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By Electronic Filing

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Patrick Wruck, Commission Secretary and Manager Regulatory Services

Dear Sirs/Mesdames:

Re: Insurance Corporation of British Columbia ("ICBC") – 2023 Revenue Requirements Application

We enclose for filing ICBC's Reply Submissions in the above-noted proceeding.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Matthew Ghikas
Personal Law Corporation

MG/mg
Encl.

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT,

RSBC 1996, CHAPTER 473

AND

THE INSURANCE CORPORATION ACT,

RSBC 1996, CHAPTER 228, AS AMENDED

AND

INSURANCE CORPORATION OF BRITISH COLUMBIA

2023 REVENUE REQUIREMENTS APPLICATION

REPLY SUBMISSIONS OF THE INSURANCE CORPORATION OF BRITISH COLUMBIA (ICBC)

June 27, 2023

FASKEN MARTINEAU DuMOULIN LLP

MATTHEW GHIKAS and MADISON GRIST

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PART ONE: INTRODUCTION

1. This Reply focuses on, and answers, the main intervener arguments to the extent that further elaboration beyond ICBC's earlier submissions is required.[1] Notably, the interveners generally do not oppose the approvals sought:

(a) MoveUP expresses affirmative support, submitting "that the orders sought by ICBC should be granted."[2]

(b) Mr. McCandless ultimately concludes "[t]he BCUC should accept the zero rate change".[3]

(c) BCOAPO submits that there is "nothing on the evidentiary record that would suggest it would be appropriate to support or approve a rate increase" and that "Special Direction IC2 prohibits this Panel from approving a rate decrease for this RRA", the combination of which leads to a 0% rate change.[4] BCOAPO also "does not take issue with ICBC's application to add leverage to revise the NMR and YCARS formulae for PY2023 and forward". Further, BCOAPO "supports the insurer's application" in regards to the "proposed adjustments to compliance reporting deadlines... as well as a proposal that it discontinue reporting on Legal Representation Conversion Rate."[5]

(d) IBC did not file submissions.

2. Overall, ICBC submits the evidence in this proceeding supports approval of the requested orders. For the reasons described below, the BCUC should dismiss the intervener requests for

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[1] ICBC has responded to the primary submissions of interveners, rather than parsing the submissions line-by-line. ICBC's silence on a particular matter should not be interpreted as agreement.

[2] MoveUP Final Argument, p. 1.

[3] McCandless Final Argument, p. 8.

[4] BCOAPO Final Argument, p. 2.

[5] BCOAPO Final Argument, p. 2.

additional directions, including to use the "financial statement methodology" for future RRAs[6] and for ICBC to "more actively control operating cost pressures".[7]

PART TWO: THE ACTUARIAL INDICATED RATE CHANGE

3. Part Three of ICBC's Final Submissions discussed the evidence demonstrating the reasonableness of the various components of the actuarial indicated rate change. In this Part Two, ICBC addresses intervener comments on the actuarial analysis, which were relatively few in number.

A. REPLY TO MR. MCCANDLESS: FINANCIAL STATEMENT FORECASTS SHOULD NOT FORM THE BASIS OF ICBC'S RATE SETTING

4. Mr. McCandless submits that the BCUC should "accept the financial statement forecast… as the basis for ICBC's RRA forecast" and "direct ICBC to use the financial statement methodology as the basis for future RRA submissions".[8] Mr. McCandless also opposes ICBC's reliance on BCI's 15-year forecast for investment income results for similar reasons.[9] Mr. McCandless' submissions reflect a fundamental misconception – one that has underpinned many intervener arguments in ICBC's RRAs over the years – that ICBC's revenue requirements can be based on, or the forecast values for the policy year can be directly compared against, ICBC's financial statement forecasting.

5. Mr. McCandless repeatedly refers to the cost of service methodology applied to public utilities. However, the *Insurance Corporation Act*, the foundational statute governing ICBC, explicitly provides that ICBC is not a public utility.[10] ICBC's governing regulatory framework

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[6] McCandless Final Argument, p. 8.

[7] BCOAPO Final Argument, p. 23.

[8] McCandless Final Argument, p. 8.

[9] McCandless Final Argument, pp. 4, 5 and 8.

