



**IN THE MATTER OF**

**INSURANCE CORPORATION OF BRITISH COLUMBIA**

**2007 RATE DESIGN APPLICATION**

**DECISION**

**January 9, 2008**

**Before:**

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

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COMMISSION ORDER NO. G-4-08

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## **1.0 INTRODUCTION**

### **1.1 The Regulatory Process before the Commission**

On March 16, 2007, the Insurance Corporation of British Columbia (“ICBC”, “Company”, or “Corporation”) submitted an application to the British Columbia Utilities Commission (“BCUC” or “Commission”) for approval of the 2007 Revenue Requirements for Universal Compulsory Automobile Insurance (“Basic”). By letter dated March 16, 2007, ICBC advised the Commission that on or before March 30, 2007, it would file with the Commission a separate application relating to the design and structure of ICBC’s Basic insurance rates and requested that the Revenue Requirements Application (“RRA”) and the Rate Design Application (“RDA”) be reviewed in a combined process. On March 19, 2007, the Commission issued Order No. G-32-07 directing ICBC to lead a Workshop with respect to the two applications on the morning of Monday, April 23, 2007, and determined that the applications would be reviewed in accordance with a Regulatory Agenda and Timetable to be established following a Pre-hearing Conference to be held in the afternoon of Monday, April 23, 2007. On March 29, 2007, ICBC filed its application for approval of certain rate design matters (“RDA”, “Application”) for Basic insurance.

Following the April 23, 2007, Pre Hearing Conference, the Commission issued Order No. G-48-07 setting down a Regulatory Agenda and Timetable and ordering that the RRA would be reviewed in combination with the RDA but each application would have its own separate record of evidence, and that the RRA would be examined in a Written Hearing process for the non-actuarial matters with two rounds of Intervenor Information Requests. Actuarial matters from the RRA were to be examined with one round of Intervenor Information Requests and an Oral Public Hearing. The RDA would be examined with one round of Intervenor Information Requests to ICBC and an Oral Public Hearing. RDA actuarial matters consist of Chapter 18 General Appendices: Appendix 18C Actuarial Analysis Explanatory Notes, Appendix 18D Actuarial Analysis: Plate Owner Basic Insurance Indicated Base Rate Adjustments, and Appendix 18E Actuarial Analysis: Proposed Year 1 Base Rate Adjustments.

The Oral Public Hearing for the RDA commenced on Tuesday, July 31, 2007, and concluded in the early afternoon of Thursday, August 2, 2007. Following submissions from the Company and Intervenor, the Commission Panel determined that ICBC Argument was due August 27, 2007, Intervenor Argument on September 10, 2007, and ICBC Reply Argument on September 20, 2007 (T5:789, 790). The Commission Panel notes that ICBC and Intervenor, in most cases, refer to Argument as Submission when filing material in this Hearing.

## **1.2 Summary of Commission Approvals sought in the Application**

In the Application, ICBC presents its Basic insurance rate design multi-year plan, (the “Plan”), that sets out the vision for the future Basic insurance rate structure and the strategy to achieve that vision, and seeks Commission approval of the Plan. Within the context of the Plan, ICBC requests specific approval of the following rate design changes:

- to replace the current Driver Penalty Point (“DPP”) program with the Driver Risk Premium (“DRP”) program;
- to implement a new rating variable, commencing May 1, 2008 for renewal and new Basic insurance policies, that will require that Other Operator information be provided and will include an amendment to Basic insurance rates to allow an additional premium of \$25 to be charged if an Other Operator will be operating the vehicle and if the Claim-Rated Scale (“CRS”) level of the Other Operator is worse than that of the registered owner (“RO”) or principal operator (“PO”) of the vehicle;
- to implement the actuarially indicated adjustments to the base rates of customer groups without further order of the Commission, with the implementation of the adjustments commencing May 1, 2008. In order to maintain rate stability and predictability of rates for customers, ICBC proposes an annual cap on these rate adjustments of 6 percent per year as a means of phasing in the actuarially indicated base rate adjustments; and
- effective June 1, 2007, the Basic Insurance Tariff in Appendix 18 B of the Application.

(Exhibit B-1, pp. ii-iv)

Further, by letter dated May 7, 2006, ICBC applied to the Commission for an Amendment to Basic Insurance Rate Schedule - Rate Class 017 (Exhibit B-1-6). In the application, ICBC requests an amendment of its Basic Insurance Rate Schedule, effective June 1, 2007, to change the weight threshold for Rate Class 017 – Vehicles Used in the Logging or Silviculture Industries or Operated under a Road and Bridge Maintenance Contract from a gross vehicle weight (“GVW”) of 5,000kg to 8,200kg. The Commission, by Order No. G-57-07, denied ICBC’s request to amend the weight limitations for Rate Class 017 in the ICBC Basic tariff, and stated that the Commission would consider ICBC’s request for amendments to Rate Class 017 in the RDA proceeding. ICBC’s Application for amendments to Rate Class 017 is discussed in Section 7 of this Decision.

### **1.3 Applicable Legislation**

The *Utilities Commission Act* (“UCA”) sets out the Commission’s jurisdiction over public utilities. While ICBC is not a public utility under the UCA, the sections of the UCA, except those listed in section 44 of the *Insurance Corporation Act* (“ICA”), apply to ICBC. Section 59 of the UCA is significant with respect to the Commission’s role in the rate design structure.

Section 59(1) states that a public utility (which includes ICBC in this instance) must not make, demand or receive an “unjust, unreasonable, unduly discriminatory or unduly preferential rate” for a service (which refers to Basic insurance only) or a rate that contravenes any other laws.

ICBC states that the terms “rate” and “service” used in Section 59 of the UCA have special definitions that apply only to ICBC. “Rate” is defined in Section 44(3) of the ICA as: compensation of the Insurance Corporation of British Columbia, other than any fee or other remuneration to which that corporation is entitled for any activity it undertakes under section 7(g)(h) or (i) of the Insurance Corporation Act [those sections refer to money that ICBC collects on behalf of government and remits directly to government and for amounts related to road safety].

ICBC submits that this definition of rate must be read in the context of the definition of “service” in Section 44(3) of the ICA which is “... deemed to be a reference to universal compulsory automobile insurance ...”. The effect of section 59(1) of the UCA is that, with respect to its “service” (Basic insurance), rates should not be unjust, unreasonable, unduly discriminatory or unduly preferential. Section 59(5) of the UCA defines “unjust” or “unreasonable” as a rate that is:

- More than a fair and reasonable charge for service of the nature and quality provided ...
- Insufficient to yield a fair and reasonable compensation for the service provided ...
- Unjust and unreasonable for any other reason.

(Exhibit B-1, pp. 15-10, 15-11)

#### **1.4 History**

The Application filed with the Commission on March 29, 2007, is ICBC’s first rate design application and it relates only to Basic insurance. ICBC states that the existing Basic insurance rate structure has its origins with the Corporation’s creation in 1973 and has evolved over the years. Prior to 2003 when the Commission commenced regulating Basic insurance rates, ICBC’s Basic insurance rate design was established through provincial government legislation, regulations and policy and through the approval of ICBC’s insurance rates by the Provincial Cabinet. Major changes to ICBC’s rate structure have not been implemented frequently (Exhibit B-1, p. 13-3). ICBC’s Basic insurance rate structure exists within the public policy and legal framework set out by the provincial government (Exhibit B-1, p. 13-2).

The table below summarizes the major stages in the evolution of ICBC’s rate design from 1974 to 2007.

<b>1973:</b>	ICBC created
<b>1974:</b>	ICBC starts writing automobile insurance; Driver Penalty Point (DPP) premium introduced
<b>1976:</b>	Seniors rate class introduced (25% discount)

<b>1977:</b>	Disability discount of 25% introduced; start of Safe Driver Vehicle Discount program
<b>1980-1981:</b>	Fundamental Automobile Insurance Rating program eliminated rating based on age, sex and marital status
<b>1982:</b>	Claim-Rated Scale (CRS) introduced
<b>1991:</b>	14 territories introduced (plus one for out-of-province vehicles)
<b>2001:</b>	Significant changes to CRS; Multiple Crash Premium (“MCP”) introduced
<b>2003:</b>	Annual declaration of Principal Operator; Commission becomes responsible for approving Basic insurance rates
<b>2004:</b>	Government issues <i>Special Direction IC2</i> to the Commission
<b>2007:</b>	Government issues Order in Council Basic insurance rate design

(Exhibit B-1, p. 14.3, Figure 14.1 – Timeline: History of ICBC’s Rate Design, 1973 to 2007)

## 1.5 Rate Design and Current Rate Structure

In the Application ICBC describes the details of the major components of what has evolved to be the present rating structure. The description makes reference to the rating variables on which Basic insurance was originally based, which included age, sex, marital status, territory of use, type of vehicle, vehicle use, principal operator and occasional male operator under age 25. Subsequent changes included seniors and disability discounts, safe driver incentive grant, the Automobile Insurance Non-discrimination Act, Claim Rated Scale, Alternate Claim Rated Scale, changes to territory rating, declaration of Principal Operator, to the current rate structure (Exhibit B-1, pp. 14-2 - 14-13). This description of the background and evolution of rate design at ICBC is useful in building a background understanding. The Commission Panel considers it best read in its entirety and so it will not be further summarized here.

To assist parties who had previously intervened in ICBC matters, the Corporation before and in anticipation of the Application, held a rate design workshop in the fall of 2006.



## 1.6 Special Direction

On January 31, 2007, the Solicitor General wrote to ICBC providing direction to ICBC (“January 31, 2007 Directive”) regarding the elements of the Basic insurance rate design structure that should be preserved, new factors that should be focused on immediately and rate design elements that should be dealt with over the longer term, in order to enhance driver accountability and to preserve rate stability. The January 31, 2007 Directive was approved by the Lieutenant Governor in Council on February 2, 2007, by Order-in-Council (“OIC”) 39 (Exhibit B-1, Appendix 15A). By way of the January 31, 2007 Directive, ICBC was directed:

“... to prepare and implement a Basic insurance rate design plan that must:

- (1) for the 2008 and future rate years retain the following key components of the existing rate design structure:
  - Seniors discount rate classes and their current method of calculation
  - Disability discount and its current method of calculation;
- (2) address the issue of high-risk drivers, as set out in this directive, as a new rate design factor beginning in the 2008 rate year; and
- (3) retain until at least the 2011 rate year the following existing rate design structure elements:
  - Claim Rated Scale (the number of levels and impacts of chargeable claims on Claim Rated Scale level)
  - Rate territories and their boundaries
  - Existing rate classes.

The basic insurance rate design plan should reflect the Government’s intention to preserve rate stability for the majority of basic insurance policyholders. In designing its plan ICBC should look to develop a rate structure that better takes into account the costs incurred by high-risk drivers. Changes affecting high-risk drivers should be applied to driver actions occurring in 2008 and subsequent years. ICBC must submit the plan for high-risk drivers to the Commission for its approval prior to its implementation.

This directive does not preclude ICBC from proposing changes to meet ongoing business requirements or changes to basic insurance premium assessments made in the ordinary course of business, subject to the Commission's approval.

This approach to rate design positions ICBC to introduce changes required for a more driver based rate design structure in a gradual and systematic manner without undermining the historical stability and predictability.”

(Exhibit B-1, Appendix 15A).

## **1.7 Rate Design Principles**

In the Application ICBC provides an overall context within which to understand insurance rate design. In doing so it provides a description of the general industry practice of the selection of insurance rating variables, an overview of the legal criteria which ICBC believes are relevant and principles that ICBC believes should further guide Basic insurance rate design.

### 1.7.1 Insurance Rating Variables

Rating Variables are used to group customers having similar risk characteristics, which in turn allows the Company to determine the appropriate premiums for each customer group according to the expected claims costs of the group. Insurance companies want to use the rating variables that are the best predictor of risks and of claims (Exhibit B-1, p. 15-2).

