

Terms of Reference for the ICBC Rate Affordability Review

1. Background

On December 19, 2016, the Honourable Todd Stone, Minister of Transportation and Infrastructure and responsible for ICBC, directed the ICBC Board of Directors (“ICBC Board”) to commission a comprehensive independent third party review (“Review”) of ICBC. This direction letter is attached as Appendix 1.

The Review is intended to provide options for ICBC and government’s consideration that would increase fairness and affordability related to Basic insurance, with the goal of future Basic rate increases being in line with the rate of inflation.

2. Current Context

Over the last several years, jurisdictions in North America, Europe and Australia have seen a significant increase in vehicle crash rates and claims costs, and are taking steps to mitigate these pressures. British Columbia (“BC”) has seen similar upward trends with crashes and claims costs, although some external pressures on Basic auto insurance costs in BC are more pronounced than in other jurisdictions, and the effects of the ongoing pressures are more magnified due to the unique nature of BC’s insurance model.

As the auto insurance landscape becomes more complex, government and ICBC have sought innovative solutions to respond to the increasing cost pressures. Over the past several years, government has introduced stricter fines for distracted driving, directed optional transfers of more than \$1.4 billion since 2012 to reduce the increase for basic rates and help rebuild ICBC’s Basic capital, and continued to invest in a variety of road safety initiatives. Government has also indicated that it will forego an annual dividend from ICBC for each of the next three fiscal years.

During this time ICBC has transformed its management and technology systems, implemented various strategic sourcing initiatives, strategically managed investment income, recruited additional resources, implemented numerous management and operational cost saving measures which has allowed it to hold operating costs flat for five years, and initiated an extensive fraud prevention campaign.

However, all of these measures will still not be able to fully mitigate the underlying causes of accelerating cost pressures.

3. Objectives and Principles of the Review

Per the attached direction letter, the ICBC Board’s objective for the Review is to obtain recommendations from an independent consultant firm (“Consultant”) following a comprehensive examination of all key cost drivers impacting the affordability and sustainability of Basic insurance rates, and potential mitigation strategies. As well, the consultant should consider whether there are revenue opportunities available to ICBC through investment management or ancillary business opportunities being deployed in other jurisdictions. The Review will include an assessment of the experiences from other jurisdictions, as well as ICBC business processes and operations.

The overarching principles of the Review are to maintain public ownership of ICBC, and to work within the current model in order to keep Basic automobile insurance as affordable as possible for British Columbians. As such, the Review will encompass ICBC’s mandate, as provided through the *Insurance Corporation Act*,

Insurance (Vehicle) Act and the *Motor Vehicle Act*, which is to provide Basic auto insurance for all BC motorists.

4. Qualifications and Approach

The Consultant will bring qualifications that include:

- Demonstrated knowledge, expertise and global experience in the Property & Casualty insurance industry, inclusive of:
 - Expertise and knowledge of auto insurance experience in other jurisdictions (Canadian and global)
 - Proven actuarial expertise and claims experience, with the ability to effectively evaluate performance of claims
 - Experience in working with auto insurance companies to successfully help reduce and mitigate claims cost pressures
- Demonstrated knowledge, expertise and experience of the BC auto insurance market
- Demonstrated knowledge, expertise and experience in delivering viable change recommendations within BC's economic and public policy environments
- A strong understanding of how insurance products interface with claims, policy administration and other insurance related systems
- Demonstrated knowledge, expertise and experience in general business practices that could reduce administrative or back office costs, or improve general business efficiencies.

The Consultant is expected to incorporate the findings of analysis that has been carried out in previous external reviews conducted over the past five years, unless there has been significant change in the underlying environment.

The Consultant must demonstrate considerable internal capacity and expertise, a global presence, and access to external automobile insurance business expertise where needed.

Before beginning the Review, the Consultant will work with the Chair of the ICBC Board and any personnel tasked by the Board to establish a clear project scope, detailed roles and responsibilities, detailed milestones and deliverables, develop a detailed work plan, obtain validation of the work plan, and propose a high-level strategy to conduct each phase of the work.

5. Key Consultant Activities

- Prepare a report that includes:
 - Metrics which have been developed for measuring the performance of automobile insurance providers against specific elements of the business, to enable direct comparisons with the performance at ICBC
 - A high level assessment of performance in 7-10 jurisdictions on selected aspects of the business, in order to identify those jurisdictions whose practices have delivered superior results and a deeper analysis of specific practices and results in the top 2-3 jurisdictions
 - A summary of the Consultant's research findings
 - A high-level assessment on the status of implementation of recommendations from previous independent operational reviews completed over the last five years
 - Recommendations of actions to achieve the objectives of long-term Basic rate affordability and sustainability, including an assessment of implementation complexity, risks and rewards (e.g. potential savings)

6. Deliverables and Timeline

It is expected that the procurement process will be initiated on January 26, 2017, with the successful proponent selected and ready to begin work by March 24, 2017.

The Consultant will have worked with the Chair of the ICBC Board to establish the project scope, detailed roles and responsibilities, detailed milestones and deliverables, develop a detailed work plan, obtain validation of the work plan, and propose a high-level strategy to conduct each phase of the work.

By April 5, the Consultant will provide their first briefing on progress to date to the ICBC Board, and continue with monthly briefings over the course of the contract.

The Consultant will deliver a preliminary report to the ICBC Board not later than June 30, 2017.

7. Process

The review will be led by the Board Chair directly, and supported by a 3 person Committee of the Board of Directors, called the "ICBC Rates Affordability Review Committee". The Chair and Committee shall ensure that the review is in fact independent and comprehensive, and that decisions on scope will rest entirely with the Chair and Committee.

Appendix 1: Direction Letter

December 19, 2016

Barry Penner, Q.C., Chair
 Board of Directors
 Insurance Corporation of British Columbia
 151 West Esplanade, Room 517
 North Vancouver BC V7M 3H9

Reference: 262893

Dear Chair Penner:

Re: Comprehensive Independent Third Party Review

The Government of British Columbia remains committed to keeping Basic insurance rates affordable for all British Columbians. Delivering on this commitment is becoming increasingly challenging given the significant pressures that the Insurance Corporation of British Columbia (ICBC) continues to face in terms of claims costs.

As the Minister responsible for ICBC, I am directing the ICBC Board of Directors to commission a comprehensive independent third party review. The objective of this review is to provide a wide range of options for ICBC and Government's consideration that would increase fairness and affordability related to Basic insurance, with the goal of future Basic rate increases being in line with the rate of inflation. Furthermore, it is Government's intention to maintain public ownership of ICBC, and to work within the current model in order to keep Basic automotive insurance as affordable as possible for British Columbians.

This review should be forward-looking, taking into consideration the evolving landscape of automobile insurance. I would also strongly encourage the Board to consider engaging expert advisors to review and provide comment on the draft recommendations to provide additional insight and expertise in regards to this important review.

I expect this work to start in January 2017, with final recommendations to be ready by early July, so that these may inform ICBC's 2017 Revenue Requirements Application to the British Columbia Utilities Commission. I also expect to be kept apprised of the progress of this review on a regular basis and will want to review the terms of reference before these are finalized.

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I look forward to receiving the proposed terms of reference early in January 2017.

Sincerely,



Todd G. Stone
Minister

