151 West Esplanade, North Vancouver, BC.  V7M 3H9
regaffairs@icbc.com

January 31, 2024

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

Attention: Mr. Patrick Wruck, Commission Secretary and Manager, Regulatory Services

**Re: ICBC's 2024 Financial Allocation Methodology Application**

Dear Mr. Wruck:

Please find attached ICBC's 2024 Financial Allocation Methodology Application (Application) which responds to the BCUC's direction in its Decision on ICBC's 2021 Revenue Requirements Application for ICBC to review its financial allocation methodology (FAM). This is the first comprehensive review of the BCUC-approved FAM since 2005 and includes a report by an independent third-party, KPMG, assessing the appropriateness of the current BCUC-approved FAM in light of the changes to ICBC's business model that have occurred as a result of the introduction of Enhanced Care and other operational or organizational changes.

By way of background, ICBC operates its Basic insurance, Optional insurance and Non-insurance activities on a fully integrated basis. The primary purpose of ICBC's FAM, is to allocate revenues and costs among its Basic insurance, Optional insurance and Non-insurance business segments in order for Basic insurance premiums to be properly quantified in a fair and equitable manner.

For this Application, ICBC engaged KPMG to review the current BCUC-approved FAM and assess its appropriateness in light of the recent changes. KPMG concluded that the overall FAM remains appropriate but provided recommendations to optimize ICBC's administration of its FAM. ICBC has reviewed and, on the whole, agreed with KPMG's assessment and recommendations, which have led to proposed changes to the FAM as follows to improve objectivity, transparency and efficiency:

- Replacement of work effort allocators with data-driven allocators.
- Changes to align with Enhanced Care and other business changes.
- Changes to improve cost causality.

The impacts of the proposed changes result in a shift of $15.0 million of operating expense costs from Optional to Basic insurance which is not material in the context of ICBC's financial reporting and have a negligible (less than a 0.1 percentage point) impact on the Basic rate indication.

ICBC recognizes the importance of an efficient, transparent and open regulatory process and in Section A.3 of this Application, ICBC has included a proposed regulatory process and timeline for BCUC's consideration. ICBC respectfully submits that the proposals in this Application are just and reasonable and should be approved.

Thank you for your time and consideration of this Application.

Sincerely,

Randy Yu
Senior Manager, Regulatory Affairs
/ls

CC: Bill Carpenter, Vice President, Insurance, ICBC

Attachment

# 2024 FINANCIAL ALLOCATION METHODOLOGY APPLICATION (FAMA)

# Table of Contents

# Table of Figures

# A APPLICATION OVERVIEW

## A.1 EXECUTIVE SUMMARY

1. Pursuant to sections 59-61 of the *Utilities Commission Act* and s. 44(1) of the *Insurance Corporation Act* (ICA), ICBC is applying for approval of proposed changes to its BCUC-approved Financial Allocation Methodology (FAM). The proposed changes will improve efficiency and transparency, and increase the use of objective, data-based allocators. Implementing these improvements will, in practice, have a negligible impact on Basic insurance rate making that would have translated to less than a 0.1 percentage point (ppt) impact on the Policy Year (PY) 2023 Basic rate indication.

2. ICBC allocates its revenues and costs among its Basic insurance, Optional insurance and Non-insurance business segments in accordance with a fully allocated costing (or pro-rata) methodology that was initially approved by the BCUC in its January 2005 Decision on ICBC's Financial Allocation Methodology Application (FAMA).[1] Since then, ICBC has submitted a number of allocation-related filings, such as work effort studies on claim centres' operating expenses, which are the largest part of ICBC's operating expenses, as well as other occasional amendments to its FAM; however, this is the first full review of the BCUC-approved FAM since 2005.

3. The majority of ICBC's revenues, costs and operating expenses associated with its three business segments can be directly attributed to each segment based on premiums or claims transaction data and do not require a more detailed process of allocation. However, as ICBC operates on an integrated basis, there are components of revenues and costs that require a more detailed allocation process. ICBC uses the BCUC-approved FAM to allocate these revenues and costs to each business segment in a fair and equitable manner. Only the revenues, costs and operating expenses allocated to Basic insurance and Non-insurance business segments are considered in Basic insurance rate-setting.