ICBC submits that there are four statistical criteria used in the selection of insurance rating variables: accuracy, homogeneity, credibility and predictive stability. However, ICBC notes that “Accepted actuarial practice in estimating rates requires consideration of the statistical criteria, while recognizing that this consideration cannot always take precedence over the other considerations of an insurance company, particularly the legal considerations. Accepted actuarial practice anticipates that in establishing a rate structure there necessarily will be tradeoffs in the selection of rating variables that could prevent the statistical criteria from being optimally met. Moreover, the evaluation of trade-offs within the unique circumstances of an insurance company combined with

the need to recognize limitations of certain rating variables that are mandated by regulatory authorities, will lead to rate structures that are different from one insurance company to another and from one jurisdiction to another” (Exhibit B-1, pp. 15-2, 15-3).

ICBC submits that rating variables must take into account practical (operational) considerations, such as the following: objectivity, administrative expense, verifiability, intuitive relationship to cost, and avoidance of large rate differences between customer groups as a disincentive for customers to misrepresent themselves in order to be rated at a lower premium.

ICBC further explains that there are other considerations, such as social and legal criteria to be considered when selecting rating variables. Social criteria include factors of privacy, causality, controllability, affordability, loss control incentive and social policy of government. Legal criteria are regulations, statutes, government directions and orders which are unique to a particular jurisdiction. Legal criteria take precedence over all other considerations in the determination of rating variables (Exhibit B-1, pp. 15-2 to 15.6).

### 1.7.2 Legal Framework for Basic Insurance Rate Design

Specific legislation that sets out the framework within which ICBC must operate includes; Insurance Corporation Act, Budget Transparency and Accountability Act, Financial Administration Act, Financial Information Act, Freedom of Information and Protection of Privacy Act, Insurance (Motor Vehicle) Act, ICA and the UCA.

The ICA requires that, as the provider of compulsory insurance, ICBC must ensure that the driving public in British Columbia has access to Basic insurance. ICBC states that the requirement to provide automobile insurance to all motorists sets ICBC apart from private automobile insurers in other jurisdictions. ICBC believes accessibility is an underlying concept guiding Basic insurance design (Exhibit B-1, p. 15-7). Part 2 of the ICA deals with the regulation of ICBC by the Commission, and sets out the Commission Jurisdiction over ICBC. The ICA provides for policy directions through special directions and government directives.

*Special Direction IC2 to the British Columbia Utilities Commission, BC Regulation 307/2004*

(“Special Direction IC2”) issued under the ICA and the UCA, provides direction to the Commission in respect of the exercise of its jurisdiction on Basic insurance. ICBC summarizes the sections of Special Direction IC2 relevant to rate design as follows:

- Section 3 (1) with respect to the exercise of its powers and functions under the Act in relation to the corporation generally, the commission must do the following:
- Section 3(1)(c) subject to (e), for each year for which it fixes universal compulsory automobile insurance rates, fix those rates on the basis of accepted actuarial practice so that those rates allow the corporation to collect sufficient revenue.
- Section 3(1)(c.1) requires the Commission when regulating and fixing universal compulsory automobile insurance rates, regulate and fix those rates in a manner that recognizes and accepts actions taken by ICBC in compliance with government directives issued to the corporation. See further discussion below.
- Section 3(1) (d) states that the Commission must ensure that Basic insurance rates are not based on age, gender or marital status. This provision requires that the Commission not approve a rate design that takes any of those factors into account. The exception to this is found in section 3(2) that permits discounts to persons who are at least 65 years of age and discounts for persons with disabilities.
- Section 3(1)(e) ensure that increases or decreases in universal compulsory automobile insurance rates are phased in such a way that those rates remain relatively stable and predictable. ICBC believes the effect of this provision is that a change in ICBC’s rate structure that would result in large rate increases or decreases from one year to the next, otherwise known as “rate shock”, would not be permitted.

(Exhibit B-1, p. 15-8)

The Government’s January 31, 2007 Directive as approved by OIC 039 and identified in Section 1.6 above provides further directions on Basic insurance rate design, specifically it instructs ICBC to prepare a Basic insurance rate design plan that is to address high-risk drivers, maintain senior rate classes and the disability discount and, until 2011, retain certain existing rate design structure elements such as the CRS.

### 1.7.3 Rate Design Principles

ICBC presents principles that it believes are appropriate for the design of Basic insurance rates and submits that these principles are aligned with and informed by the legal framework discussed above.

The principles are:

- Rates should be fair, just, reasonable, which means that rates should not be more than a fair and reasonable charge for the service provided, nor should they be unduly preferential or unduly discriminatory. ICBC submits that from an actuarial perspective if rates are not accurate, some groups or customers would pay less than the cost they incur while others would pay more than the costs they incur. From ICBC's perspective each group of customers with similar risk characteristics should pay a similar amount.
- Rates should be stable over time and predictable, which means avoiding dramatic fluctuations from one year to the next.
- Rates should be administratively simple and easy to understand. In ICBC's view, this means considering operational considerations such as administrative expense and the ease of verifying the rating information collected respecting the driver. ICBC further submits that it is important that rating variables be objectively defined with little ambiguity and should be intuitively related to costs.

(Exhibit B-1, pp. 15-12 to 15-15)

## 2.0 MULTI-YEAR RATE DESIGN PLAN

In the Application at Chapter 16.1, ICBC presents the Plan. ICBC describes the purpose of the Plan as being twofold: “(i) to present to the Commission and interested parties ICBC’s vision, overall goals and objectives, and strategy with respect to Basic insurance rate design, and (ii) to set out ICBC’s plans for rating variables that will be preserved, new rating variables that will be focussed on in the short-term, and rate design revisions that will be dealt with over the longer-term”. The Plan also sets out an indication of the timing and content of ICBC’s future rate design filings. ICBC defines short-term as the time period from this filing and up to and including 2009. The long-term is defined as post 2009. In this way the Plan allows for transparency with respect to the planned changes as well as enhancing driver accountability and overall rate stability and predictability.

ICBC describes its vision and overall goal and objectives for future Basic insurance rate design, and states that it has two key objectives which are consistent with and align to the rate design principles set out (in the preceding section):

- (i) rates move towards actuarial pricing.
- (ii) rate structure shifts to being more driver-based (variables over which the driver has control and which is more predictive of claims costs).

ICBC submits that:

“ICBC’s future Basic insurance rate structure will provide drivers with the ability to affect their premiums through their decisions on how they drive and who they allow to drive their vehicles. The rate design will place the responsibility for driving safely with drivers by focusing on rating variables that drivers are able to control [e.g. convictions and roadside suspensions (hereafter referred to as “driving convictions”) and at-fault crashes]. Fundamental to rate design, drivers’ actual risk characteristics will be a key determinant in their rating. As a result, ICBC’s Basic insurance rate design will shift to being more driver-based”

(Exhibit B-1, p. 16.1-3).

ICBC submits that once a more driver-based system has been successfully completed, rate class and territory variables can be examined to determine how to best increase credibility and homogeneity. ICBC anticipates filing another major rate design application in four or five years.

As noted in Section 1.6, the January 31, 2007 Directive to ICBC ordered the Company to prepare and implement a Basic insurance rate design plan that must for 2008 and future rate years retain the Seniors and Disability discount rate classes and their current methods of calculation; to address the issue of high-risk drivers as a new rate design factor beginning in the 2008 rate year; and to retain until at least the 2011 rate year the Claim Rated Scale, rate territories and their boundaries, and the existing rate classes. ICBC was also directed to reflect, in its Basic insurance rate design plan, the Government's intention to preserve rate stability for the majority of Basic insurance policyholders, and to develop a rate structure that better takes into account the costs incurred by high-risk drivers, with any changes affecting high-risk drivers to be applied to driver actions occurring in 2008 and subsequent years. (Exhibit B-1, Appendix 15A, p. 15A-3).

ICBC states it is not proposing extensive rate design change in the short-term, but instead is proposing a long-term timeframe. ICBC will move towards the planned rate structure gradually and systematically in order to ensure the success of the complex and extensive changes that will occur and to ensure that impacts to the operating environment are minimized. ICBC submits that the proposed gradual and systematic implementation of rate design changes is consistent with Special Direction IC2 Section 3(1)(e), by ensuring increases or decreases in Basic insurance rates are phased in such a way that those rates remain relatively stable and predictable, and is also consistent with the January 31, 2007 Directive (Exhibit B-1, pp. 16.1-8). The Plan is also intended to be revenue neutral (Exhibit B-1, p. 16.1-2).

ICBC also notes that the Plan also will enable ICBC to restructure its IT systems, to provide education and training to its employees and the brokers who deal with policyholders, and to inform customers of the rate design changes as they are introduced (ICBC Submission, p. 2).

ICBC identifies in the Application both short-term and long-term plans. The short-term plans it identifies, and for which it seeks approval in this application include:

- the replacement of the current Driver Penalty Point (“DPP”) program by the Driver Risk Premium (“DRP”) program with the necessary amendments to the Basic Insurance Tariff;
- the implementation of a new rating variable, Other Operator, and an associated \$25 premium during the first phase for this rating variable, with the necessary amendments to the Basic Insurance Tariff;
- rate adjustments within the existing rate class/territory structure to move the rates towards actuarial pricing. ICBC proposes to phase in these actuarially indicated base rate adjustments over time and applying an annual cap of six percent on these rate adjustments so as to maintain rate stability and predictability for customers (Exhibit B-1-1, pp. 13-4, 17.3-1).

Long-term plans identified by ICBC in the Application include re-examining the key rating variables used for the large majority of Basic insurance policies (including review of the Claim Rated Scale to move towards a more driver-based rating system, as well as review of the territory and rate class rating variables), refining the rating for the Other Operator rating variable and analyzing other possible rating variables (Exhibit B-1-1, p. 13-4).

### **2.3 Managing Rate Design Change**

In the Application, at Section 16.2, ICBC provides an explanation for why it takes the position that it is important for the rate design changes contemplated in the Basic insurance rate design multi-year plan to be sequenced in a logical, gradual, and phased manner to ensure their effective, efficient, and successful implementation. ICBC is of the view that the rate design changes identified in the Plan may be the most significant changes to ICBC’s rate structure since its inception in 1974. The Plan involves fundamental changes to ICBC’s current rate structure (e.g., structural changes to CRS and the introduction of new rating variables), which adds significantly to the complexity of implementation. All areas of ICBC’s operating environment will be impacted by the rate design changes contemplated in the Plan due to the complexity involved. A large number of ICBC’s application systems will require modification or outright replacement. Every customer will be affected by the rate design changes, some multiple times over the course of the Plan. Every



employee and broker affected by the rate design changes will have to be educated and/or trained to ensure they are able to successfully implement and adapt to the changes. ICBC states “it is undesirable, and potentially counterproductive, to seek to implement additional short-term rate changes, accelerate the timeline of the long-term rate design changes, or alter the sequence of the any of the rate design changes contemplated in the Plan (Exhibit B-1, pp. 16.2-1, 16.2).

## **2.4 Intervenor Comments**

Intervenors Insurance Bureau of Canada (“IBC”), Canadian Direct Insurance (“CDI”) and British Columbia Old Age Pensioners Organization et al. (“BCOAPO”) were, with several reservations, supportive of ICBC’s Plan. Pemberton Insurance Corporation (“Pemberton”) and Mr. Sykes, while often critical of the existing rate structure and the Plan, appear to implicitly support ICBC’s objective of having premiums for Basic insurance reflect the risk of causing crashes and the associated financial implications. To the extent there are issues raised by various intervenors in respect of the Plan, generally speaking, they focus on the mechanics of how ICBC’s objective and goals should be achieved, and in what timeframe.

Mr. Sykes is critical of the Plan, stating that it puts real and important rate design off until 2011 (Sykes Submission, Section I, para 6 and 18). Pemberton argues the phased in approach contemplated in the Plan should be accelerated and that ICBC is overstating the magnitude and complexity of the changes contemplated in the Plan (Pemberton Submission, pp. 3, 4).