[10] *Insurance Corporation Act,* RSBC 1996, c. 228, s. 44 (2): "Despite subsection (1), the corporation is not a public utility."
A detailed discussion of the legal and regulatory framework for ICBC is provided in Exhibit B-1, Application, Chapter 2. MoveUP also highlights that ICBC is not a utility and that "the usual tools and metrics relied upon by utility regulators are replaced by actuarial analysis." (MoveUP Final Argument, p. 2).

requires rate setting based on the application of AAP – standard principles applied in the insurance industry. In short, the legislation recognizes that ICBC is providing insurance, not gas or electricity.

6. Setting Basic insurance rates based on AAP is different in fundamental ways from the cost of service principles applied in setting utility rates.[11] As described in ICBC's Final Argument,[12] Section 2620.01 of the Standards of Practice (SOP) of the Canadian Institute of Actuaries requires that the actuarial indicated rate provides for the best estimate of the costs of Basic insurance claims for a specific policy year, including a provision for profit (in ICBC's case – capital).[13] At a basic level, this is similar to what is required using a cost of service model. However, there are fundamental differences between the financial statement forecast and the rate-setting forecast, in the context of insurance. The rate indication is not a mechanism to manage net income by fiscal year (i.e., the financial forecast net income), but to ensure that the costs, net of investment income over the policy year (from when premiums are received to when costs are paid out, which can be many years later) are covered by the rates charged. If ICBC used its financial statements to form the basis of the rate indication, there would be a significant mismatch: Policyholders would be (a) paying to cover the risk margins required for financial reporting,[14] and (b) would only benefit from the investment income that would be recognized in the next two financial years, rather than the total amount that is expected to be earned from their premium. Ultimately, this mismatch between revenue and costs would not accord with AAP. The reliance on forecast investment income on a fiscal year basis would also introduce volatility into rate setting due to the short-term volatility of investment return forecasts.

[11] A detailed description of the differences is provided in Exhibit B-1, Application, Participants' Reference Guide, Section B.1.

[12] Para. 10(a).

[13] Exhibit B-1, Application, Chapter 3, Appendix 3A, para. 7. Section 2620.01 of the SOP states: "The best estimate present value of cash flows relating to the revenue at the indicated rate should equal the best estimate present value of cash flows relating to the corresponding claim costs and expense costs, plus the present value of a provision for profit, over a specified period of time."

[14] An insurer (unlike a public utility), must carry insurance policy liabilities on its financial statements at values that make provision for estimation risks (known as provisions for adverse deviation under financial reporting standards in place to March 31, 2023; known as risk adjustments under financial reporting standards in place beginning April 1, 2023) and time value in prescribed ways on the balance sheet.

7. Mr. McCandless is incorrect in suggesting that his preferred "financial statement methodology… is the method used by MPI in justifying its rate requests".[15] MPI's rates are not set based on fiscal year financial reporting. MPI's rates are set using AAP and it similarly follows a policy year approach, which it calls a rating year. The Manitoba Public Utilities Board stated in its 2023 General Rate Application decision, for instance:[16]

> Ratemaking in accordance with AAP involves determining the indicated rate level such that, for a given future rating year, the present value of expected future revenue cash flows (e.g., premiums and fees) is equal to the present value of expected future expense cash flows (e.g., claims, adjusting expenses and non-claims-related costs, including any profit provision).
>
> In Order 162/16, the Board approved the rate indication prepared by the Corporation based on AAP and directed that the Corporation follow AAP as the basis for its rate indications in future rate applications, which the Corporation commenced doing in the 2018 GRA and continued in this Application.

8. The Manitoba Public Utilities Board, in the referenced Order 162/16, specifically rejected the approach that Mr. McCandless favours, which MPI had been using up to that point. It stated for instance:[17]

> <u>For several years, the Corporation has based its overall rate adjustment proposal on an objective of achieving a break even average net income over the proposed rating year and the year following. The two-year period used here is consistent with the two-year period over which the premiums at the proposed rate level will be brought into income and fully earned, this due to staggered renewals throughout the rating year.</u>
>
> <u>In 2012, the Canadian Institute of Actuaries established a new Standard of Practice with respect to property-casualty insurance ratemaking. Among other things, this requires an actuary preparing a rate level indication to derive the indication in accordance with accepted actuarial practice in Canada.</u> This supplemental analysis has been provided by the Corporation in recent years. This has been the focus of an ongoing collaborative process with stakeholders in the time leading up to the submission of the current Application and through the ensuing two rounds

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[15] McCandless Final Argument, p. 6, footnote 7.