4. This Application responds to the BCUC's direction in its Decision on ICBC's 2021 Revenue Requirements Application (RRA) for ICBC to review its FAM for total corporate operating expenses allocated to the Basic insurance business segment.[2] It is also an opportunity to address ICBC's long-standing concern about the complexity of, and disproportionate effort involved in, the

[1] Decision and Order G-9-05, details of the BCUC-approved FAM are discussed in Section B of this Application.
[2] Decision and Order G-307-21, page 59.

detailed Work Effort Study (WES) methodology used to allocate operating expenses of claims field offices and other specialized claims departments. In the 2015 RRA Decision, the BCUC acknowledged that "ICBC will bring forward an application to simplify the WES allocation methodology in 2019 or in the event that significant business change occurs."[3]

5. As noted above, this is the first complete review of ICBC's FAM since 2005 and it comes after a significant change to its business model was made with the introduction of Enhanced Care in May 2021.[4] In addition, ICBC also undertook a significant set of information technology (IT) and business transformation initiatives from 2009 to 2016, collectively referred to as the Transformation Program (TP).[5] TP also had an impact on a number of business operations, particularly in regard to the organizational structure, claims process and handling in Claims business areas. Both the Enhanced Care and TP changes have been previously reported to the BCUC.

6. In March 2023, ICBC engaged KPMG LLP (KPMG) to undertake an independent third-party (ITP) review of its current BCUC-approved FAM to determine if it continues to be appropriate, considering the changes to ICBC's business model that have occurred as a result of the introduction of Enhanced Care and other operational or organizational changes. The scope of KPMG's evaluation was broad and included a review of the allocators that are applied to operating expenses as well as the allocators applied to premium and fee revenues, claims costs, commissions, premium taxes and investment income.[6]

7. KPMG concluded that ICBC's current FAM continues to be appropriate and provides a reasonable foundation for the allocation of revenues and costs for Basic insurance rate setting and ensuring that Basic insurance premiums are not being used to subsidize ICBC's Optional insurance business. In its review, KPMG identified several opportunities for ICBC to optimize its implementation and administration of the existing FAM. KPMG also recommended that, in order to align with Enhanced Care business changes, ICBC should update the Customer and Injury Services Operations detailed Work Effort Study (CISO detailed WES) that is currently used by ICBC as the basis for allocating operating costs (primarily compensation) of staff working in claim field offices.[7]

[3] Decision and Order G-74-16, page 17.
[4] 2021 RRA, Chapter 2, Section C.
[5] 2010 Streamlined RRA, Chapter 7, Operating Expense Schedules and Allocation Information.
[6] The scope of KPMG's review is discussed on page 6 of its report titled "ICBC Financial Allocation Methodologies Final Report" dated September 2023 (the KPMG Report) which is provided in Attachment A of this Application.
[7] Please see Section F.1 and Appendix B for further information on the CISO detailed WES.

8. As noted above, KPMG concluded that the current FAM still remains appropriate as the basis for allocating ICBC’s revenues and costs; however, it also recommended that ICBC consider a more simplified approach to administer its FAM. A summary of KPMG’s review and recommendations is provided in Section D of this Application. The complete KPMG Report is included in this Application as Attachment A.

9. On the whole, ICBC concurs with KPMG’s recommendations and, in this Application, proposes the following changes to existing allocators:

- **Replacement of work effort allocators with data-driven allocators.** ICBC proposes to replace all work effort allocators with data-driven allocators such as those that are based on insurance and claims transactions (e.g., premiums written, claims volume or claims costs data) or weighted average allocators. The use of premiums, claims and average allocators is appropriate and is within the framework of the BCUC-approved allocation methodology. The most significant component of this proposal would be to discontinue the CISO detailed WES and instead allocate these operating expenses using claims-based allocators.

- **Changes due to Enhanced Care and other business changes.** ICBC proposes allocator changes to certain cost centres that are necessary due to the impact of Enhanced Care and other business changes.

- **Changes to improve cost causality.** ICBC proposes allocator changes that better align allocation to transactions that drive costs; thereby improving cost causality.