BCOAPO is of the view that all changes should be suspended until further notice because , although it generally agrees with the analytical results provided regarding rate adjustments by rate class and territory, the current approach to rate design fails in a number of areas. BCOAPO submits that ICBC’s Application fails in that it lacks a detailed plan for future rate classes and territories post 2011 “despite the fact that there is nothing in OIC 39 [the January 31, 2007 Directive] that prohibits ICBC from developing a plan for these classification systems in the interim” (BCOAPO Submission, Cover Letter).

## **2.5 ICBC Comments**

With respect to concerns expressed about the pace and prioritization of change, ICBC states “ICBC’s Multi-Year Plan reflects a careful prioritization of changes that move ICBC towards its ultimate objective of having rates more reflective of risk, taking into account the timeline established by the Government Directive and ICBC’s operating environment”. ICBC submits that the Plan contemplates a significant amount of work being undertaken in the next four to five years, and that it contemplates fundamental changes to the way in which ICBC rates its customers, a fact that ICBC, in contrast to Mr. Sykes, explicitly recognizes in its submissions. ICBC further submits that the Plan introduces change over time, as it is necessary to ensure the rate design changes are sequenced in a logical, gradual and phased manner to ensure their efficient and successful implementation (ICBC Reply, p. 2).

Responding to the criticism that ICBC is overstating the magnitude and complexity of the changes contemplated in the Plan, ICBC also argues ICBC’s evidence, by contrast, referenced the broader operational environment, which also includes customers, brokers and employees. ICBC’s evidence is that the changes contemplated in the Plan will affect virtually every ICBC customer, in many cases more than once. In ICBC’s view, the changes to the Basic insurance rate structure contemplated in the Plan will result in a variety of changes to customers’ rates, many of which will not align with customers’ current understanding of the rate structure (ICBC Reply, p. 3). ICBC states that “Pemberton’s submission also ignores the fact that ICBC must undertake data collection and analysis prior to implementing some of the changes contemplated in the Multi-Year Plan” (Exhibit ICBC Reply, p. 3).

## **2.6 Commission Determination**

The Commission Panel understands the urgency expressed by some Intervenors for various changes to rating structure and resulting rates. At the same time the Commission Panel understands the January 31, 2007 Directive, and other direction given to ICBC from time-to-time. The Commission Panel accepts ICBC’s evidence and arguments regarding the complexity of changing and implementing rating structure.

**The Commission Panel considers that the Plan is consistent with specific government direction and accepts the Plan as presented by ICBC in the Application. Specific Plan component implementation details and related decisions of the Commission Panel are dealt with elsewhere in this Decision.**

### 3.0 DRIVER RISK PREMIUM

#### 3.1 Background

In the Application, ICBC states that driving conviction history is an accepted rating variable used for assessing crash risk in the automobile insurance industry in North America. The intent of the proposed DRP plan is to link the premium drivers pay for their driver's certificate more closely to their crash risk (Exhibit B-1, p. 17.1-1).

Drivers who commit a driving offence under the *Motor Vehicle Act* ("MVA") or its Regulation, or are convicted under certain sections of the *Criminal Code of Canada* ("CCC") accumulate point penalties on their driving record. The assignment of points is in addition to the fine levied for the driving offence. Currently, drivers with a valid BC driver's licence are billed a penalty premium based on the number of points accumulated against their driving record. This penalty premium is commonly referred to as the "DPP" premium. The DPP program is well-established, having existed in some form as long as ICBC itself. The revenue that is collected which during 2006 was \$17.5 million, is part of the Basic insurance premium revenue. The DPP premium is billed to drivers annually by ICBC approximately four weeks prior to the anniversary date for renewal of the person's drivers licence (the driver's birthday), if four or more points have been added to the driving record since the last assessment. If fewer than four points have been added to the driving record, no premium is billed or collected upon licence renewal. (Exhibit B-1, pp. 17.1-1 and 17.1-2)

ICBC notes that its statutory authority to collect DPP premium is found in:

- Section 30.1(a) of the *Insurance (Motor Vehicle) Act* ("motor vehicle indebtedness") [Section 93.1 of the *Insurance (Vehicle) Act*].
- Section 34 of the *Insurance (Motor Vehicle) Act*, allows for the establishment of a point penalty system [Section 34 of the *Insurance (Vehicle) Act*].

- Sections 44 and 45 of the *Revised Regulation (1984) under the Insurance (Motor Vehicle) Act* [Schedule E of the Basic Insurance Tariff].

(Exhibit B-1, p. 17.1-1)

### **3.2 Proposed Driver Risk Premium**

ICBC proposes to replace the current DPP program with the DRP program wherein drivers will pay a DRP based on their risk of causing crashes in the future. The DRP program, as proposed, will involve more drivers than the current DPP program, but the overwhelming majority of drivers will still not be charged a DRP premium. ICBC anticipates approximately ninety-five percent of drivers will not pay a DRP for their driver's certificate. Under the DPP program, about 1.2 percent of B.C. motorists paid DPP in 2006 (Exhibit B-1, p. 17.1-4).

Under the proposed program, drivers will still accrue penalty points when convicted of offences, but the driver premium will no longer be based on the number of points. Under the DRP program, the amount of the premium will be determined by the type and/or frequency of conviction. ICBC states that separating driver premium from the assignment of penalty points provides ICBC with the flexibility to adjust premiums based on risk (Exhibit B-1, p. 17.1-5). Once the DRP program is fully operational, ICBC estimates annual revenue to be within the range of \$40 to \$60 million (up from \$17.5 million in 2006 under the DPP regime).

The DRP will be charged to those drivers who, over a period of three years have accumulated:

- At least one motor vehicle related *Criminal Code of Canada* conviction, or 10 point *Motor Vehicle Act* (MVA) conviction as set out in Appendix 17.1 B of the Application, or
- At least two roadside suspensions, under sections 215 or 90.3 of the *MVA*, or
- At least one conviction for Excessive Speed, under section 148(1) of the *Motor Vehicle Act*, or

- At least three convictions for any motor vehicle offences under the MVA, the *Motor Vehicle Act Regulations*, or as described in Appendix 17.1 B. This category includes *Criminal Code of Canada* convictions, Excessive Speed convictions, and roadside suspensions.

(Exhibit B-1, p. 17.1-6)

ICBC reports that in published peer-reviewed research conducted by ICBC in 1995, a model was developed to predict drivers who are most likely to have one or more at-fault crashes in the near future, on the basis of their past record of crashes and convictions for traffic law offences, and to suggest an empirical method for establishing appropriate penalty point levels for each conviction type. The research was based on prior record of convictions from the Motor Vehicle Branch (as it then was) driver licensing system, and information on at-fault crashes from the ICBC database. The research established that the future at-fault crash risk increased both with the number of prior at-fault crashes and with the number of prior convictions. The research also demonstrated that “the accumulation of roadside suspensions is significantly related to future at-fault crash risk ...”. A three year record of convictions and roadside suspensions was used in the study (Exhibit B-1, p. 17.1-7, Appendix 17.1D).

Subsequent research was conducted by ICBC in 1997 incorporating severity into the analysis, based on the original data. Further analysis using recent data focused on the four offences identified in the 1997 research that were most predictive of causing serious crashes, namely Criminal Code of Canada offences, Speed Too Fast/Excessive Speed, Failure to Yield, and Major Disobey Signal. The table below compares the crash risk of drivers who have been convicted of certain offences, to the crash risk of drivers who have not been convicted of those offences.

**Figure 17.1.2 – High Liability Crash Frequency Comparison**

<b>Three or More Convictions</b>				
	Count of Drivers	Percent of Drivers	Count of High Liability Basic Crashes	Basic Crash Frequency
Three or More	107,377	3.9%	10,494	9.8
Other Drivers	2,660,150	96.1%	105,600	4.0
Total	2,767,527	100.0%	116,094	4.2

<b>One or More Excessive Speed Convictions</b>				
	Count of Drivers	Percent of Drivers	Count of High Liability Basic Crashes	Basic Crash Frequency
Excessive Speed	19,202	0.7%	1,726	9.0
Other Drivers	2,748,325	99.3%	114,368	4.2
Total	2,767,527	100.0%	116,094	4.2

<b>One or More Criminal Code of Canada</b>				
	Count of Drivers	Percent of Drivers	Count of High Liability Basic Crashes	Basic Crash Frequency
CCC Convictions	4,485	0.2%	332	7.4
Other Drivers	2,763,042	99.8%	115,762	4.2
Total	2,767,527	100.0%	116,094	4.2

<b>Two or More RoadSide Suspensions</b>				
	Count of Drivers	Percent of Drivers	Count of High Liability Basic Crashes	Basic Crash Frequency
Two + RSS	10,128	0.4%	1,060	10.5
Other Drivers	2,757,399	99.6%	115,034	4.2
Total	2,767,527	100.0%	116,094	4.2

(Exhibit B-1, p. 17.1-10)

In the tables above, “High Liability” means that the driver was at fault (more than 50 percent responsible) for the crash, and “Basic Crash Frequency” is the Count of High Liability Basic Crashes that occurred in the test year, divided by the Count of Drivers, and expressed as “crashes per hundred drivers” (Exhibit B-1, pp. 17.1-9, 17.1-10).

In developing the DRP program, ICBC considered different assessment periods and believes the assessment period should achieve the following objectives:

- It should be long enough to identify driving behavior that is clearly associated with increased at-fault crash risk.
- It should be short enough that only reasonably current driving history is being used.

- It should be consistent with insurance industry practice, so long as the two objectives above are met.

Following an analysis of the studies referred to above, ICBC concluded that a three-year period is sufficient to allow ICBC to identify conviction history that leads to significant increased risk. ICBC states that a three-year period is enough time to develop a useful history, yet short enough to ensure that only recent driving behavior is being used to establish the premium. For these reasons, ICBC chose a three year assessment period (Exhibit B-1, p. 17.1-12).

It will take three years for ICBC to fully implement DRP. ICBC submits that it will only be in a position to begin examining the relationship between DRP revenues and the financial implications of claims associated with DRP drivers after the DRP program is fully implemented. ICBC proposes to implement the DRP in the following manner. All events after January 1, 2008 which give rise to a conviction recorded against a driver's record will be scanned in parallel with the existing DPP system. Starting January 2009 customers would be charged the higher of the DPP or DRP premium. ICBC submits that this transitional process would continue for the duration of a three-year scan period, at which time the DRP program would become fully operational and the DPP program would be retired. The transitional approach both avoids making the program retroactive, and eliminates the need for ICBC to wait three years to begin making improvements to the DPP program (ICBC Submission, p. 12).

### **3.3 Intervenor Submissions**

While BCOAPO does not comment directly on ICBC's DRP proposal, it does comment on the analysis behind the proposal, stating, "ICBC has provided an excellent analysis showing the correlation between driving convictions and risk building as a means to justify the Driver Risk Premium" (BCOAPO Submission, p. 3). BCOAPO also argues that the DRP would fit well within a driver's licence linked insurance scheme, which it supports. BCOAPO suggests that the Commission require ICBC to file a formal report related to assigning at fault claims to drivers, as



well as the pros and cons of increasing the share of premiums charged on the drivers licence and moving premium away from the vehicle. The report would be the subject of a special hearing "...in the next year or as part of the next rate application." Pending such a hearing, BCOAPO suggests that the current plan be put on hold (BCOAPO Submission, p. 3).

Pemberton states that it conceptually agrees that the driving record of an operator of a motor vehicle does have a bearing on the causation of risk. It also believes that driver experience, driver convictions, and driver claims are indicators of that risk.

However, Pemberton states it is "troubled by the fact that ICBC incorporates some of these factors into the Driver Risk Premium program, and on the other hand other factors into the Claims Rated Scale program, sometimes in duplicate. We are also very concerned that the Chen *et al.* study is dated, that the underlying data for its conclusions has been destroyed, and that ICBC has failed to provide credible actuarial evidence to support their proposal. The test of offence frequency is dubious and ICBC has failed to provide an evidentiary base for claims severity. Accordingly, and having great difficulties with the approach, we are unable to support and must disagree with the actuarial foundation of the Driver Risk Premium application" (Pemberton Submission, p. 5).