[16] Manitoba Public Utilities Board, Order No. 4/23, p. 39.

[17] Manitoba Public Utilities Board, Order No. 162/16, pp. 64-67.

of information requests and hearing undertakings. In its evidence, the Corporation acknowledges the value coming from this collaborative process and the need for still further collaboration before the Corporation's analysis might be considered to be fully consistent with industry best practices and accepted actuarial practice in Canada. <u>The Corporation also acknowledges that its overall rate adjustment, as proposed, is not fully consistent with accepted actuarial practice in Canada.</u>

Ms. Sherry, a witness for CAC [a ratepayer group], provided expert opinion on ratemaking in accordance with accepted actuarial practice in Canada. She commented on MPI's ratemaking model, and how it does not follow accepted actuarial practice. She noted that the goal of MPI's ratemaking practice is to break even on a net income basis, over a two-year period. This methodology is at odds with accepted actuarial practice, because investment income is forecast in the pro forma statements and is included in the break-even position goal. <u>In determining actuarially-indicated rates, Ms. Sherry noted, that the financial statements are not relied upon - the purpose of actuarial ratemaking is to project what ultimate losses will be per vehicle, adding in expenses, for the rating year in question. Her evidence was that actuarial ratemaking is prospective: the goal is to accurately predict the losses and expenses of the rating year in question. It is based on the principle that the rate will be an estimate of the expected value of future costs.</u> The actuary will determine the underwriting profit needed to achieve the target total rate of return, after consideration of investment income.

In Ms. Sherry's view, MPI's ratemaking methodology adds unnecessary volatility into the ratemaking process because it includes investment income on a calendar year basis through the pro forma financial statements.

...

<u>The Board also finds the advantages of deriving rate level indications in accordance with accepted actuarial practice in Canada to be compelling.</u> Ratemaking in accordance with accepted actuarial practice in Canada involves meeting the following requirement:

> The best estimate present value of cash flows relating to the revenue at the indicated rate should equal the best estimate present value of cash flows relating to the corresponding claim costs and expense costs, plus the present value of a provision for profit, over a specified period of time. [Canadian Institute of Actuaries Standards of Practice Section 2620.01]

In particular, the Board understands that the means of recognizing investment income in such an analysis is both more straightforward and less sensitive to the results of forecasting interest rates for the purposes of developing forecasted

Basic pro-forma income statements. This has been a topic of considerable debate at these hearings in recent years and an acknowledged source of significant risk to Basic insurance operations.

The Board also takes comfort in its understanding that the rate proposals developed by Saskatchewan Auto Fund and the Basic Program of ICBC both rely on rate level indications that meet this requirement. Accordingly, the Board directs that starting with the next Application, the Corporation's rate proposal, both overall and by Major Classification, will be anchored on rate level indications derived in accordance with accepted actuarial practice in Canada. [Emphasis added.]

9. Mr. McCandless' incorrect premise that ICBC's insurance product is analogous to public utility services carries over into his discussion of how investment returns are reflected in rates. He asserts, for instance, without citing evidence: "For auto insurance the maximum term of the policy year is 12 months. Although some injury claims incurred during the policy year can have lengthy payout durations, these are a small minority of the total number and value of injury and property damage claims." In actuality, a significant proportion of the injury claims payments are expected to be paid out more than 15 years after the start of the policy year (e.g., 31% of medical and rehabilitation payments and 45% of enhanced disability payments).[18]

10. Mr. Rye of ICBC explained why ICBC's use of BCI's 15-year forecast is appropriate, especially in the context of the longer-term claims expected under Enhanced Care:[19]

The second major component that impacts the rate indication is that long-term forecast. We use the BCI's 15-year long-term capital market expectations report as it fits very well with the longer-term claims -- expected claims experience under the Enhanced Care model, and the use of this longer-term horizon also promotes rate stability.