10. ICBC submits that the proposed changes will result in the following benefits:

- Increased reliance on allocators that are based on objective, verifiable and updated data.

- Improved administrative efficiency and transparency by reducing complexity and layers of calculations.

- Improved responsiveness of allocation to business changes and alignment to cost drivers of operating expenses.

11. As set out in the ICBC's 2004 FAMA, one of the goals of the FAM should be to avoid unnecessary regulatory burden for the BCUC, interveners and ICBC staff by being transparent, understandable and based on objective allocators.[8] ICBC believes that this 2024 Financial Allocation Methodology Application (2024 FAMA) retains the overall accuracy and causality of the current approach, while improving transparency, simplifying with more proportionate administration and offering the potential for greater regulatory efficiency. The rationale, analysis and impacts of each set of the proposed changes are discussed in Sections E to H below.

12. Based on fiscal year (FY) 2022/23 actual operating expenses, the proposed changes will shift the allocation of operating expenses of approximately $15.0 million from Optional insurance to Basic insurance (by regulation, ICBC's Non-insurance costs are included in Basic insurance),[9] This results in approximately a 2% increase in the Basic insurance allocation percentage of total corporate operating expenses from 68% to 70% for FY 2022/23 actual financial results. As shown in Figure 16 in Section H.2, this is a slight increase to the overall operating expense Basic insurance allocation percentage compared to the last several years. Further, the proposed changes are not material in the context of ICBC's income statement since they represent only approximately 0.5% of the $2.9 billion Basic insurance component of ICBC's FY 2022/23 actual total costs and expenses and comprise only a small component of the overall costs of providing Basic insurance.

13. Moreover, the resulting shift from Optional to Basic insurance operating expenses has a negligible impact on the overall required premium for Basic rate setting as not all of the proposed changes impact costs associated with ongoing Basic insurance rates (e.g., impacts from the allocation of costs associated with handling pre-Enhanced Care legal-based claims do not impact Basic rate setting). Overall, the proposed allocation changes that will have an impact on Basic rate setting are estimated to be a net increase of $1.8 million to the Basic required premium. This has a negligible (less than a 0.1 ppt) impact on the PY 2023 actuarial indicated rate change. Please refer to Section H on how the impact of the proposed changes will be reflected in ICBC's financial reporting and Basic rate setting.

14. The impacts of the approved proposed changes will be reflected in ICBC's financial reports and RRAs following a final decision by the BCUC.

[8] ICBC's 2004 Financial Allocation Methodology Application Vol 1, Chapter 1, page 1–4.

[9] Pursuant to Section 3(1)(c)(i)(B) of ***Special Direction IC2*** ***to the British Columbia Utilities Commission, BC Regulation 307/2004, as amended*** (Special Direction IC2), ICBC is required to recover the cost of Non-insurance services through Basic insurance premiums.

## A.2 APPLICATION ORGANIZATION

15. The remainder of this Application is organized as follows:

- Section B — Financial Allocation Background and Framework
- Section C — Insurance Product and Business Operations Changes
- Section D — Summary of KPMG's Review of ICBC's FAM and ICBC's Responses to KPMG's Recommendations
- Section E — Overview of Proposed Changes to ICBC's FAM
- Section F — Proposal to Replace Work Effort with Data-driven Allocators
- Section G — Proposed Changes to Align to Enhanced Care/Business Changes and Improve Cost Causality
- Section H — Summary of the Impacts of Proposed Changes on Rate Setting and Financial Reporting
- Section I — Conclusion
- Attachment A — KPMG Report
- Appendices to ICBC's Application

## A.3 PROPOSED REGULATORY PROCESS

16. Figure 1 below sets out a proposed regulatory process for this Application.

**Figure 1 – Proposed Regulatory Timetable**

| Process Step | Proposed Timing |
|---|---|
| BCUC Information Requests (IRs) | March 6, 2024 |
| Intervener IRs | March 13, 2024 |
| ICBC Response to IRs | April 10, 2024* |
| Streamlined Review Process<br>(Provide topics of interest to ICBC) | May 16, 2024<br>(April 24, 2024) |

*Taking into consideration Spring Break and Easter holidays (March 18 – April 1, 2024).

