Subtotal						43.4

ALLOCATOR TYPE: PREMIUMS WRITTEN						
Candidate allocations for possible ITP review	Chief Underwriter	Premiums Written - With Exception	50%	0%	50%	2.6
	Internet Services	Premiums Written	55%	0%	45%	1.2
	Insurance Broker Team	Premiums Written	55%	0%	45%	1.0
	Product Research	Premiums Written	55%	0%	45%	.9
	Fleet Claims	Commercial Vehicle Premiums - Online	53%	0%	47%	.7
	Insurance Processing	Premiums Written - Insurance Processing	36%	35%	29%	.6
	Product Development	Premiums Written	55%	0%	45%	.5
	ADP Technical	Premiums Written	55%	0%	45%	.5
	Funds Management	Premiums Written	55%	0%	45%	.2
	Manager of Commercial Lines	Commercial Vehicle Premiums Written	54%	0%	46%	.1
Premium Financing Plan Operations	Premiums Written	55%	0%	45%	(.0)	
Subtotal						8.3



**Independent Third Party Review of Specified Allocations
Screening Matrix and Explanatory Note**

Allocation Functions (not directly allocated)	Allocator	Basic %	Non-ins %	Opt %	(\$ M) 2007 Actual \$
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ALLOCATOR TYPE: WORK EFFORT

Candidate allocations for possible ITP review	Field Broker Support	Work Effort	39%	10%	51%	7.1
	Claims Litigation Support	Work Effort - Provincial Litigation	95%	0%	5%	1.7
	Bodily Injury Support	Work Effort	95%	0%	5%	1.3
	Head Injury	Work Effort	80%	0%	20%	1.0
	Insurance Planning	Work Effort	34%	33%	33%	.8
	Regional Marketing	Work Effort	50%	5%	45%	.7
	Customer Service (Litigation)	Work Effort - Provincial Litigation	95%	0%	5%	.1
Subtotal						12.7
TOTAL						88.2



**Independent Third Party Review of Specified Allocations
Screening Matrix and Explanatory Note**

Allocation Functions (not directly allocated)	Allocator	Basic %	Non-ins %	Opt %	(\$ M) 2007 Actual \$
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ALREADY REVIEWED AND APPROVED BY THE COMMISSION OR ADDRESSED IN SEPARATE REVIEW

COMMISSION DIRECTED 50% / 50% ALLOCATION AFTER DEDUCTING NON-INSURANCE COSTS

BCUC previously reviewed and provided direction. ITP review not required.	ISD Shared Services: Insurance, Claims, Non-insurance	Corporate Shared Services Ratio	43%	14%	43%	29.8
	Human Resources Division	Corporate Shared Services Ratio	43%	14%	43%	9.4
	Facilities Management	Square Footage	44%	12%	44%	8.8
	Finance Shared Services - Insurance Operations	Finance Shared Services Ratio	50%	0%	50%	7.2
	Corporate Costs (Admin)	Finance Shared Services Ratio	50%	0%	50%	6.4
	Regional Claims, Road Safety and Licensing Admin	Weighted Average - Cost Centres	50%	0%	50%	5.7
	Customer Collections	Weighted Average - Transactions	41%	18%	41%	4.6
	Supply Management Department	Work Effort	43%	14%	43%	3.8
	Finance Division Banking Operations	Work Effort	50%	0%	50%	3.4
	Document Services	Square Footage	44%	12%	44%	3.3
	General Counsel	Work Effort	40%	20%	40%	3.2
	Facilities Management (Victoria)	Square Footage	2%	96%	2%	3.1
	Executive Office	Finance Shared Services Ratio	50%	0%	50%	3.0
	Customer Contact Call Centre	Premiums Written	50%	0%	50%	2.9
	Freedom of Information Department	Work Effort	50%	0%	50%	2.8
	Regulator Costs	Directly attributable to Basic	50%	0%	50%	2.2
	Investment Portfolio Management	Investment Income Ratio	50%	0%	50%	1.9
	External Corporate Communications	Work Effort	43%	14%	43%	1.5
	Insurance and Telephone Claims Training	Insurance Division Average	50%	0%	50%	1.3
	Project Management Service Costs	Finance Shared Services Ratio	50%	0%	50%	1.2
	Corporate Management Reporting	Work Effort	50%	0%	50%	1.2
	Claims Training	Claims Division Average	50%	0%	50%	.9
	Communication - Government relations	Work Effort	38%	24%	38%	.6
	Corporate Strategic Services	Corporate Shared Services Ratio	43%	14%	43%	.5
	Claims Administrative Support	Weighted Average - Cost Centres	50%	0%	50%	.4
	Fair Practices Review	Work Effort - Provincial Litigation	50%	0%	50%	.2
	BT Shared Services	Corporate Shared Services Ratio	43%	14%	43%	.2
	Insurance Support (Admin)	Weighted Average - Cost Centres	42%	16%	42%	.1
	Material Damage Fees	Net Claims Costs - MD	50%	0%	50%	(4.1)
	Interest on Receivables	Weighted Average - Transactions	50%	0%	50%	(10.8)
Subtotal					94.7	



**Independent Third Party Review of Specified Allocations
Screening Matrix and Explanatory Note**

Allocation Functions (not directly allocated)		Allocator	Basic %	Non-ins %	Opt %	(\$ M) 2007 Actual \$
REVIEWED AND APPROVED BY COMMISSION OR SEPARATE REVIEW						
BCUC previously reviewed and provided direction. ITP review not required.	Claims General Support	Weighted Average - Cost Centres	61%	0%	39%	20.8
	Claims System Support	Weighted Average - Cost Centres	61%	0%	39%	18.8
	In-House Counsel (Provincial Litigation Services)	Work Effort - Provincial Litigation	95%	0%	5%	10.2
	Infrastructure Expenditure	Finance Shared Services Ratio	50%	0%	50%	10.1
	Insurance System Support	Premiums Written	55%	0%	45%	8.3
	Salvage	Net Claims Cost - MD	41%	0%	59%	3.7
	Bad Debts & Allowances	Weighted Average - Transactions	53%	4%	43%	3.6
	Regional Loss Prevention	100% Basic with Exceptions	86%	0%	14%	3.5
	General Broker Support & Direct Sales	Premiums Written	55%	0%	45%	3.1
	Insurance Project Expense	Insurance Division Average	58%	0%	42%	2.8
	Customer Service Support	Weighted Average - Cost Centres	43%	13%	44%	2.2
	Insurance Services Applications Support	Insurance Division Average	58%	0%	42%	1.4
	Insurance Corporate Cost (Autoplan)	Finance shared services ratio, modified by Commission Decision	50%	0%	50%	1.4
	Customer Accounting	Weighted Average - Transactions	42%	39%	19%	1.3
	Auto Crime Expenditures	Comprehensive Coverage - Market Share	26%	0%	74%	1.3
	Customer Advocacy	Weighted Average - Cost Centres	61%	0%	39%	.8
Claims Dispute Resolution - MD	Collision / Property Damage Split	34%	0%	66%	.4	
Claims Dispute Resolution - BI	Work Effort	91%	0%	9%	.4	
Pending Decision	Marketing and Broker Services	Premiums Written - With Exception	69%	0%	31%	2.8
Subtotal						97.0
REGIONAL CLAIM CENTRES ALLOCATION						
To be reviewed by ITP	Regional Claim Centres	Work Effort	64%	0%	36%	134.4
Subtotal						134.4
TOTAL						326.1
GRAND TOTAL						414.3