CDI states "the rate design plan proposed by ICBC in response to that policy directive [OIC No. 39/07; January 31, 2007 Directive] and the implementation of that plan over the next three years will help in addressing the government's concern, expressed in the Order in Council, over aggressive driving." CDI expresses the view that rather than ICBC sending a bill specifically for DRP, ICBC should seriously consider eliminating this duplicate function and include the additional premium within the Basic insurance renewal premium (CDI Submission, p. 2).

IBC is of the view that the present system with two streams of income –one being the Basic insurance premiums charged in connection with the Owners' Certificate and the other being the DPP or DRP charged in connection with the Drivers Certificate – is at best confusing. IBC suggests that "While DRP may be a necessary step away from DPP, ICBC is encouraged to move away from this separate system" (IBC Argument, pp. 4-5). More specifically, IBC states "It would be preferable if

ICBC chose to underwrite its Basic insurance coverage (attaching to an Owner's Certificate) using both claims history and driver convictions. This would assist ICBC with moving towards its goal of being more driver-based. Certainly, such a system would make the ICBC system as a whole less confusing” (IBC Submission, p. 6).

Mr. Sykes submits that the Commission should be very concerned about the links between high-risk drivers (including driving under the influence of drugs, alcohol, driving while using phones or other devices, and other distractions) and the frequency severity of claims loses and related costs (including loss servicing costs). “The Commission should find that it is unreasonable and inappropriate for ICBC to propose including a single excessive speeding conviction but allow three failures to yield convictions before including a driver in the DRP” (Sykes Submission, Section C, para. 76).

Mr. Sykes also argues that the proposed DRP increments of 15 percent are not appropriate and should be much higher (Sykes Submission, Section D, para. 29).

### **3.4 ICBC Submission**

With respect to Pemberton’s concerns about incorporating risk factors into both the DRP and the CRS, ICBC states that “Although a person who has an at fault crash and a conviction could receive an increase in the Basic insurance premium and a DRP premium, ICBC is not duplicating the use of any rating variable. ICBC has stated that the contemplated rate design changes to the CRS will permit ICBC to consider driving convictions, chargeable claims, and other rating factors in an integrated manner” (ICBC Reply, p. 6).

ICBC also responds to the concerns of Pemberton that the 1995 Chen study is dated and that ICBC has failed to provide credible actuarial evidence to support their proposal, that the test of offence frequency is dubious and that ICBC has failed to provide an evidentiary base for claims severity. ICBC states that the proposed DRP program is based on empirical analysis of drivers with convictions, the crash risk per conviction, and the relationship between conviction history and the

risk of future at-fault crashes. Further ICBC states “The shortcoming of the *Chen* study was that it did not define “Failure to Yield” and “Major Disobey Signal”. ICBC will be examining these conviction categories when further data is available” (ICBC Reply, p. 6).

In reply to CDI’s suggestion to include the DRP premium within the Basic renewal premium, ICBC states “In 2006, only 69.8% of DPP drivers were listed as a Principal Operator and ICBC has no reason to expect this statistic will be materially different for DRP ... ICBC intends to look at the issue of invoicing in the context of changes to the CRS, but in the present context, ICBC’s ability to charge a premium to the driver separate from the premium attached to the risk and expense of the vehicle and the principal operator should be regarded as beneficial, as opposed to problematic” (ICBC Reply, pp. 5, 6).

In response to IBC’s preference that ICBC underwrite its Basic insurance coverage attaching to the Owner’s Certificate using both claims history and driver convictions, ICBC states that it will be reviewing whether and how convictions can be used in rating in terms of the Basic insurance policy as part of the contemplated review of the CRS (ICBC Reply, p. 5).

ICBC states, in response to Mr. Sykes’ comment, that it has used the existing empirical data, which suggests drivers with “one or more excessive speed conviction” or “three or more convictions” are at least double the crash rates of other drivers, at rates of 9.0 percent and 9.8 percent respectively (versus the crash rates of other drivers at 4.2 percent and 4.0 percent respectively). With respect to Mr. Sykes’ view on the DRP increment, ICBC states “the 15% increment was consistent with industry practice as found in the Province of Ontario’s Facility Association Manual ... the manual is used in five other provinces plus the territories.” ICBC will need about three full years of data in order to properly assess the future crash risk of drivers and that assessment will involve an examination of the increments (ICBC Reply, p. 7).

### 3.5 Commission Determination

ICBC describes the plan for the DRP program as an important short-term element of its Plan (ICBC Submission, p. 9). Some criticism of the Plan details was expressed by intervenors; however, no one dismissed the Plan in its entirety and no evidence was filed proposing an alternative methodology to achieve, over the short term, a situation where the premium charged is more reflective of a driver's risk of causing crashes than is now the case with the DPP structure.

The Commission Panel accepts ICBC's view that a shortcoming of the DPP program is that it does not sufficiently recognize that some types of offences are more closely associated with driver risk.

The Commission Panel is persuaded that attaching the proposed DRP program to the Driver certificate rather than to Basic insurance on the vehicle is appropriate, given the significant percentage of crash-related claims involving a vehicle operator who is not the principal operator, registered owner or lessee of the vehicle (Exhibit B-1, p. iii). The DRP revenues, which will form part of Basic insurance premiums, will also moderate rates for policyholders who are not assessed DRP premiums.

Special Direction IC2 requires the fixing of rates for Basic insurance on the basis of accepted actuarial practice. Concern was expressed that the DRP program was based on a dated study and lacked support by credible actuarial evidence. ICBC argues that it performed further analysis using more recent data. It also states that it will need about three years of data in order to "properly assess the future crash risk of drivers" (ICBC Reply, p. 7).

In testimony, Mr. Wing addressed the introduction of the DRP program and the initial gathering of data:

"so that once we get the data, start charging some amounts for the convictions, start getting the program implemented and transition away from DPP within two to three years we'll have the data to then adjust those to the actuarial analysis that would identify what the premium would be" (T5: 779-780).

“COMMISSIONER ANDERSON: So when we get to that point where you feel you've got sufficient data, be it three years or four years or whatever, that you can actuarially determine the DRP impact that you are looking for, then presumably you will be coming back looking for another significant shift in this whole process. And it's really the transition that you are asking for now. This isn't really the final product.”

“MR. WING: A: That's correct” (T5: 780).

The Commission Panel understands from the evidence available, that the basic design of the proposed DRP program is based on analysis carried out at various times, with various data sets and using elements of industry practice from other jurisdictions. Although the program design and rates proposed for the DRP program are grounded in research and industry practice, they are not at this stage fixed on the basis of accepted actuarial practice. The Commission Panel accepts that in order to set an actuarially determined premium, several years of actual data are required.

The January 31, 2007 Directive says, in part, “ICBC can contribute to solving the aggressive driving issue through the initiation of a more driver based rate design system that increases the direct accountability of drivers by ensuring that those high-risk drivers who have more crashes, more claims, multiple motor vehicle violations and/or serious Criminal Code convictions are required to pay more premium dollars.” ICBC is specifically directed to “...address the issue of high-risk drivers, as set out in this directive, as a new rate design factor beginning in the 2008 rate year ...” (Exhibit B-1, p. 15A-3).

The Commission Panel accepts that the proposed DRP is in compliance with this Government Directive.

In the Hearing, ICBC requested an early decision of the Commission with respect to this matter. ICBC explained that the DRP program is proposed to start as of January 1, 2008 and that ICBC “... wants to make it known to the public at large that there are going to be changes in the program and to ensure that people are aware that DRP is coming in ...” requires a decision by approximately the end of October so that a communications program could be undertaken (T5: 787-788).

On October 17, 2007, the Commission issued Order No. G-126-07 which stated, in part:

- “H. During the hearing, ICBC indicated that in order to undertake a communications campaign to ensure that the public is aware of changes regarding ICBC’s proposed transition from the DPP program to the DRP, a decision by the Commission would be required by approximately the end of October 2007; and
- I. The Commission Panel has reviewed the evidence and the submissions of the parties and has determined that approval of the DRP is necessary and in the public interest. The Commission Panel will include its reasons for decision on the DRP in the Reasons for Decision issued concurrently with its final Order regarding ICBC’s RDA in due course.”

**NOW THEREFORE** the Commission approves the DRP program for ICBC.”

**So as to comply with IC2 with respect to the fixing of rates, ICBC is directed to file an actuarial analysis report for the DRP program as it evolves, with a first report due not later than 12 months following the third anniversary of the implementation of DRP (January 1, 2008) and to recommend in that report, rate adjustments to the DRP which are reflective of the findings of the actuarial analysis. This directive does not preclude ICBC from recommending DRP rate adjustments in the interim, to improve the effectiveness and/ or fairness of DRP, based on statistical analysis, practical experience and/or industry practice.**

#### **4.0 OTHER OPERATOR PREMIUM PROPOSAL**

One of the proposals in the Application is to charge an additional “Other Operator” premium for the Basic insurance policy to better reflect the increased risks (of crashes resulting in property damage or personal injury) when additional drivers are permitted to drive an insured vehicle. This is in line with the Plan that places more emphasis on driver experience so that rates are more driver-based. Also, the Other Operator rating variable will be considered as part of the future review of the Claims Rated Scale (Exhibit B-1, p. 17.2-4).

While there is, as yet, no actuarial basis for the size of the additional premium, ICBC reports that in British Columbia, 22 percent of crash-related claims involve vehicle operators who are not the RO or the PO (Exhibit B-1, p. 17.2.1).

The imposition of an “Other Operator” premium is common in many jurisdictions including seven other provinces and the three Territories (Exhibit B-1, p. 17.2.4). The “Other Operator” premium surcharge in other jurisdictions runs the range of an additional 30 percent to 228 percent depending upon jurisdiction, and the rating factors of the individual policyholder.

The working definition of “Other Operator” that ICBC proposes using in Phase 1 of the program includes:

- A member of the RO’s or PO’s household who will be permitted to operate the vehicle or
- Any non-household member who will operate the vehicle on more than 12 days over an annual policy term (pro-rated for short-term policies)

The Application spells out a number of exemptions where the additional premium would not be payable:

- Where the Other Operator(s) have a CRS (Claims Rated Scale) rating equal to or better than the RO/PO (Exhibit B-1, p. 17.2-12).

- Where the Other Operator is already listed as a PO or RO on another policy or is reported as an Other Operator on another policy (Exhibit B-1, p. 17.2-13).
- Fleet-rated vehicles or commercial and specialized rate classes (Exhibit B-1, p. 17.2-12).

While the Other Operator surcharges in other jurisdictions are relatively significant, ICBC proposes that during Phase 1 of the program, an additional premium of only \$25 will be charged. This rate was decided upon because of the absence of any actuarial evidence and to avoid “rate shock” upon the introduction of the new rating variable (Exhibit B-1, p. 17.2-10).

The Application proposes the program be introduced in two phases. Phase One is oriented to data collection that will be used to develop actuarial analyses to support whatever rates would be fair to reflect the additional risk imposed by Other Operator use of an insured vehicle. During this Phase, ICBC will require that policy holders declare the names of Other Operators and to supply their driver’s licence number(s). The additional premium of \$25 will be collected at policy renewal dates. Phase One will run for the period May 1, 2008 through to April 30, 2009 and the claims data will cover the period out to April 2010 so that a minimum of one full policy year of data will be available and provide sufficient data for statistically valued actuarial analysis (Exhibit B-1, p. 17.2-11).

Phase Two will be used to analyze the data and arrive at actuarially-based rate proposals that will then be submitted to the Commission for approval. Estimates for this work are that it will take about six months after the end of April 2010 (Exhibit B-1, p. 17.2-13).

ICBC estimates that about 240,000 - 420,000 customers will be required to pay the additional \$25 premium and that the additional gross premium revenue will be in the range of \$6.0 - \$10.5 million. Training and communication materials will be provided to brokers and all ICBC front line staff in Customer Service and Claims in order to provide policy holders with information on the additional premium (Exhibit B-1, p. 17.2-14).