## A.4 COMMUNICATIONS

17. Communications regarding this Application should be directed to:

| | |
|---|---|
| Randy Yu<br>Senior Manager, Regulatory Affairs<br><br>ICBC<br>Head Office, Room 504<br>151 W Esplanade North Vancouver, BC<br>V7M 3H9<br><br>Telephone: 604-982-2441<br><br>Email: randy.yu@icbc.com | Matthew Ghikas and Madison Grist<br>Legal Counsel<br><br>Fasken Martineau DuMoulin LLP<br>Suite 2900<br>550 Burrard Street, Vancouver, BC<br>V6C 0A3<br><br>Telephone: 604-631-3191<br>604-631-3114<br><br>Email: mghikas@fasken.com<br>mgrist@fasken.com |

# B FINANCIAL ALLOCATION BACKGROUND AND FRAMEWORK

18. In this Section, ICBC outlines the role of the FAM in the regulation of ICBC's Basic insurance by the BCUC and highlights some of the BCUC's prior determinations. The proposals submitted in this Application are aligned with the pro-rata allocation framework approved by the BCUC in its January 2005 Decision on ICBC's FAMA.

## B.1 ICBC BACKGROUND AND PURPOSE OF FINANCIAL ALLOCATION

19. ICBC is a provincial Crown corporation established in 1973 and is mandated under various statutes, including the ICA,[10] *Insurance (Vehicle) Act* (IVA),[11] and the *Motor Vehicle Act*[12] to provide Basic insurance to BC motorists. In addition to Basic insurance, ICBC also provides British Columbians with Optional auto insurance products and other Non-insurance services:

- The Basic insurance business provides universal compulsory automobile insurance to all drivers in British Columbia.
- The Optional insurance business provides British Columbia drivers with other insurance coverage in competition with other insurers.
- The Non-insurance business provides several services on behalf of the BC provincial government, such as vehicle registration and licensing, driver licensing and fines collection.

20. ICBC operates as an integrated company in its provision of Basic insurance, Optional insurance and Non-insurance products and services. Integrated operations provide benefits to ICBC's customers, such as savings achieved through economies of scale.

21. For the purposes of establishing Basic insurance rates, it is necessary to identify those revenues and costs that belong to the Basic business as per the ICA. Under Section 23(1)(c) of the ICA, ICBC must annually provide to the minister reports confirming that:

- Basic insurance and Optional insurance policy liabilities have been valued in accordance with Accepted Actuarial Practice in Canada, and;

[10] RSBC 1996, c. 228.
[11] RSBC 1996, c. 231.
[12] RSBC 1996, c. 318.

- Optional, Basic and Non-insurance costs have been attributed to their respective Basic and Optional segments in accordance with generally accepted accounting principles and in compliance with any orders made in regard to Sections 49(1) and 49(2) of the ICA.

22. Section 49(1) of the ICA sets out the BCUC’s oversight with respect to Basic insurance rate setting and states:

> The commission must ensure that the universal compulsory vehicle insurance business and the revenue of the corporation, other than revenue from the corporation's optional vehicle insurance business, are not used to subsidize the corporation's optional vehicle insurance business.

23. As noted above, the majority of ICBC’s revenues and costs associated with Basic and Optional business can be directly attributed to each business segment based on premiums or claims transactions and do not require further process of allocation. As ICBC operates on an integrated basis, there are components of revenues and costs that require a more detailed allocation process. Therefore, to address the requirements of the legislation, ICBC uses the BCUC-approved FAM to allocate these revenues and costs to the Basic insurance, Optional insurance and Non-insurance business segments in a fair and equitable manner.

24. ICBC’s FAM allocates the revenues and costs of its integrated operations to its three business segments for two distinct purposes:

- First, the FAM is used to allocate the corporation’s revenues and costs to produce the Basic and Optional Allocation of Revenues and Costs as required by the ICA.

- Second, it is used to determine the portion of the corporation’s total costs that should be included in the Basic insurance revenue requirements and recovered in Basic insurance rates.