When BCI is developing their forecasts, they're taking into account a wide range of factors and information, including, you know, views on economic growth, inflation, interest rates, credit ratings, foreign exchange rates, and how each of the individual asset classes might perform under the -- these forecasted scenarios with those inputs. Some of these factors will influence all of the asset classes --

[18] From Exhibit B-1, Application, Chapter 3, Technical Appendices E.1 and E.2. PY 2023 Cumulative % Paid including Indexation at the end of Year 15 is shown as 69.27% for EAB-MR, and 55.14% for EAB-ED.

[19] ICBC 2023 RRA Workshop, Transcript Volume 1, p. 68, l. 21 – p. 70, l. 8 (Rye).

for example, interest rate generally would impact all of the asset classes -- while others may have other specific asset class impacts or differing impacts on different asset classes. Easy example. Foreign exchange rates are only going to impact non-Canadian dollar-denominated investments. You know, interest rates will have a different impact on infrastructure and real estate as they employ leverage. There are mortgages on those portfolios. Interest rates will have a different impact on our -- some of our private debt, and mortgage interest rates would be a positive input into those as they are often floating rate.

So, these forecasts are long-term in nature. They do not move significantly in response to short-term volatility, or isolated announcements, or short-term expectations. For example, you know, a Bank of Canada forecast for inflation for next year or for growth for next year is not going to materially move a 15-year forecast. It will certainly have an impact in the short-term, and we're -- you know, we're certainly very aware of those and we don't ignore them, but in terms of our rate indication, we are looking to the long-term horizon as consistent with what would be experienced under the Enhanced Care model. Again, we don't want short-term market volatility to create that same kind of volatility within our rate setting. We don't want to be whipsawing rates up and down every time there's a change in the markets. So, we want to take a longer-term view and effectively use this long-term for some form of smoothing.

11. ICBC notes that Mr. Rye's evidence is consistent with the findings of the Manitoba Public Utilities Board, quoted above, that "…the means of recognizing investment income in such an analysis [AAP] is both more straightforward and less sensitive to the results of forecasting interest rates for the purposes of developing forecasted Basic pro-forma income statements."[20]

B. REPLY TO BCOAPO: INCLUDING ADDITIONAL (PUBLICLY AVAILABLE) FINANCIAL INFORMATION IN THE RRA IS UNNECESSARY AND DISTRACTING

12. BCOAPO requests that the BCUC direct ICBC to provide information on its financial outlook for Basic insurance, including net income, risk provisions, capital levels and MCT ratios in future RRAs.[21] This data is already publicly available at icbc.com (accessible at: [Service Plan (icbc.com)](). This information is focused on a financial statement/financial forecast view, rather than an AAP rate-setting view of costs associated with policies written. As such, repeating this

[20] Manitoba Public Utilities Board, Order No. 162/16, pp. 66-67.

[21] BCOAPO Final Argument, p. 15.

information in the context of an RRA has the potential to confuse lay readers and distract from the core of a RRA, which is the actuarial analysis and inputs determining the actuarial indicated rate change.

C. REPLY TO BCOAPO: ICBC'S FREQUENCY AND SEVERITY ESTIMATES HAVE BEEN RIGOROUSLY ASSESSED

13. In reply to BCOAPO's concerns regarding ICBC's frequency and severity estimates, ICBC submits:

(a) **Basic Vehicle Damage Coverage (BVDC) Frequency:** While BCOAPO is concerned that recent events "may result in a higher declining trend than what ICBC has presented",[22] actual experience as of Q2 2022 shows claims returning, after an initial drop from the COVID-19 pandemic, toward ICBC's selected trendline, not a trendline that declines more steeply.[23]

(b) **BVDC Severity:** BCOAPO submits that the BVDC severity estimate is overstated based on how ICBC has included an adjustment for inflation.[24] In reply, ICBC submits that it expects inflationary pressures to persist within the forecast period. ICBC has reduced the potential for "double counting" for inflation by only adjusting the forecast to the extent that inflation is expected to exceed normal levels.[25] Moreover, because of the rate change floor, removing the additional adjustment for inflation would have no impact on the proposed 0% rate change.[26]

(c) **Enhanced Accident Benefits-Enhanced Disability Frequency and Severity and Unallocated Loss Adjustment Expenses (ULAE):** BCOAPO expresses some

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[22] BCOAPO Final Argument, p. 10.