#### **4.1 Intervenor's Comments and Responses from ICBC**

In general, most Intervenor's were in favor of the concept of addition of a new premium component based on the increased risk that arises when additional drivers (other than the PO/RO) are permitted to operate the insured vehicle.

BCOAPO was concerned about the complexity of the definition of "Other Operator" and stated that the onus would be on the customer to make the correct choices of coverage (ICBC Submission, p. 2). ICBC replied that it would not be difficult, in most cases, for the policyholder to ascertain if the definition was satisfied for the Other Operators of the vehicle (ICBC Reply, p. 8). In addition, ICBC cited the on-going support that would be received by brokers and the customer.

BCOAPO also argued that the "driver rating component was needlessly indirect." They suggest that it would be simpler and more effective to reassign premium coverage to the driver's licence and assess risk ratings in a manner similar to what is employed in Quebec. BCOAPO called upon the Commission to require ICBC to file a report relating to assigning at fault claims to drivers as well as the pros and cons of increasing the share of premiums charged on the drivers licence (ICBC Submission, p. 3). ICBC replied by pointing out the differences in the Quebec system (a mixture of "no-fault" and tort, and combined "Basic" and "Optional" coverages) (ICBC Reply, p. 9).

Both Pemberton and IBC argued that no premium should be charged during Phase One. Pemberton referred to the \$25 premium as "guess" (Pemberton Submission, pp. 5-6; IBC Submission, p. 7). ICBC replied that the \$25 premium was not a guess but represented a "step in the right direction" that would help educate the customer to the new regime and provide ICBC a legal remedy in the face of non-reporting of an "Other Operator" (ICBC Reply, p. 9). Mr. Sykes suggested that a premium of \$200 would be more appropriate for the risk (Sykes Submission, D, para. 32). ICBC dismissed this suggestion as inconsistent with the objective of keeping rates relatively stable and predictable (ICBC Reply, p. 10).

Pemberton, while agreeing with the inclusion of the Other Operator variable, questioned the nexus between the CRS and the Other Operator premium calculation. In its view, the CRS had not been actuarially supported (Pemberton Submission, p. 5). ICBC pointed out that at present, the CRS rules attach an at-fault claim to only one policy whereas the intent of the Other Operator risk rating will result in an at-fault accident being applied to more than one policy (ICBC Reply, p. 10).

CDI and Pemberton were both of the view that ICBC already had data sufficient for the Corporation to carry out actuarial analyses for rating “Other Operator” premiums (CDI Submission, p. 3; Pemberton Submission, p. 5). ICBC responded that while it had some data, it was not organized and tied to the driver’s licences (ICBC Reply, pp. 10-11).

Finally, Mr. Sykes was of the view that an additional premium by way of penalty should be imposed for failure to declare an Other Operator (Sykes Submission, C, para. 29). ICBC replied that the possibility of a claim rejection should discipline policyholders to report Other Operators in an honest way (ICBC Reply, p. 11). Mr. Sykes was also concerned that brokers would earn a portion of the “Other Operator” premium (Sykes Submissions, C, para. 29). ICBC replied that the broker would only earn the standard Basic transaction fee (ICBC Reply, p. 11).

#### **4.2 Commission Determination**

The Commission Panel is supportive of the overarching objective of recognizing in premium ratings, the driving habits and at fault claims of all drivers with access to the insured vehicle. This is also in line with the Government Directive to ICBC requiring it to address the issue of high-risk drivers. The Commission Panel accepts that the two-phase plan put forward is a reasonable way to initiate an “Other Operator” premium plan, recognizing that there is no actuarial basis for the proposed \$25 initial fee.

The Commission Panel is concerned with the exemptions spelled out above. The rationale for imposing an additional premium for the use of the insured vehicle by Other Operators may be a function of the number of Other Operators who will drive the insured vehicle. Also, the fact that the

Other Operator is listed against another policy has not been shown to neutralize the risk when the same person is given access to a second (or more) vehicles.

Similarly, the Commission Panel sees no real policy reason to exempt fleet-rated vehicles or commercial and specialized rate classes. If a commercial driver has a high CRS rating as a PO, does it not seem reasonable that this operator will pose an additional risk when driving commercially? The Commission Panel requests ICBC to further study the exemptions and attempt to develop data as to the number of commercial drivers with high PO/CRS ratings that are involved in at-fault commercial crashes.

**The Commission Panel approves the implementation of the Other Operator premium program as filed and to be implemented in accordance with Phase One and Two. ICBC is directed to provide a status report on the Other Operator premium program to the Commission within 90 days of the end of Phase One and comment upon the justification for the exemption classes.**

## 5.0 RATE ADJUSTMENTS

### 5.1 The Application

In the Application ICBC proposes to adjust its base rates to reflect the actuarially indicated base rates described in the application. ICBC is applying for Commission approval of these adjustments to base rate premiums and to phase in the adjustments by applying an annual cap of six percent on the rate adjustments in order to maintain rate stability and predictability for customers.

In the Application ICBC seeks a Commission order approving the implementation of the proposed rate adjustments without any further order of the Commission, with such implementation to commence May 1, 2008.

ICBC's proposal for the base rate adjustments includes:

- A description of the background and rationale for ICBC's proposed rate adjustments reflective of the objectives for rate design;
- A description of the methodology used in the actuarial analysis establishing the indicated base rate adjustments;
- ICBC's proposal to implement the Basic insurance "indicated base rate adjustments", and to phase in the actuarially indicated base rate in a manner that maintains stability and predictability of rates for customers by applying a six percent cap to the annual rate adjustments. Separate proposals are also given for Plate Owner Basic policies and the Manual Basic policies; and
- A summary of the impacts on customers from the implementation of indicated base rate adjustments and from the proposed year 1 base rate adjustments.

(Exhibit B-1, p. 17.3-1)

ICBC proposes to adopt the indicated base rate adjustments with the implementation beginning May 1, 2008, and phased in as described in the Application (Exhibit B-1, pp. 17.3-6 and 17.3-7).

## **5.2 Plate Owner Basic Indicated Base Rate Adjustments**

ICBC proposes to adjust the 2007 interim base rate indicated for class/territory customer groups by the percentage amount of rate change required to adjust the interim rates to the actuarially indicated base rate, subject to a six percent annual cap on increases so that the result of all changes will be revenue neutral. “The indicated base rate adjustments represent the percentage amounts that the rate class/territory rates should change relative to one another and, being revenue neutral, do not depend on the underlying cost level of the rates” (Exhibit B-1, p. 17.3-5).

ICBC notes that the January 31, 2007 Directive with respect to rate design requires that the existing discounts be preserved for seniors and persons with disabilities.

## **5.3 Manual Basic Indicated Rate Adjustments**

ICBC indicates that Manual Basic policies comprise such a small portion of the Basic insurance business that there is not enough claims experience data for the actuaries to undertake a detailed rate analysis by class/territory. Accordingly, the Manual Rate rate adjustments are the coverage adjustments from the first step of the rate adjustment process. The coverage adjustments are taken to be the actuarial indicated rate level changes appearing in the 2007 Revenue Requirements Application (Exhibit A.0.0 of Chapter 4).

## **5.4 Proposed Phase in of the Indicated Rate Adjustments**

ICBC proposes to phase in the actuarially indicated base rate adjustments by use of a six percent annual cap on the rate adjustments requested while preserving both the seniors and disability discounts of 25 percent. The actuarially indicated base rate adjustments as calculated for this RDA would be implemented annually, subject to the six percent cap on annual adjustments, until the full actuarially indicated rate adjustments are attained for all rate classes. ICBC states that it has selected

the six percent cap on these rate adjustments with consideration of the following three factors; (i) future potential rate changes from revenue requirements applications; (ii) feedback from stakeholders; and (iii) ICBC rate design principles (Exhibit B-1, p. 17.3-7).

## **5.5 Impact on Customers**

The actuarially indicated adjustments will have the effect of increasing the portion of ICBC's total Basic insurance premium revenue requirements paid by commercial rate class customers while personal rate class customers, overall, will experience a decrease. Customers who drive more than 15 kilometers to and from work together with Lower Mainland and six other territories will experience an increase in their portion of personal rate class premiums (Exhibit B-1, p. 17.3-8).

## **5.6 Intervenor Submissions**

### 5.6.1 B.C. Old Age Pensioners' Organization *et al.*

BCOAPO advocates an asymmetrical cap on rate adjustments, where the full amount of actuarially indicated decreases are allowed, but increases are capped at six percent. ICBC addressed this proposition in its initial submission and suggested that an asymmetrical cap favoring the decreases has the effect of causing other rate classes to pay more, and noted the ICBC witnesses' evidence that the symmetrical application of rate adjustments was common practice throughout Canada (T4, pp. 530-531).

### 5.6.2 Pemberton

Pemberton is satisfied with the transitional six percent capping approach, although it suggests an overall rate impact cap. ICBC's witnesses stated that in the event the combination of a six percent rate adjustment and a revenue requirement increase, for example, were to result in an overall rate increase of over 10 percent ICBC would consider applying to adjust the cap for the affected rates in those circumstances, in order to keep rates relatively stable and predictable (T4:517; T5:731, 732).

### 5.6.3 General

None of the intervenors indicated any opposition to the implementation of the actuarially indicated base rate premiums adjustments.

The Commission Panel notes that intervenors have addressed a number of issues with respect to the implementation of the proposed actuarially indicated base rate adjustments, including suggestions for modifications of the extent and timing of the proposals. It is also noted that ICBC, while not accepting these modifications for the purposes of this application, has indicated a positive response in a number of cases and an intention to address some of these matters as the transition to actuarially indicated rates takes place over the next few years.

### 5.6.4 Commission Determination

The Commission Panel is supportive of ICBC's objective of implementing rates which are substantially based on the application of sound actuarial practices. This approach must of course be modified by external legislative, regulatory and public policy factors such as those applicable to seniors and persons with disabilities.

The Commission Panel is of the view that the program being undertaken by ICBC will be a significant challenge for the Corporation over the course of the implementation of the new rate design. The Commission Panel considers that the rate adjustment implementation plan of ICBC is reasonable. The Commission Panel has also considered the submissions of the intervenors and while some of those submissions are worthy of consideration for future modifications, the Commission Panel is not persuaded that any are so compelling as to require a change to ICBC's general proposals in this application.

The Commission Panel has considered the submissions of both BCOAPO and ICBC with respect to the asymmetrical application of the rate cap, and is of the view that the BCOAPO proposal would be unfair to other rate classes.

**The Commission Panel approves ICBC’s proposal to implement the actuarially indicated adjustments to the base rates of customer groups, including the proposal for symmetrical application of the adjustments, subject to the restrictions stated below.**

The Application includes a request that the Commission approve “... the actuarially indicated adjustments to the base rates of customer groups without further order of the Commission ...”. The Commission Panel acknowledges the pragmatic motive behind such a request; however, the Commission Panel considers that ICBC is bound by the following provision of the UCA.

- 61** (1) A public utility [including ICBC in this instance] must file with the commission, under rules the commission specifies and within the time and in the form required by the commission, schedules showing all rates established by it and collected, charged or enforced or to be collected or enforced.
- (2) A schedule filed under subsection (1) must not be amended without the commission's consent.
- (3) The rates in schedules as filed and as amended in accordance with this Act and the regulations are the only lawful, enforceable and collectable rates of the public utility filing them, and no other rate may be collected, charged or enforced.

**Accordingly the request to approve the “... actuarially indicated adjustments to the base rates of customer groups without further order of the Commission” is denied. ICBC is directed to file for Commission approval of any changes to its rates as required under the UCA. ICBC is further directed to include with any such application confirmation that the rates for which approval is requested have been computed in compliance with the Plan and any modifications thereto or other related directions contained in this Decision.**



## 6.0 BASIC INSURANCE TARIFF

In the Application ICBC seeks Commission approval effective June 1, 2007, of the Basic Insurance Tariff in Appendix 18B of the Application. ICBC explains the reason for the need for the Commission to approve this Tariff, and the need for approval on an expedited basis.