## B.2 ICBC’S FINANCIAL ALLOCATION FRAMEWORK

25. Key financial allocation filings occurred in the early years of ICBC’s regulation by BCUC including the 2004 RRA and the 2004 FAMA. In developing the criteria for ICBC’s financial allocation framework, as set out in ICBC’s 2004 RRA,[13] ICBC determined that its FAM should:

[13] 2004 RRA, Appendix C – Financial Allocation Methodology, page 4.

- be consistent with Canadian Generally Accepted Accounting Principles (CGAAP), which require financial information to be presented following the principles of understandability, relevance, reliability, comparability, and applied using relevant data.[14]

- be consistent with the National (US) Association of Insurance Commissioners (NAIC) – Statutory Issue Paper No. 94 – Allocation of Expenses – which specifies that there must be uniformity in the classification, allocation and reporting of costs and consistency in the development and application of accounting principles.

- be consistent with the guidelines laid out by the Insurance Bureau of Canada Expense Allocation Program, which requires a logical allocation of revenues and costs to a particular product line.

- be consistent, where appropriate, with the bases of allocation used within the public automobile insurance industry in Canada.

26. In addition, as set out in the 2004 FAMA, one of the goals of the FAM should be to avoid unnecessary regulatory burden for the BCUC, interveners and ICBC staff by being transparent, understandable and based on objective allocators.[15]

27. In the 2004 FAMA, ICBC proposed to use a fully allocated, pro-rata allocation methodology to allocate its revenues and costs among the Basic insurance, Optional insurance and Non-insurance business segments. A pro-rata allocation is determined by using an allocator that most accurately reflects the drivers of revenues and costs. The BCUC accepted ICBC's proposed approach in its January 19, 2005 Decision, and agreed that a fully allocated costing, or pro-rata, methodology is the most appropriate methodology for allocating costs among the three business segments.[16] The BCUC also accepted most of ICBC's allocators to be used for the purpose of ICBC's financial allocation.

[14] As of January 1, 2011, International Financial Reporting Standards (IFRS) replaced CGAAP for publicly accountable enterprises. Government business enterprises, such as ICBC, adhere to the standards for publicly accountable enterprises. In completing the allocation of revenues and costs, ICBC complies with current accounting standards and guidelines set out in IFRS.
[15] ICBC's 2004 Financial Allocation Methodology Application Vol 1, page 1–4.
[16] Decision and Order G-9-05, page 25.

28. Since then, ICBC has submitted other filings and applications related to its FAM for BCUC's review and approval. The aggregate of all BCUC decisions with respect to ICBC's FAM are referred to as the BCUC-approved FAM. These are summarized in KPMG's report in Appendix A: ICBC Historical Filings and BCUC Outcomes. In addition, cost allocation appendices are included in ICBC's RRAs.

29. ICBC's financial allocation framework is administered in the following manner:

- Revenues and costs that are associated exclusively with a single business segment are allocated directly to the appropriate business segment (i.e., Basic insurance, Optional insurance or Non-insurance).
- The remaining revenues and costs (non-directly attributable), which are earned or incurred in support of multiple business segments, are allocated in a manner that reflects the principles of revenue and cost causality.
- Where the causal relationship may be unclear, revenues and costs are allocated in an equitable and reasonable manner.

30. There are seven primary allocator types used in ICBC's allocation framework:

- **Directly Attributable.** 100% attributable to either Basic insurance, Optional insurance or Non-insurance.
- **Premiums.** Uses premium data to allocate activities associated with insurance product development, underwriting, sales and distribution.
- **Claims.** Uses claims volume or costs data to allocate claims-related activities.
- **Work Effort.** Estimated amount of time and effort for activities performed by business areas that are related to Basic insurance, Optional insurance or Non-insurance, quantified based on sources such as operational management reports, management interviews, and management estimates based on knowledge and experience of subject matter experts.
- **Averages.** Where the causal relationship is unclear, allocation is based on the average allocation of primary business areas supported.

- **Shared Services.** Used to allocate costs of support functions such as Finance, Information Services, Human Resources, etc. This allocator is calculated based on the weighted average of the Basic, Optional, and Non-insurance split of primary lines of business (Claims, Road Safety & Loss Management, Insurance, Non-insurance) or business areas supported.

- **Others.** Specific allocators used for investments or insurance market share.

