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June 30, 2009

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

Attention: Ms. Erica M. Hamilton, Commission Secretary

**Re: ICBC's May 12, 2009 Application for an Order Specifying the Form and Content of, and Review Process for, ICBC Revenue Requirements Applications Meeting Specified Criteria**

Dear Ms. Hamilton:

In reviewing ICBC's May 12, 2009 Application for an Order Specifying the Form and Content of, and Review Process for, ICBC Revenue Requirements Applications Meeting Specified Criteria, it has come to our attention that a number of relatively minor errors were made and we would like to take this opportunity to correct them.

On page 15, paragraph 40, the word "*that*" in the fourth line of the paragraph should not be italicized. Also on page 15, footnote 18 should read "See, for example, Exhibit 3..." instead of Exhibit 4.

We are attaching a revised page 15 with paragraph 40 and footnote 18 corrected.

On page 28, paragraph 84, the second to last line of the paragraph should read "...with each segment weighted at 33 1/3%" instead of 331/3%.

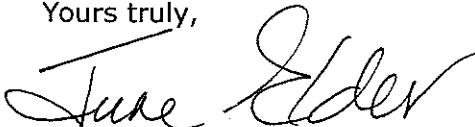
We are attaching a revised page 28 with paragraph 84 corrected.

On page 31, footnote 41 should read "... ICBC's August 2005 Revenue Requirements Application, Chapter 7.7;" instead of "... ICBC's 2005 Revenue Requirements Application, Chapter 7.7,".

We are attaching a revised page 31 with footnote 41 corrected.

Please accept our apologies for any inconvenience this may have caused.

Yours truly,

  
June Elder  
Manager, Regulatory Affairs

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

Attachments (3)



**(d) Supporting Documentation Filed with Revenue Requirements**

39. In its revenue requirement applications to date, ICBC has filed extensive information on its operating expenses and full actuarial support for its rate indication. In other jurisdictions, the actuarial support material filed may depend on the nature and/or amount of the proposed rate change. In Ontario, simplified or minor applications do not require detailed actuarial support documentation.<sup>18</sup>

40. ICBC will include the full actuarial rate indication analysis (similar to that provided in previous ICBC revenue requirements applications) as part of its Streamlined Revenue Requirements Applications to demonstrate that the Basic insurance rate change sought meets the requirement in *Special Direction IC2* that Basic insurance rates be based on accepted actuarial practice, and to allow ICBC's actuarial rate indication analysis to be examined by other actuaries if appropriate.

41. As with most insurance companies, ICBC's claims costs make up the greatest proportion of its total costs, as evidenced by ICBC's loss ratio of 84%<sup>19</sup> and a Canadian Property and Casualty industry average loss ratio of 63%.<sup>20</sup> As a result, the major driver of the actuarial rate indication is claims costs and the actuarial rate indication analysis forms the main component of a revenue requirements application.

42. ICBC's (non-claims related) expenses are proportionately lower as evidenced by ICBC's expense ratio of 19%<sup>21</sup> in comparison to a Canadian Property and Casualty industry average expense ratio of 29%.<sup>22</sup> However, to ICBC's knowledge no other Canadian insurance company files the level of detail on operating expenses that ICBC has filed in the 2006 and 2007 revenue requirements applications, amounting to more than 100 pages in each case. In Ontario, for instance, there is no separate requirement for reporting expenses other than the actuarial rate indication analysis.<sup>23</sup> In Manitoba and Saskatchewan, the

<sup>18</sup> See, for example, Exhibit 3, Other Than Private Passenger Automobile Filings – Major and Minor Filings, FSCO March 2009 Technical Notes.

<sup>19</sup> Loss ratio is the percentage of claims and claims related costs per premium dollar earned. For ICBC in 2007, claims costs represented 75% and claims related costs represented 9% of premiums dollars earned respectively, totaling to an 84% loss ratio. See ICBC 2007 Annual Report, page 6.

<sup>20</sup> ICBC's 2008 Annual Report will be available in late May 2009. See page 20.

<sup>21</sup> See ICBC 2007 Annual Report, page 6.

<sup>22</sup> ICBC's 2008 Annual Report will be available in late May 2009. See page 21.