“Effective June 1, 2007, most sections of the *Insurance (Motor Vehicle) Amendment Act, 2003* are in force. As a result the name of the *Insurance (Motor Vehicle) Act* will be changed to the *Insurance (Vehicle) Act*. Also effective June 1, 2007, the *Revised Regulation (1984)* under the *Insurance (Motor Vehicle) Act* is amended and becomes the *Insurance (Vehicle) Regulation* under the *Insurance (Vehicle) Act*. Certain regulatory provisions that were included in the *Revised Regulation (1984)* under the *Insurance (Motor Vehicle) Act* and that are a necessary part of the rate structure of Basic insurance are not included in the *Insurance (Vehicle) Regulation* under the *Insurance (Vehicle) Act*. The provisions that are a necessary part of the rate structure of Basic insurance but are not in the *Insurance (Vehicle) Regulation* under the *Insurance (Vehicle) Act*, together with business practices relating to Basic insurance, are now included in ICBC’s Basic Insurance Tariff [for example, the determination of the premium payable for a vehicle insured under ICBC’s Fleetplan was in the *Revised Regulation (1984)* but is not in the *Insurance (Vehicle) Regulation*]. Without Commission approval of the Basic Insurance Tariff there will be gaps in the framework for the Basic insurance rate structure” (Exhibit B-1, p. 12 iii).

On April 30, 2007, ICBC filed an Errata with a revised version of the Tariff incorporating certain minor changes. On May 7, 2007, ICBC wrote to the Commission, calling attention to a change in the weight limitations for Rate Class 017 (Vehicles Used in Logging and Silviculture and Road and Bridge Maintenance Industries), contained within the Tariff increasing the upper limit on Rate Class 017 from 5,000 kg to 8,200 kg GVW. ICBC stated that the reason for the proposed change is that newer vehicle types, used in the associated industries, have increased gross vehicle weights; and that, currently, any vehicles between 5,000 kg and 8,200 kg GVW, although used in those industries, are insured under classes not associated with those industries, therefore not having premiums truly reflective of their use. ICBC acknowledged that the proposed change had not been previously addressed in regulation, in a current practice, or in policy.

On April 27, 2007, the Commission issued Order No. G-48-07, requesting comments from Intervenor on ICBC's Tariff and the extent that it required review during the hearing established to review the RDA by May 18, 2007, and On May 11, 2007, the Commission issued a letter inviting comments on ICBC's proposed amendment to Rate Class 017 by May 18, 2007.

Following a review of Intervenor comments and consideration of the issues the Commission Panel, on May, 30, 2007, issued Order No. G-57-07, ordering as follows:

1. The request to amend the weight limitations for Rate Class 017 in the ICBC Basic Tariff, to be effective at June 1, 2007, is denied.
2. The Commission approves the Basic Insurance Tariff effective June 1, 2007, including the subsequent Errata, except for the change applied for separately to amend the weight class limitations on Rate Class 017. ICBC is to file a revised Basic Insurance Tariff with the Commission incorporating the changes in the filed Errata and excluding the requested change to the weight class limitation on Rate Class 017.
3. The Commission acknowledges the submissions of Family Insurance about ICBC's rate design as reflected in the Tariff, but notes that ICBC must have an approved tariff in place by June 1, 2007. The concerns raised by Family Insurance are best addressed in the proceeding established by Order No. G-48-07 to review the 2007 RDA. The Commission will review the evidence and submissions of Intervenor and ICBC in that proceeding and will Order such amendments to the Tariff as it deems necessary and in the public interest following the conclusion of the hearing.
4. The Commission will consider ICBC's request for amendments to Rate Class 017 in the 2007 RDA proceeding.

## **7.0 RATE CLASS 017**

### **7.1 Background**

By letter dated May 7, 2006, ICBC applied to the Commission for an Amendment to Basic Insurance Rate Schedule - Rate Class 017 (Exhibit B-1-6).

In the application ICBC requests an amendment of its Basic Insurance Rate Schedule, effective June 1, 2007, to change the weight threshold for Rate Class 017 - Vehicles Used in the Logging or Silviculture Industries or Operated under a Road and Bridge Maintenance Contract from a gross vehicle weight (GVW) of 5,000kg to 8,200kg.

ICBC states in its letter to the Commission (Exhibit B-1-6), that Rate Class 017 was initially created by ICBC to meet the needs of individuals operating service vehicles in industries (silviculture, logging and road and bridge maintenance) whose operations overlapped two or more existing rate classes. These service vehicles may at times be used for transporting people to and from job sites, moving materials and equipment, or for general business purposes. Before the creation of Rate Class 017, owners of these vehicles had to consider whether these service vehicles should be rated in one of several rate classes that applied to some, but not all, of these uses. This made for a complex transaction for brokers, and in some cases imposed limits on what uses an owner could make of their vehicle. When Rate Class 017 was initially developed one of the criteria was a maximum GVW of 5,000 kg. ICBC wanted to ensure that only light duty service vehicles were captured in the rate class, and 5,000 kg was consistent with the threshold for inclusion in certain regulatory regimes such as the National Safety Code and AirCare.

ICBC explains that the premium for Rate Class 017 has been developed to reflect the unique loss experience of the vehicles utilizing the rate class. At present there are approximately 3,850 exposures in the rate class. Manufacturers have changed the configuration of the vehicles typically used in Rate Class 017 in recent years such that the GVW of many newer vehicles is above the current 5,000kg GVW threshold. As a result, as older vehicles insured in Rate Class 017 are

replaced, the owners may be required to rate the newer vehicles in a different rate class. Typically this results in the owner rating in a Rate Class that fits the weight of the vehicle, but which may not adequately reflect the use of the vehicle and the premium for the rate class chosen may not accurately reflect the risk posed by the multiple uses of these service vehicles. It is not possible for ICBC to completely assess the impact of the proposed change as it is unknown how many vehicles have been rated in other rate classes that would have been rated in Rate Class 017 but for the current threshold. Given that there is, and historically has been, a relatively small number of vehicles in Rate Class 017 (approximately 3,850 exposures at present), and given that the trend toward larger vehicles is relatively recent, ICBC estimates that there will be fewer than 100 vehicles that will change rate classes as a result of the change.

ICBC is of the view that the net premium difference to ICBC will not be material in respect of either the Revenue Requirements Application or Rate Design Application that are currently before the Commission.

On May 11, 2007, the Commission issued a letter inviting comments on ICBC's proposed amendment to Rate Class 017. Intervenors responded with comment, an IR and a letter opposing ICBC's requested change to Rate Class 017.

The Commission, in Order No. G-57-07 denied ICBC's request to amend the weight limitations for Rate Class 017 in the ICBC Basic tariff, to be effective at June 1, 2007, and stated that the Commission will consider ICBC's request for amendments to Rate Class 017 in the 2007 RDA proceeding.

## **7.2 The RDA Proceeding**

In its Submission ICBC states "By letter dated May 7, 2007, ICBC filed a request with the Commission for approval of an amendment to the weight threshold for Rate Class 017. That request was referred to this proceeding, and ICBC seeks Commission approval of the revision to Rate Class 017" (ICBC Submission, p. 3).

Pemberton, at page 8 of its Submission, states “ICBC presents a conflicting and confusing argument with respect to the maintenance of existing rate classes. On one hand, ICBC seeks shelter itself by relying on the Government Directive to retain existing rate classes until 2011, and on the other hand wants to make revisions to definitions, terms and conditions of rate classes. The current example of this is their approach to amend rate class 017. Not only is there a lack of compelling evidence to make this change, we do not know why they are attempting the revision in view of OIC 39/2007.”

Pemberton argues that ICBC is being inconsistent by “relying on the Government Directive to retain existing rate classes until 2011, and on the other hand wants to make revisions to definitions, terms and conditions of rate classes” (Pemberton Submission, p. 8).

In reply, ICBC states it is “not relying” on the January 31, 2007 Directive, but rather is *complying* with the January 31, 2007 Directive. Moreover, the January 31, 2007 Directive expressly permits ICBC to propose “changes to meet ongoing business requirements or changes to basic insurance premium assessments made in the ordinary course of business, subject to the Commission’s approval”. The revision to Rate Class 017 proposed by ICBC is a change made within the existing rate structure in the ordinary course of business to take into account a trend in vehicle manufacturing such that newer service vehicles are heavier than those previously used in the industry. The increase to the weight does not impact the “use of the vehicle” or “change the risk posed by the multiple uses of these service vehicles” which are fundamental aspects of the rate class” (ICBC Reply, p. 15).

Further, the Company states, “ICBC’s proposed amendment to the weight threshold for Rate Class 017 was not opposed by Intervenors and should be approved in order to address ongoing business requirements” (ICBC Reply, p. 26).

### **7.3 Commission Determination**

Pemberton’s argument relates more to whether ICBC may, under OIC 39/2007 amend rates rather than the merits of ICBC’s rationale for the proposed change to Rate Class 017. The Commission Panel agrees with ICBC interpretation of the January 31, 2007 Directive and considers this

application to be a change “to meet ongoing business requirements or changes to basic insurance premium assessments made in the ordinary course of business” (OIC 39/2007). **The Commission Panel approves the change to Rate Class 017 as requested by ICBC in its letter to the Commission of May 7, 2007, except that ICBC is to select a new date for implementation, advise the Commission of the implementation date and file the appropriate change to the Tariff with the Commission in a timely manner.**

## 8.0 FLAT RATING OF NON-INSURANCE COSTS

This issue was first addressed in the context of the Commission's direction to ICBC in the 2006 Revenue Requirements proceeding, to provide greater insight for policyholders as to the components of the Basic insurance invoice, and the dollar amounts that comprise "Total Amount Owed".

In the Commission's letter of December 19, 2006 (Letter No. L-82-06), which dealt in part with the detailed billing issue, the Commission stated as follows:

"A more fundamental policy issue is raised by this change to more detailed billing: Should individual policyholder "non-insurance" costs be based on the variable and driver-specific cost of the "base amount" for Basic Insurance or in the alternative, be flat-rated for all vehicle types and drivers? ICBC is directed to consider this issue and to submit its views as part of the next Revenue Requirement/Rate Design proceedings."

ICBC chose not to submit any comments in its Rate Design Application. There were some responses to IRs that touched tangentially on this issue (see for example 2007.1 RR BCUC.2.1) but there was no in-depth analysis of the pros and cons of the two alternatives set out in the above quote from the Commission's letter of December 19, 2006.

In the IR response referred to above, ICBC states in part that "Since the cost to implement such programs does not depend on the risk (or premium paid) for each customer, the cost should be allocated equally amongst all customers".

This response might lead the reader to assume that individual non-insurance costs (other than Premium Tax) are simply calculated by taking the total costs involved, dividing by the number of policies and adding that individual cost to each policy. But that is not what ICBC does. In fact, the amount of non-insurance costs paid by each policyholder varies and is determined by applying all of the rating risk factors that apply to a particular policyholder, to the individual "flat-rated" non-insurance cost.

Mr. Weiland had previously testified that there would be no difficulty applying the DCAT in the absence of the non-insurance costs and arriving at an indicated rate (T3:419). Further, he testified that there was no sound actuarial basis to support the variable charges imposed upon policyholders for fee-for-service items. He stated:

“What we have been discussing, Commissioner Vivian, is that the non-insurance costs are really, in many ways, unrelated to the other elements of the premium, the losses and the expenses that are part of the rates that are being considered so it’s - they are not the kind of costs that actuaries would normally deal with in pricing an insurance product. This is not a typical situation. ...I can’t really think of an actuarial basis for that, other than we need revenue to cover it” (T4:547).

He agreed that the risk factors associated with developing the indicated rates on the insurance side of the equation were not appropriate to influence recovery of fees for services (T4:548).