31. These primary allocators are segmented further into sub-types, as shown in the KPMG Report, Appendix D: ICBC Allocator and Description.

## B.3 DIRECT ATTRIBUTION OF REVENUES, CLAIMS COSTS, COMMISSIONS AND PREMIUM TAXES

32. The allocation of revenues, claims costs, and commissions and premium taxes is a fairly straightforward exercise because they are almost entirely directly attributable. They are allocated to Basic insurance, Optional insurance or Non-insurance based on transactions recorded in ICBC's insurance and claims systems. Claims costs, and commissions and premium taxes represent 84% of ICBC's total costs (with the remainder being operating expenses).

33. ICBC earns revenues mainly from vehicle premiums, driver premiums, service fees and reinsurance recoveries. Vehicle premiums are attributable to Basic or Optional insurance based on the insurance coverage of policies issued and therefore do not require additional allocation. Driver premiums are attributable to 100% Basic insurance based on government direction for Non-insurance operations. Service fees include financing and cancellation fees related to insurance policies and are allocated based on vehicle premiums.

34. Claims loss and allocated loss adjustment expense (ALAE) costs include payments made to settle claims, adjusters' case reserves and actuarial estimates of the additional costs that will be paid on current claims and future claims. The majority of claims costs are directly attributable to Basic or Optional insurance based on policy type and coverage, with the exception of certain

costs[17] that are allocated to Basic or Optional insurance in proportion to the Basic and Optional paid loss amounts on the relevant claim.[18]

35. Commissions are paid to brokers for the sale of ICBC insurance products as well as for the delivery of Non-insurance services. Commissions for insurance transactions are directly attributable to Basic and Optional insurance based on the type of vehicle premiums. Commissions for Non-insurance transactions are allocated as 100% Basic insurance.

36. Premium taxes are levied on insurance premiums. These are directly attributable to Basic or Optional insurance based on the type of premium to which the tax is applied.

37. As discussed above, revenues, commissions and premium taxes can be directly associated to Basic insurance, Optional insurance or Non-insurance, and therefore do not require allocation. Likewise, claims costs are directly attributable to a particular Basic or Optional insurance product or allocated by coverage. ICBC is not proposing any changes to the current manner it allocates its revenues, claims costs, commissions and premium taxes.

38. For additional details on the definition and allocation of revenues, claims costs, commissions and premium taxes, please refer to Section 4.6 of the KPMG Report.

## B.4 ALLOCATION OF OPERATING EXPENSES

39. ICBC's operating expenses include costs that are incurred to run ICBC's Basic insurance, Optional insurance and Non-insurance business segments (e.g., compensation, pension and benefits, administrative expenses, merchant fees, etc.).[19] Based on FY 2022/23, ICBC's operating expenses represent approximately 16% of its total costs.

40. Operating expenses are recorded and planned in cost centres. A cost centre is the most granular level at which the FAM for operating expenses is applied. Based on one of the seven primary allocator types discussed above or as specifically directed by the BCUC, a BCUC-approved allocator is applied to allocate the expenses recorded in a cost centre among the Basic insurance, Optional insurance and Non-insurance business segments.

[17] ALAE and Additional Payments are not subject to the TPL policy limit, and therefore an allocation into Basic and Optional insurance amounts is required in cases where they support a claim with both Basic and Optional insurance payments in the same coverage.
[18] The cost of future claims handling costs are forecasted and included in claims incurred costs as unallocated loss adjustment expenses (ULAE) reserve. ULAE is allocated by coverage based on the claims handling roles and functions with which these costs are associated. Please refer to the 2023 RRA, Chapter 3, Appendix C.6 and Technical Appendix C.6 for more information on ULAE.
[19] For more information on ICBC's operating expenses, please refer to the 2023 RRA, Chapter 6 and Appendix 8C.

41. The assigned allocators reflect the cost drivers appropriate for a cost centre or as specifically directed by the BCUC. The total amount of costs in a cost centre is multiplied by the Basic insurance, Optional insurance and Non-insurance percentages reflected by the allocator to obtain the costs allocated to the Basic insurance, Optional insurance and Non-insurance business segments.