[23] Exhibit B-3, 2023.1 RR BCUC.9.2.2, ICBC 2023 RRA Workshop, Transcript Volume 1, p. 49, ll. 4-6.

[24] BCOAPO Final Argument, p. 11.

[25] Exhibit B-5, 2023.1 RR BCOAPO.3.6.

[26] Exhibit B-5, 2023.1 RR BCOAPO.3.7.

concerns regarding the transparency of these estimates.[27] ICBC appreciates the importance of, and strives to achieve, transparency in its rate setting. In reply to BCOAPO's concerns, ICBC submits that it has dedicated significant effort towards transparency and facilitating understanding in its RRAs. In particular, ICBC's overarching approach to forecasting was explained and explored in the proceeding and supporting information for these estimates is provided in the Application.[28] While ICBC's Final Argument, and the main Chapters of the Application, focused on major components contributing to the actuarial indicated rate change, this was with the intention of improving understanding, not obscuring the details. The material underlying these estimates was available to the BCUC and interveners for further inquiry in information requests (IRs) and for discussion at the Workshop. ICBC will continue to provide this information in future RRAs, and it is open to the BCUC and interveners to further explore these estimates in IRs.

14. Overall, the evidence in the proceeding demonstrates that ICBC's actuaries have used reasonable approaches for forecasting costs and that the analysis supporting ICBC's loss cost forecasts accords with AAP. There is no basis to revise the proposed rate change; as BCOAPO has acknowledged, there is "nothing on the evidentiary record that would suggest it would be appropriate to support or approve a rate increase".[29]

PART THREE: ONGOING EFFORTS TO MANAGE COSTS

15. Contrary to the submissions addressed below, the evidence demonstrates that ICBC is managing operating costs efficiently, effectively managing staffing challenges, and mitigating upwards pressure on claims costs to the extent that it is within ICBC's control.

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[27] BCOAPO Final Argument, p. 13.

[28] Exhibit B-1, Application, Chapter 3, Appendix C.1.0 section E; Appendix C.1.1 – C.1.2.4; Technical Appendix C.1.0; Technical Appendix C.1.2.1-C.1.2.3.13; Appendix C.6.0 – C.6.1; Technical Appendix C.6.0 and Technical Appendix C.6.1 - C.6.11.

[29] BCOAPO Final Argument, p. 2.

A. REPLY TO BCOAPO: ICBC IS MANAGING OPERATING COSTS EFFICIENTLY

16. In reply to BCOAPO's request that the "BCUC direct ICBC to more actively control operating cost pressures",[30] ICBC submits that the evidence demonstrates it is managing operating costs efficiently and that this direction is unwarranted.

17. ICBC has strong governance in place for managing operating costs and, contrary to BCOAPO's assertion, uses a top down budgeting approach, which is reflected in the guidelines that are discussed in 2023.1 RR BCOAPO.9.1.[31] Further, senior management actively evaluates ICBC's performance against the measures set out in its Annual Service Plan Report to ensure that ICBC is managing operating costs efficiently in comparison to industry. This is monitored through the Expense Ratio. The property and casualty industry expense ratio benchmark for 2021 was 31%.[32] ICBC's fiscal year (FY) 2021/22 Actual result of 23.4% (7.6% better than the industry standard) is objective evidence that it is managing its operating expenses reasonably and prudently.

18. BCOAPO suggests other directions that are equally unwarranted:

(a) **Reconsider Management & Confidential (M&C) FTE increases:** ICBC's increases in M&C FTEs are required to support business needs and strategic objectives. ICBC notes the increases referenced by BCOAPO are over a 6-year time frame from FY 2019/20 to FY 2025/26.[33] Increases over this period are necessary to: provide appropriate levels of staff oversight; enhance governance and data management; and, support ICBC's People Strategy and improve the quality of HR services.[34]

(b) **Reduce volatility in pension and post-retirement benefit expense:** ICBC has limited ability to reduce this volatility. The pension and post-retirement benefit

[30] BCOAPO Final Argument, p. 23.

[31] Exhibit B-5.