## **8.1 Commission Determination**

**The Commission Panel directs ICBC to analyze and dimension the extent and cost of the system changes that would be required to implement flat rate equal payment of non-insurance costs by all policyholders and report these estimates to the Commission within six months of the date of this Decision. Further, as ICBC implements its Multi-Year Plan of IT renewal, it should ensure that the updated systems and system architecture will accommodate flat rate payment of non-insurance costs, should the Commission order their implementation.**



**DATED** at the City of Vancouver, in the Province of British Columbia, this 9<sup>th</sup> day of January 2008.

*Original signed by:*

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L.F. KELSEY  
PANEL CHAIR AND COMMISSIONER

*Original signed by:*

---

P.E. VIVIAN  
COMMISSIONER

*Original signed by:*

---

A.W.K. ANDERSON  
COMMISSIONER

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER G-4-08**

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**IN THE MATTER OF**

the Utilities Commission Act, R.S.B.C. 1996, Chapter 473, as amended  
and  
the Insurance Corporation Act, R.S.B.C. 1996, Chapter 228, as amended  
and

An Application by Insurance Corporation of British Columbia  
respecting Rate Design for Universal Compulsory Automobile Insurance

**BEFORE:** L.F. Kelsey, Panel Chair and Commissioner  
A.W.K. Anderson, Commissioner  
P.E. Vivian, Commissioner  
January 9, 2008

**ORDER**

**WHEREAS:**

- A. On March 16, 2007 the Insurance Corporation of British Columbia ("ICBC") submitted an application to the British Columbia Utilities Commission (the "Commission") for approval of the 2007 Revenue Requirements for Universal Compulsory Automobile Insurance ("Basic") including a filing of Information relating to matters referenced in the Commission's Decision of July 13, 2006 (the "Revenue Requirements Application" or "RRA"); and
- B. By letter dated March 16, 2007, ICBC advised the Commission that on or before March 30, 2007 ICBC would be filing with the Commission an application relating to the design and structure of ICBC's Basic insurance rates and requested that the Revenue Requirements Application and the rate design application be reviewed in a combined process; and
- C. On March 29, 2007 ICBC submitted to the Commission an Application Respecting Rate Design for Basic Insurance (the "Rate Design Application" or "RDA"). The RDA presents a multi-year plan that sets out ICBC's vision for the future Basic insurance rate structure; proposes replacement of the driver penalty point premium ("DPP") with a Driver Risk Premium ("DRP") program; seeks implementation of a new rating variable commencing May 1, 2008, that will require that Other Operator information be provided and will include an amendment to Basic insurance rates to allow an additional premium of \$25 to be charged as detailed in the RDA; requests Commission approval to implement actuarially indicated adjustments to the base rates of customer groups without further order of the Commission, with the implementation of adjustments commencing May 1, 2008, with certain conditions as detailed in the RDA; and seeks Commission approval, effective June 1, 2007 of the Basic Insurance Tariff ("Tariff") in Appendix 18B of the RDA; and

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- D. By Order No. G-32-07, the Commission established that ICBC was to lead a Workshop with respect to the RRA and the RDA on April 23, 2007. The Order also established a Pre-hearing Conference to be held on the same date following the Workshop; and
- E. Following the Pre-hearing Conference held on April 23, 2007, by Order No. G-48-07 dated April 27, 2007, the Commission Panel ordered that the RRA and the RDA would be reviewed in a combined regulatory process but each Application would have its own separate record of evidence, and that the RDA would be examined by way of one round of Intervenor Information Requests to ICBC and an Oral Public Hearing; and
- F. On April 30, 2007, ICBC filed an Errata with a revised version of the Tariff incorporating certain minor changes. On May 7, 2007, ICBC wrote to the Commission, calling attention to a change in the weight limitations for Rate Class 017; and
- G. On April 27, 2007, the Commission issued Order No. G-48-07, requesting comments from Intervenors by May 18, 2007, on ICBC's Tariff and the extent that it required review during the hearing established to review the RDA and on May 11, 2007, the Commission issued a letter inviting comments on ICBC's proposed amendment to Rate Class 017 by May 18, 2007; and
- H. Following a review of Intervenor comments and consideration of the issues the Commission Panel, on May 30, 2007, issued Order No. G-57-07, which approved the Tariff effective June 1, 2007, including the subsequent Errata, except for the change applied for separately to amend the weight class limitations on Rate Class 017; and
- I. The Oral Public Hearing into the RDA commenced on July 31, 2007 and concluded on August 2, 2007; and
- J. ICBC filed its Argument for the RDA on August 27, 2007. Registered Intervenors filed their Final Argument on September 10, 2007 and ICBC filed its Reply Argument on September 20, 2007; and
- K. During the Hearing, ICBC indicated that in order to undertake a communications campaign to ensure that the public is aware of changes regarding ICBC's proposed transition from the DPP program to the DRP, a decision by the Commission on this matter would be required by approximately the end of October 2007; and
- L. By Order No. G-126-07 dated October 17, 2007, the Commission Panel approved the DRP program as being necessary and in the public interest; and
- M. The Commission Panel has reviewed and considered all the evidence on the record for the RDA proceeding.

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
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**NOW THEREFORE** the Commission orders as follows:

1. The Commission Panel considers that the Plan is consistent with specific government direction and accepts the Plan as presented by ICBC in the Application, subject to specific Plan component implementation details and related decisions of the Commission Panel dealt with in the Decision issued concurrently with this Order.
2. The Other Operator premium program is approved as filed, and shall be implemented in two phases as described in the Application as Phase One and Phase Two.
3. The proposal to implement the actuarially indicated adjustments to the base rates of customer groups, including the proposal for symmetrical application of the adjustments is approved, subject to the restrictions stated in the Decision
3. The change to Rate Class 017, as proposed by ICBC in its letter to the Commission of May 7, 2007, is approved.
4. ICBC is directed to comply with all determinations and instructions set out in the Decision issued concurrently with this Order.
5. The Commission will accept, subject to timely filing, amended Basic insurance rate schedules in accordance with the terms of this Order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this      9<sup>th</sup>      day of January 2008.

**BY ORDER**

*Original signed by:*

L.F. Kelsey  
Panel Chair and Commissioner

LIST OF APPEARANCES

P. MILLER	Commission Counsel
C. JOHNSON, Q.C. M. GHIKAS	Insurance Corporation of British Columbia
J. QUAIL L. WORTH	B.C. Old Age Pensioners' Organization <i>et al.</i> , the Active Support Against Poverty, B.C. Coalition of People with Disabilities, Council of Seniors' Organization of B.C., End Legislated Poverty, Federated Anti-Poverty Groups of B.C., and the Tenants' Rights Action Coalition
L. MUNN	Insurance Bureau of Canada
N. WELLS	N.W. Insurance Brokers
R. FINNIE	Pemberton Insurance Corporation
G. ADAIR	Coalition Against No-Fault Insurance
P.G. THROWER	Family Insurance Solutions Inc.
S. TOOMEY	COPE Local 378
<hr/>	
W.J. GRANT P.W. NAKONESHNY J.W. FRASER D. CHONG J. YANG	Commission Staff
ALLWEST REPORTING LTD.	Court Reporters

IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

Insurance Corporation of British Columbia  
2007 Rate Design Application

**EXHIBIT LIST**

<b>Exhibit No.</b>	<b>Description</b>
<i>COMMISSION DOCUMENTS</i>	
A-1	Letter dated March 19, 2007 issuing Order No. G-32-07 to establish Workshop and Notice of Pre-Hearing Conference to review the Rate Design Application
A-2	Letter dated April 16, 2007 issuing letter to all participants in respect to the regulatory process
A-3	Letter dated April 27, 2007 issuing Order No. G-48-07 establishing Regulatory Agenda and Timetable
A-4	Letter dated May 1, 2007 issuing Commission Information Request No. 1 to ICBC
A-5	Letter dated May 11, 2007 issuing a Commission Information Request on ICBC's Basic Insurance Rate Schedule – Rate Class 017
A-6	Letter dated May 30, 2007 issuing Order No. G- 57-07 denying ICBC's May 7, 2007 request to amend the weight limitations for Rate Class 017 and approving ICBC's Basic Insurance Tariff effective June 1, 2007
A-7	Letter dated June 11, 2007 issuing Commission Information Request No. 2 to ICBC
A-8	Letter dated July 9, 2007 directing ICBC to respond to Intervenor's amended information requests on a best efforts basis to as many of the new or revised questions relating to the proceeding (Exhibit C7-4)
A-9	Letter dated July 17, 2007 Issuing Oral Public Hearing Hours
A-10	Letter dated July 18, 2007 and Commission Information Request No. 1 to NW Insurance Brokers Ltd.

<b>Exhibit No.</b>	<b>Description</b>
A-11	Letter dated July 18, 2007 and Commission Information Request No. 1 to Family Insurance Solutions
A-12	Letter dated July 19, 2007 establishing the location for the Oral Public Hearing and issuing a response to Intervenor's request for a motion
A-13	Letter dated July 19, 2007 filing response to Intervenor's request for assistance (Exhibit C9-8)
A-14	Letter dated July 26, 2007 responding to Russell Sykes' July 20 <sup>th</sup> letter (Exhibit C9-9)
A-15	Letter dated July 26, 2007 responding to Russell Sykes on the Oral Public Hearing process of hearing his Motion and comments to the July 22 letter (Exhibit C9-10)
A-16	<b>SUBMITTED AT HEARING</b> – Commission Staff / ICBC Cross-Examination References
A-17	<b>SUBMITTED AT HEARING</b> – Article, "Report: An Introduction to Credibility Theory" written by L.H. Longley-Cook, copyright Casualty Actuarial Society – used by permission
A-18	<b>SUBMITTED AT HEARING</b> – Article, "Credibility: Practical Applications" written and copyright by Howard Mahler – used by permission
A-19	<b>SUBMITTED AT HEARING</b> – Article on autoplan surcharges and basic insurance chargeable claim rated scale position guide
A-20	<b>SUBMITTED AT HEARING</b> – Letter L-82-06 from Commission dated December 19, 2006 responding to follow-up filings to the Commissions Decision of July 13, 2006 and the confidential filing of the Optional and Total Corporation Capital Management Plans

#### *APPLICANT DOCUMENTS*

B-1-1	Letter dated March 29, 2007 filing Insurance Corporation of British Columbia Rate Design Application respecting universal compulsory automobile insurance (Basic insurance) Volume 1
B-1-2	Letter dated March 29, 2007 filing Insurance Corporation of British Columbia Rate Design Application respecting universal compulsory automobile insurance (Basic insurance) Volume 2

Exhibit No.	Description
B-1-3	Letter dated March 29, 2007 filing cover letter with Excel worksheets 18 D Actuarial Analysis: Plate Owner Basic Insurance Indicated Base Rate Adjustments and Appendix 18 E Actuarial Analysis: Proposed Year 1 Base Rate
B-1-4	Letter dated April 13, 2007 filing Errata to ICBC Rate Design Application, Volume I, Chapter 17.1, <i>Driver Risk Premium</i>
B-1-5	April 16, 2007 Revised Appendix 17.1 B – <i>Criminal Code of Canada and 10 Point Motor Vehicle Act Offences to be used to Calculate DRP</i>
B-1-6	Letter dated May 7, 2007 filing request for an amendment of its Basic Insurance Rate Schedule, for Rate Class 017, effective June 1, 2007
B-1-7	Letter dated May 11, filing Errata regarding Chapter 17.3, Appendix 18C, Appendix 18D, and Appendix 18E with revised excel worksheets for 18D Actuarial Analysis and 18E Actuarial Analysis (Exhibit B-1-3)
B-2	Letter dated April 19, 2007 filing proposed Regulatory Timetable for review of the Rate Design Application
B-3	Distributed at the Pre-Hearing Conference, filing proposed Regulatory Timetable for review of the Rate Design Application
B-4	Letter dated April 24, 2007, filing notice to file Errata on the Basic Insurance Tariff as part of the Rate Design by Monday, April 30, 2007
B-4-1	Letter dated April 30, 2007, filing Errata on the Basic Insurance Tariff in ICBC's Rate Design Application with a description of the corrections
B-4-2	Letter dated May 28, 2007, filing additional Errata to ICBC's Basic Insurance Tariff filed on March 29, 2007 and revised as per the Errata filed on April 30, 2007 (Exhibit B-4-1)
B-4-3	Letter dated July 13, 2007 filing an Errata to ICBC's Basic Insurance Tariff on Schedule C, Page 7, Rate Class 422
B-5	Letter dated April 30, 2007, filing Affidavits of publication of Pre-Hearing Conference Notice
B-6	Letter dated May 1, 2007 filing presentation on ICBC's Basic Insurance Rate Design and 2007 Revenue Requirements Applications presented at the BCUC public workshop on April 23, 2007
B-7	Letter dated May 15, 2007 filing response to Commission's Information Request on Basic Insurance Rate Schedule – Rate Class 017 (Exhibit A-5)