<sup>23</sup> See, for example, Exhibit 4, Rate Filing Checklist for Major Filings, FSCO March 2009 Technical Notes.



large and medium-sized Canadian organizations operating in a variety of regions and sectors. The CBoC publishes compensation increases by industry, sector, and region. In 2008 CBoC published its compensation outlook which contains compensation information for 2009.<sup>36</sup> ICBC proposes to use the average planned compensation increase from three CBoC segments in the calculation of compensation rate change for the Threshold Value. The three segments that ICBC considers most appropriate for comparison with ICBC are the finance, insurance and real estate industry, the Canadian public sector, and the Canadian private sector, with each segment weighted at 33 1/3%. Further details of the calculation of the Compensation Rate Change Percentage [B] are provided in Section C.1.2.4 and Appendix C.

### **[C] Percentage Change in Number of Policies**

85. With a growth in the volume of ICBC's business, ICBC must process more policies, service more claims, handle more transactions, answer more calls, and provide the support services and infrastructure needed to meet customer expectations for service and quality. This leads to a need for additional staff and a related increase in operating expenses such as compensation, benefits, training, computer and telephone provisions, and facilities costs. Within ICBC, business volume at a corporate level is typically measured by the number of insurance policies earned.<sup>37</sup> This is a measure that is reported each year in the ICBC Annual Report and is available to the public.<sup>38</sup> The change in the number of policies is a variable that impacts ICBC's operating expense and is therefore proposed as a component in the Formula for the Threshold Value.

86. To take into account the fact that operating expenses do not adjust immediately to changes in business volume, a five year rolling average of percentage change<sup>39</sup> in annual numbers of policies earned is proposed to be used to determine any growth or decline in volumes. ICBC considers this reasonable because changes in staff levels and the adjustment of business processes to accommodate change in business volumes take time to implement, as the business assesses the permanency of any change. Some costs are related to infrastructure or are subject to long-term contractual agreements, and ICBC needs to phase

<sup>36</sup> Cowan, Allison. *Compensation Planning Outlook 2009: Economic Uncertainty Spells Caution Ahead*. Ottawa: The Conference Board of Canada, October 2008.

<sup>37</sup> Short-term policies are pro-rated to an equivalent year and are net of cancellations.

<sup>38</sup> See, for example, the ICBC 2007 Annual Report, page 5.

<sup>39</sup> The percentage change in the number of policies from calendar year Y1 to calendar year Y2 is  $100\% \times (Y2 \text{ number} / Y1 \text{ number} - 1)$  as further shown in Figure 9.

**Figure 5 – Government Directed Funding Examples**

<b>Government Directed Funding</b>	<b>Description</b>	<b>Y1 2008 Actual Expenses (\$M)</b>	<b>Y2 Forecast Expenses (\$M)</b>
CDLA – Canadian Driver Licensing Agreement	Measures to enhance driver licensing security that would support BC in meeting national licensing standards	\$ 0.3	\$ 0.7
Facial Recognition	Facial Recognition enhances the security of BC driver licences	0.6	0.5
<b>Totals (used in Figure 10, lines 2 and 9)</b>		<b>\$ 0.9</b>	<b>\$ 1.2</b>
		<b>[A1]</b>	<b>[E1]</b>

95. In Streamlined Revenue Requirements Applications ICBC will provide appropriate evidence that the expenditure is Government Directed Funding when treating these expenses as exception items in the Formula for the Threshold Value.

**Pension Expenses**

96. ICBC has in place defined benefit pension plans for its bargaining unit and management employees. ICBC also pays post-retirement benefits for its retirees, which include Medical Services Plan and life insurance premiums, extended healthcare, and dental costs. ICBC provided details of these plans and their associated costs as part of the proceedings of the 2007 and the August 2005 Revenue Requirements Applications.<sup>41</sup>

97. Pension expenses are determined annually by the actuaries of a third party service provider. The determination of these expenses is based on processes and methodologies that are consistent with accepted actuarial practice for pension actuaries. These methods are different from those used in the Basic insurance rate indication analysis discussed in Section C.3.1 (the methods used in the Basic insurance rate indication analysis are consistent with accepted actuarial practice for property and casualty actuaries). The main drivers of pension expenses are determined by external factors that are beyond ICBC's control, such as investment market yield and discount rate. The discount rate used in the calculation of the pension expenses is different from that used in the Basic insurance actuarial rate indication analysis and is related to the yield on fixed income assets with

<sup>41</sup> See ICBC's 2007 Revenue Requirements Application, Chapter 7.7; ICBC's August 2005 Revenue Requirements Application, Chapter 7.7; and information requests 2007.1 RR BCUC.107.2 and 2006.1 BCUC.75.1.3.