42. To facilitate the administration of the FAM, cost centres are grouped by distinct “allocation functions.” Each allocation function consists of one or more cost centres that are functionally consistent (or similar) and assigned a single allocator that applies the same percentages to Basic insurance, Optional insurance and Non-insurance to all the cost centres within the allocation function. For instance, the Recovery Services allocation function consists of 34 cost centres, all of which are allocated as 100% Basic insurance.

43. For transaction-based allocators such as premiums and claims, the calculation of allocator value is refreshed each year to reflect an updated split between the Basic insurance, Optional insurance and Non-insurance business segments based on the actual mix of transactions for each fiscal period. For instance, a cost centre handling MD claims uses the “Net Claims Costs - MD” allocator to allocate its operating expenses between Basic and Optional insurance business segments based on the proportion of Basic and Optional MD claims costs. If in the future, ICBC processes a higher or lower proportion of Basic MD claims costs relative to Optional MD claims costs, the allocation will be revised to reflect the change in the mix of these claims costs.

44. Significant business changes, such as Enhanced Care, may result in changes to business operations or systems that could necessitate ICBC using alternative allocators which are more reflective of revenue or cost causality. In such cases, ICBC will make all necessary changes in accordance with the BCUC-approved FAM (for example, by recording those costs in an existing or new cost centre with an appropriate allocator). Any resulting allocation changes will be reflected in the cost allocation tables appendix included in ICBC’s RRAs. If a new type of allocator is to be introduced or a change is being made to an existing allocator ICBC will bring forward the change to the BCUC for review as is being done in this Application.

## C INSURANCE PRODUCT AND BUSINESS OPERATIONS CHANGES

45. In this Section, ICBC explains the major insurance product and business operations changes that have set the stage for the proposed changes to the FAM in this Application.

## C.1 ICBC HAS ADOPTED A NEW INSURANCE MODEL

46. Since ICBC's creation in 1973 up to April 30, 2021, ICBC operated within a tort (legal-based) environment. Under the legal-based environment, injured parties had access to treatment and disability benefits through accident benefit coverage regardless of fault. However, an at-fault driver or vehicle owner could also be sued for the full amount of damages resulting from their use and operation of a vehicle. These damages could include property damage to other vehicles, and personal injury to an accident victim, such as pain and suffering and past and future wage loss.

47. Effective in 2019, the BC Government amended the *Insurance (Vehicle) Regulation* (IVR) to introduce changes referred to by ICBC as the Rate Affordability Action Plan (RAAP).[20] RAAP product reform focused on reducing litigation and bodily injury (BI) claims costs and improving accident benefits; however, the overall operating model and insurance product remained relatively unchanged. The majority of RAAP claims fall under Basic insurance; therefore, RAAP resulted in reducing the overall proportion of Basic injury claim payments compared to Optional injury claim payments. Nevertheless, the overall impact on ICBC's financial allocation was minimal.

48. On May 1, 2021, following the enactment of supporting regulations to the IVA amendments under the *Attorney General Statutes (Vehicle Insurance) Amendment Act, 2020* (Bill 11),[21] ICBC launched Enhanced Care, a new care-based model for automobile insurance, and moved away from the previous legal-based insurance model. The change to the Enhanced Care insurance model significantly increased accident benefits and removed the ability for individuals injured in a motor vehicle accident in BC to sue third parties for damages related to their injuries, thereby largely removing legal and expert report costs and general damage payments relating to injury.[22] Enhanced Care also removed the need for litigation against an at-fault driver to cover non-injury costs relating to vehicle repair or replacement, and loss of use. As a result, there were major changes in the type of coverage and what coverages are included in ICBC's Basic and Optional insurance products. By removing most of the costs associated with the legal-based insurance model, ICBC was able to improve the affordability of the Basic insurance product for BC motorists.

[20] Please see OIC No. 595 (595/18). In addition, amendments to the IVR approved in OIC No. 259 (259/18) provide for an increase in the overall medical care and recovery cost allowance from $150,000 to $300,000 retroactive to accidents occurring on or after January 1, 2018.

[21] The Enhanced Care legislative changes to the IVA came into force with Royal Assent on August 14, 2020, and supporting regulations came into force on May 1, 2021.