[32] ICBC's 2021/22 Annual Service Plan Report, p.14 (https://www.icbc.com/about-icbc/company-info/Documents/ar-22.pdf).

[33] BCOAPO Final Argument, p. 22.

[34] Exhibit B-5, 2023.1 RR BCOAPO.12.6.

expense is determined by ICBC's external pension actuary, Aon.[35] It is subject to volatility resulting from changes in the market-based discount rate for pension liabilities.[36] The change in the discount rate is influenced by market factors and is therefore beyond ICBC's control.[37] ICBC reports its pension and post-retirement benefits expense by applying International Financial Reporting Standards (IFRS) and IFRS does not allow for any smoothing mechanism.[38] IFRS also prescribes how to determine the market-based discount rate used to calculate the expense.[39]

B. REPLY TO MOVEUP: ICBC IS EFFECTIVELY MANAGING STAFFING CHALLENGES

19. In reply to MoveUP's submissions regarding staff turnover and call centre service quality,[40] ICBC is aware of these challenges and has provided examples of tactics and mitigation strategies it is deploying to address these issues.[41] At a high level, this includes an increased focus on recruitment efforts and employee training and development, as well as new technological capabilities to improve efficiency.

C. REPLY TO BCOAPO: ICBC IS MITIGATING UPWARD PRESSURE ON CLAIMS COSTS

20. BCOAPO expresses concerns regarding the trend of increasing claims costs and residual risk of upwards pressure on rates.[42] ICBC has acknowledged that this residual risk exists:[43]

> Assuming all other components of the Basic rate change perform as expected, it is the underlying loss and allocated loss adjustment expenses (ALAE) trend that will contribute to the ongoing Basic rate changes. Under the new Enhanced Care

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[35] Exhibit B-1, Application, Chapter 6, pp. 6-19.

[36] ICBC 2023 RRA Workshop, Transcript Volume 2, p. 6, ll.18-21 (Tamber).

[37] ICBC 2023 RRA Workshop, Transcript Volume 2, p. 10 l. 26 - p.11, l.19 (Tamber).

[38] Exhibit B-3, 2023.1 RR BCUC.33.5; 2021 Revenue Requirements and Tariff Amendment Application in Support of Enhanced Care, Exhibit B-6, 2021 IR, 2021.1 RR BCOAPO.20.1.

[39] 2021 Revenue Requirements and Tariff Amendment Application in Support of Enhanced Care, Exhibit B-6, 2021 IR, 2021.1 RR BCOAPO.20.1.

[40] MoveUP Final Argument, pp. 5-6.

[41] Exhibit B-3, 2023.1 RR BCUC.26.2; Exhibit B-5, 2023.1 RR MoveUP.4.6.1, 2023.1 RR MoveUP.4.10-14, 2023.1 RR MoveUP.4.18; Exhibit B-1, Application, Chapter 8, Appendix 8A, p. 8A-13.

[42] BCOAPO Final Argument, p. 9.

[43] Exhibit B-5, 2023.1 RR BCOAPO.2.9.

product, the loss and ALAE trend will be directly correlated to the increases in BC Consumer Price Index (CPI): if inflation continues to increase this will lead to upward pressures on the Basic rate need.

21. While inflation is obviously beyond ICBC's control, ICBC has summarized some mitigating strategies and potential offsets to this upwards pressure:[44]

New Money Rate offset: At this time, ICBC expects both inflation and claims cost increases to moderate in the future, reducing the risk of significant rate changes in the future. This long-term view is also embedded in the current New Money Rate (NMR) which reflects how ICBC's assets are expected to perform over a 15-year horizon. Taking a longer-term view provides stability for rate setting in the event of short-term interest rate fluctuations; however, the Basic insurance rate need would be impacted by any change to the longer-term view of interest rates. While inflation has been high recently, the current forecast of inflation assumes that it will moderate back to the 2% per year Bank of Canada target. ICBC's current forecast expects claims to moderate as well, coinciding with easing inflationary pressures. However, if inflation continues to be higher than expected, putting upward pressure on claims costs, then the longer-term view of interest rates will also likely rise resulting in upward adjustment in ICBC's NMR (increasing investment income on policyholder supplied funds). This increase in the NMR will provide an offsetting favourable impact to the actuarial indicated rate change. This is largely what happened between PY 2021 and PY 2023.