Exhibit No.	Description
B-7-1	Letter dated May 16, 2007 reissuing its response to the Commission's Information Request 1.2 on Basic Insurance Rate Schedule – Rate Class 017 (Exhibit A-5)
B-8	Letter dated May 25, 2007 Reply to Intervenor Comments on Basic Insurance Tariff and Rate Class 017
B-9	Letter dated June 1, 2007 Responses to Commission Information Request No. 1 (Exhibit A-4)
B-10	Letter dated June 28, 2007 filing comments and copy of amended Information Request No. 1 to ICBC from Russell Sykes
B-11	Letter dated July 10, 2007 filing responses to Commissions' Information Request No. 2 and Intervenors' Information Request No. 1
B-12	Letter dated July 10, 2007 filing response to BCOAPO's Information Request No. 1 with excel worksheet on Total Basic Premium Using 2007 Interim, Indicated, and Proposed Year 1 Base Rates
B-13	Letter dated July 20, 2007, filing Witness Panels and Direct Testimony of Camille Minogue, William T. Weiland, Donnie Wing, Kellee Irwin, Harry Pylman, and David Johnston
B-14	Letter dated July 20, 2007 filing proposed changes to the Basic Insurance Tariff to Implement a Driver Risk Premium and Other Operator Premium
B-14-1	Letter dated July 26, 2007 filing Errata to the Basic Insurance Tariff to Implement a Driver Risk Premium and Other Operator Premium
B-15	Letter dated July 25, 2007 filing rebuttal evidence to Family Insurance Solutions and NW Insurance Brokers Ltd.
B-16	<b>SUBMITTED AT HEARING</b> – Amendment to ICBC Application regarding “Rate Reversals”
B-17	Letter dated August 7, 2007 filing response to Mr. Russell Sykes acknowledging receipt of fax requesting hard copies for outstanding undertakings and Arguments (Exhibit C9-11)

Exhibit No.	Description
B-18	Letter dated August 10, 2007, filing Undertakings at Transcript Volume 5, Page 735, 737 to 738, 766 to 767, 773 to 774, filing responses to Commission's request for information on the IT strategic plan, actuarial approach in technical notes, rate impact on rate adjustments, numerical differences on average premiums and premium tax charged on DPP
B-19	Letter dated August 15, 2007, filing Undertaking at Transcript Volume 4, Page 543, line 13 to 546, line 26, filing response to the Commission's request for the calculation of the non-insurance costs paid by drivers
<i>INTERVENOR DOCUMENTS</i>	
C1-1	<b>INSURANCE BUREAU OF CANADA</b> – Email dated March 22, 2007 from Sara Mehrjou, filing request for Intervenorship
C1-2	Letter dated June 12, 2007, filing Information Request No. 1 to ICBC
C1-3	<b>SUBMITTED AT HEARING</b> – Insurance Bureau of Canada's documents for non-actuarial Panel
C2-1	<b>CANADIAN OFFICE PROFESSIONAL EMPLOYEE'S UNION LOCAL 378</b> – Online web registration received March 26, 2007 from Steve Toomey, filing request for Intervenorship
C2-2	Email dated April 16, 2007 filing notice they will not be at the Procedural Conference on April 23, 2007
C3-1	<b>PEMBERTON INSURANCE CORPORATION</b> – Online web registration received September 25, 2006 from Roger A. Finnie, filing request for Intervenorship
C3-2	Letter dated May 18, 2007 filing Information Request No. 1 to ICBC
C3-3	Letter dated May 29, 2007 filing comments on ICBC's amendment on Basic Insurance Tariff and Rate Class 017 (Exhibit B-8)
C3-4	Letter received June 12, 2007 filing Information Request No. 1 to ICBC
C3-5	<b>SUBMITTED AT HEARING</b> – ICBC letter dated July 3, 2007 to Autoplan agents regarding ICBC's position on adverse selection

Exhibit No.	Description
C3-6	<b>SUBMITTED AT HEARING</b> – Reference documents – Province of BC, Order of the Lieutenant Governor in Council No. 039, directive issued by the Minister of Public Safety and Solicitor General approved February 2, 2007
C3-7	<b>SUBMITTED AT HEARING</b> – Reference document from website entitled “13.1 Claim-Rated Scale (CRS) – revised April 2007”
C3-8	<b>SUBMITTED AT HEARING</b> – Reference document – “Claims Calculator System – Claim-Rated Scale Inquiry” regarding the impact of one claim and two claims
C4-1	<b>UNION OF BRITISH COLUMBIA MUNICIPALITIES</b> – Online web registration received January 4, 2007 from Richard Taylor, Executive Director, filing request for Intervenorship
C5-1	<b>BRITISH COLUMBIA OLD AGE PENSIONERS' ORGANIZATION ET AL (BCOAPO)</b> - Received letter dated March 27, 2007 from Jim Quail requesting Intervenor Status and for Leigha Worth, Counsel
C5-2	Letter dated June 4, 2007 filing BCOAPO’s Information Request No. 2 to ICBC
C5-3	<b>SUBMITTED AT HEARING</b> – Reference document on the directional plan with respect to its intentions for changes to the rate design and the risk classification system
C6-1	<b>FAMILY INSURANCE SOLUTIONS</b> – Email dated March 30, 2007 from Peter G. Thrower requesting Intervenor Status
C6-2	Letter dated May 16, 2007 filing comments on the Tariff rates
C6-3	Letter dated June 12, 2007 filing Information Request No. 1 to ICBC
C6-4	Letter dated July 13, 2007 from Peter G. Thrower, filing Evidence on method of rating private passenger vehicles and commercial vehicles used for pleasure or business
C6-5	Email dated July 18, 2007 from Peter G. Thrower filing comments in support of information filed by Mr. Sykes (Exhibit C9-7)

Exhibit No.	Description
C6-6	Letter dated July 24, 2007 filing responses to Commission Information Request No. 1 (Exhibit A-11)
C7-1	<b>MILLER, SPENCER</b> – Online web registration received dated April 2, 2007 requesting Intervenor Status
C8-1	<b>NW INSURANCE BROKERS LTD.</b> – Letter dated April 13, 2007 from Nancy Wells requesting Intervenor Status
C8-2	Letter dated May 17, 2007 filing Information Request No. 1 to ICBC
C8-3	Letter dated June 13, 2007, from Nancy Wells, filing Evidence
C8-4	Letter dated July 24, 2007, filing response to the Commission's Information Request No. 1
C9-1	<b>SYKES, RUSSELL.</b> – Letter dated April 13, 2007 requesting Intervenor Status
C9-2	Letter dated June 12, 2007 filing Information Request No. 1 to ICBC
C9-3	Letter dated June 26, 2007 filing amended Information Request No. 1 to ICBC
C9-4	Letter dated June 29, 2007 filing response regarding the amended Information Request to ICBC (Exhibit B-10)
C9-5	Letter dated June 29, 2007 filing comments on procedural matters and Regulatory Timetable schedule (Exhibit B-10)
C9-6	Letter dated July 16, 2007 filing comments on procedural matters and timeline for filing submissions on Evidence
C9-7	Letter dated July 17, 2007 filing a motion regarding the procedure for the conduct of the Oral Public Hearing
C9-8	Letter dated July 18, 2007 filing Notice to Attend the Oral Public Hearing and request for assistance

Exhibit No.	Description
C9-9	Letter dated July 20, 2007 requesting the Commission to provide its findings with respect to the amount of premium taxes and the amount of commissions that make up the total commissions and premium taxes noted in the 2006 Revenue Requirements Decision
C9-10	Letter dated July 22, 2007 objecting to the ruling in Exhibits A-12 (rate design) and A-10 (revenue requirements) and requesting the Commission to provide additional reasons for its ruling
C9-11	Letter dated August 3, 2007 to ICBC filing comments and request for copies of undertaking documentation
C10-1	<b>CANADIAN DIRECT INSURANCE INC.</b> – Online web registration received from Karen Hopkins-Lee dated April 13, 2007 requesting Intervenor Status
C10-2	Letter dated June 12, 2007 filing Information Request No. 1 to ICBC
C11-1	<b>CONSUMERS' ASSOCIATION OF CANADA (CAC/CACBC)</b> – Letter dated April 13, 2007 from Bruce Cran and on behalf of Greg Basham requesting Intervenor Status
C11-2	Letter dated May 17, 2007 filing comments on the Rate Class 017 proposal
C12-1	<b>CREDIT UNION INSURANCE BROKERS (CUISA)</b> – Online web registration received from Jean Sparkes dated April 20, 2007 requesting Intervenor Status
C13-1	<b>COALITION AGAINST NO-FAULT IN BC (CANFBC)</b> – Online web registration received from Gordon Adair dated May 1, 2007 requesting late Intervenor Status

<b>Exhibit No.</b>	<b>Description</b>
C14-1	<b>BC AUTOMOBILE ASSOCIATION INSURANCE CORPORATION</b> – Online web registration received from Patricia Stirling, dated May 7, 2007 requesting late Intervenor Status
C14-2	Online web registration received from Heather Prizeman, dated May 8, 2007 requesting late Intervenor Status

*INTERESTED PARTY DOCUMENTS*

D-1	<b>BC TAXI ASSOCIATION</b> – Online web registration received from Mohan Kang dated April 13, 2007 requesting Interested Party status
D-2	<b>CANADIAN NORTHERN SHIELD INSURANCE COMPANY (CNS)</b> – Online web registration received April 18, 2007 from Lori Manskopf requesting late Interested Party status
D-3	<b>COPE 378</b> - Online web registration received May 2, 2007 from David Black requesting late Interested Party status

*LETTERS OF COMMENT*

E-1	Letter of Comment filed by Lorraine Ridout
E-2	Letter of Comment dated April 20, 2007 from Rein Nienaber, Victoria, BC
E-3	Letter of Comment dated April 26, 2007 from Gerry Gregoire
E-4	Letter of Comment dated June 17, 2007 from Leonard Durante
E-5	Letter of Comment dated July 17, 2007, from Ken Pugh, Chilliwack, BC

**LIST OF WITNESSES**

CAMILLE MINOGUE  
WILLIAM WEILAND

Insurance Corporation of British Columbia  
(Panel 1)

## ACRONYMS AND ABBREVIATIONS

Basic	Basic (compulsory) insurance
Basic insurance	Universal Compulsory Automobile Insurance
BCOAPO	British Columbia Old Age Pensioners Organization <i>et al.</i>
BCUC or Commission	British Columbia Utilities Commission
CCC	Criminal Code of Canada
CDI	Canadian Direct Insurance
CRS	Claim-Rated Scale
DPP	Driver Penalty Point
DRP	Driver Risk Premium Program
GVW	gross vehicle weight
IBC	Insurance Bureau of Canada
ICA	Insurance Corporation Amendment Act 2003
ICBC, Company or Corporation	Insurance Corporation of British Columbia
January 31, 2007 Directive	Solicitor General letter to ICBC providing direction on the elements of the Basic insurance rate design structure that should be preserved, new factors that should be focused on immediately and rate design elements that should be dealt with over the longer term, in order to enhance driver accountability and to preserve rate stability
MCP	Multiple Crash Premium
MVA	Motor Vehicle Act
OIC	Order in Council
Plan	Basic insurance rate design multi-year plan
PO	Principal Operator
RDA or Application	Rate Design Application
RO	Registered Operator
RRA	Revenue Requirements Application
Special Direction IC2	Special Direction IC2 to the British Columbia Utilities Commission, BC Regulation 307/2004
UCA	Utilities Commission Act