Claims Mitigation Strategies: ICBC continues to effectively manage upward pressure on claims costs through claims cost management strategies including the following items. For more information, please see the Application, Chapter 7, Appendix 7B (Claims Cost Management):

- Support execution of evidence-based best practices in health care.
- Modernize ICBC's material damage programs.
- Streamline claims processes program.
- Continue the counter-fraud program.

Road Safety Programs: Over the years, ICBC partnering with Government and police have implemented several road safety campaigns and initiatives to help reduce the number of crashes, injuries and deaths on BC roads which also helps to offset overall claims costs. Please see the Application, Chapter 8, Appendix 8G (Road Safety) which provides an overview of the upcoming strategies and

[44] Exhibit B-5, 2023.1 RR BCOAPO.2.9.

initiatives for road safety that will continue to mitigate the number of crashes and injuries seen on BC roads.

22. ICBC clarifies that the offsetting discussed above refers to a favourable offsetting impact in general – ICBC does not assert that this will necessarily or perfectly offset the impact of inflation.

23. With respect to the remaining residual risk, ICBC emphasizes that the 2023 RRA is based on expected claims costs (along with expenses, premium revenues and investment income) for Policy Year (PY) 2023. In the event that there is further upwards pressure on claims costs, or ICBC's strategies to manage claims frequency and severity do not achieve the desired results in future years, this would be reflected in future claims forecasts and discussed in each future RRA. While BCOAPO recommends that "the BCUC direct ICBC [to] provide more comprehensive and integrated information to assess this risk in future RRAs",[45] ICBC submits that no further direction is required at this juncture.

24. In reply to BCOAPO's concerns about ICBC's Material Damage (MD) strategy,[46] ICBC agrees that pursuing solutions under the revised MD strategy moving forward is preferable, and ICBC has noted that an updated strategy will be available by the end of the 2022/23 fiscal year.[47] That said, the increase in supplier rates, as well as other initiatives to support industry long-term viability discussed in the Application, were necessary to address industry conditions stemming from the macro-economic impact of the COVID-19 pandemic.[48] In particular, these measures were necessary to maintain a reasonable supply/demand balance. Failing to do so would have a significant negative impact on repair cycle time, leading to longer customer delays and poorer customer satisfaction.

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[45] BCOAPO Final Argument, p. 9.

[46] BCOAPO Final Argument, pp. 8-9.

[47] Exhibit B-5, 2023.1 RR BCOAPO.14.2.

[48] Exhibit B-1, Application, Chapter 7, Appendix 7B, pp. 7B-8 – 7B-13; Exhibit B-5, 2023.1 RR BCOAPO.14.2.

25. BCOAPO states that it "is unaware of any quantification of expected savings from [Road Safety] initiatives"; however, ICBC quantifies estimated savings from some of its key Road Safety initiatives. For example, an update to claims cost savings estimates for ICBC's Road Improvement Program and an evaluation of the Intersection Safety Camera (ISC) Speed Enhancement project are underway.[49] As discussed in the response to IR 2023.1 RR BCUC.40.1,[50] ICBC achieves approximately $4.70 in savings for every $1 of investment for the Road Improvement Program. ICBC is also in the process of quantifying the ISC speed enhancement project to estimate the impact of the upgrade to 35 intersection safety cameras that enable detection of drivers travelling at unsafe speeds through these intersections. ICBC expects to have sufficient data to evaluate the impact of this new technology on crash frequency and severity at these intersections by the end of 2023.[51]

PART FOUR: OTHER MATTERS

A. REPLY TO BCOAPO: ICBC'S EXISTING PERFORMANCE MEASURES PROVIDE EFFECTIVE REGULATORY OVERSIGHT

26. In reply to BCOAPO's suggestion that the BCUC re-examine ICBC's existing performance measures,[52] the BCUC reviewed and approved the current performance measures relatively recently (in the 2019 RRA, and amended in the 2021 RRA).[53] ICBC submits that the existing performance measures continue to provide useful information to support the BCUC's oversight over Basic insurance. ICBC's existing suite of performance measures allow for year-over-year comparisons as well as the evaluation of ICBC's performance in comparison to industry.

27. The BCUC has recognized that there is a significant amount of more useful information in ICBC's filings, stating in the 2019 RRA Decision: [54]

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[49] Exhibit B-1, Application Chapter 8, Appendix 8G, pp. 8G-4 and 8G-7.

[50] Exhibit B-3.

[51] Exhibit B-1, Application, Chapter 8, Appendix 8G, p. 8G-4.

[52] BCOAPO Final Argument, p. 23.

[53] Exhibit B-1, Application, Chapter 8, p. 8-2.

[54] Order and Decision G-192-19, p. 35.

> The Panel agrees with ICBC that the performance measures are only a small part of the information included in ICBC's annual revenue requirements applications and that further information is gathered through the regulatory process. While the performance measures are useful at a high level for identifying areas that require further exploration, the Panel finds that other more detailed information in the Application and IRs is of greater assistance to the Panel in making its decision.

28. Nonetheless, as always, ICBC continues to monitor the performance measures and, where appropriate, will recommend updates to the performance measures in future RRAs.

B. REPLY TO BCOAPO: UPDATES ON THE CAPITAL MANAGEMENT PLAN

29. BCOAPO requests that ICBC convene another workshop on the Capital Management Plan (CMP).[55] ICBC submits that this is unnecessary. ICBC held an Information Session for BCUC Staff and Interveners on the CMP on June 23, 2022. It included a synopsis of the components of the existing CMP, as last approved by the BCUC, changes that may affect ICBC's management of capital, and opportunities for improvement. ICBC did not receive any written comments or feedback on the last CMP information session and did not receive any substantive questions at the session despite providing ample opportunity for questions.[56]

C. REPLY TO BCOAPO: ICBC PROVIDES SUFFICIENT INFORMATION ON ITS ASSET-LIABILITY MATCHING ("ALM") STUDIES

30. BCOAPO recommends that ICBC "provide information on its ALM studies (dealing with confidentiality concerns in advance of the filing of the RRA) and the implications for the strategic asset mix as part of its minimum filing requirements".[57] In reply, ICBC submits that the information already provided is sufficient and the current approach respects the commercial sensitivity of information provided by BCI.

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[55] BCOAPO Final Argument, p. 14.

[56] ICBC provided an opportunity to ask questions after each major section of its presentation and at the end of the session (the presentation is provided in Exhibit B-5, 2023.1 RR BCOAPO.7.6).

[57] BCOAPO Final Argument, p. 17.

31. BCOAPO made a similar argument in the 2021 RRA, in response to which the BCUC stated:[58]

> With respect to BCOAPO's first concern, the Panel finds that the current schedule of timing for submission of ALM studies (once every four years) to be sufficient such that no change is warranted at this time. As ICBC points out, the results of those studies are captured in ICBC's Statement of Investment Policy and Procedures, which is reviewed on an annual basis. In the absence of any evidence of imprudence, the Panel views that the choice of investment strategy is a matter for ICBC management in conjunction with its investment advisor, BCI, provided that the basis for such investments is clearly defined in ICBC's Statement of Investment Policy and Procedures and reviewed regularly.

32. As noted above, the results of the ALM studies are already captured in publicly available governing policies and procedures (i.e., the Statement of Investment Policy and Procedures).

33. With respect to BCOAPO's request that "information be updated during an RRA proceeding for any subsequent release of a revised SIPP",[59] if a revised Statement of Investment Policy and Procedures (SIPP) is released after the filing date of the RRA, thus not used in the calculation of the actuarial indicated rate change, then it serves little use on the record in that proceeding. The governing SIPP at the time of filing was, and will continue to be, provided in ICBC's RRAs. [60]

[58] BCUC Decision and Order G-307-21, pp. 51-52.

[59] BCOAPO Final Argument, p. 17.

[60] Exhibit B-1, Application, Chapter 5, Appendix 5A, Attachment 5A.1 and 5A.2.

PART FIVE: CONCLUSION

34. ICBC submits that the evidence supports the requested orders, and they should be approved as sought.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated:	**June 27, 2023**	***[original signed by Matthew Ghikas]*** Matthew Ghikas Counsel for ICBC
Dated:	**June 27, 2023**	***[original signed by*** **Madison Grist*****]*** Madison Grist Counsel for ICBC