[22] Litigation for crashes occurring in BC has been largely eliminated with the introduction of Enhanced Care. Going forward, claims costs for Third Party Liability coverages will only apply to a small number of cases, such as Out-of-Province injury claims and some other limited circumstances.

49. The impact of Enhanced Care with respect to the FAM is primarily a result of changes to claims roles in the handling of injury related claims. Under Enhanced Care, new injury claims handling can now essentially all be allocated to 100% Basic insurance;[23] whereas, under the previous insurance models, some injury claims costs and claims handling costs had to be allocated between Basic insurance and Optional insurance. This is discussed further in Section C.3.

50. For more information on the ICBC's legal-based and Enhanced Care insurance models, please refer to Appendix A.

## C.2 CLAIMS OPERATIONS

### C.2.1 CLAIMS TRANSFORMATION PROGRAM

51. From 2011 to 2016, ICBC undertook the Transformation Program (TP), a suite of IT and business transformation initiatives that included the modernization of claims and insurance product processes and systems, enabling ICBC to better fulfill the objectives of its corporate strategy for customers, partners and employees. [24] TP did not change ICBC's overall insurance and business model; however, it enabled significant changes to its claims systems, business processes and organization (referred to as Claims Transformation). For more information on Claims Transformation changes and impacts, please refer to Appendix B.

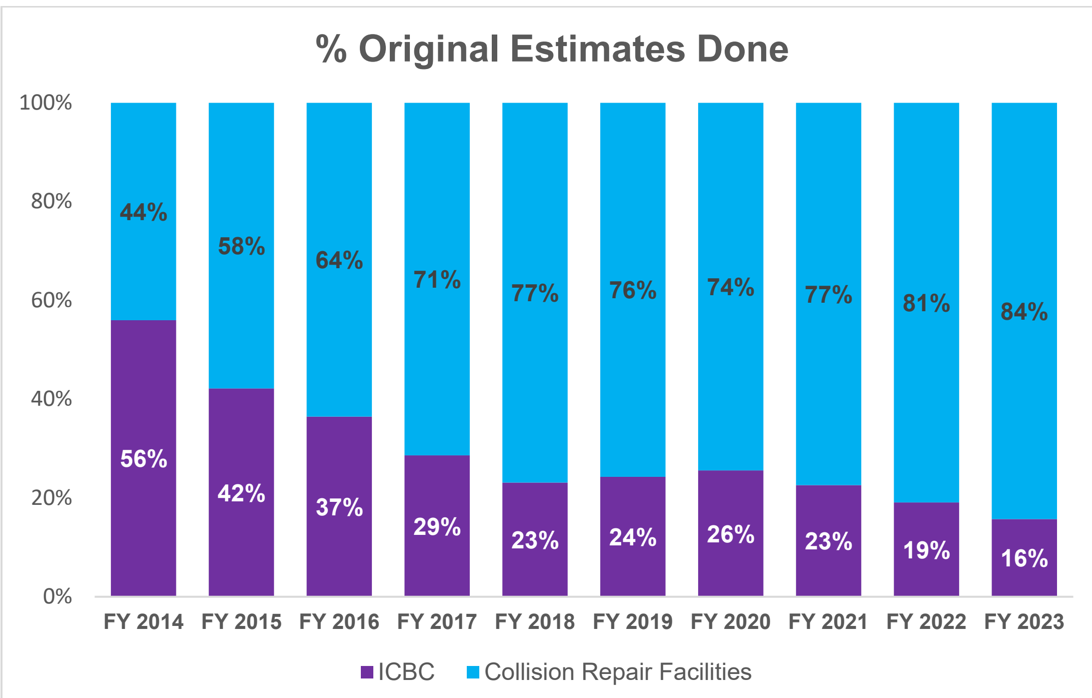
### C.2.2 OTHER CHANGES IN CLAIMS OPERATIONS

52. **Claims Contact Centre (CCC).** One of the primary functions of the CCC is to respond to claim reports by opening a claim file, recording details of customers' claims and resolving a variety of claim inquiries. Once a claim is reported it is assigned to an injury or material damage (MD) adjusting functional stream or retained within CCC. MD claims that are relatively straightforward, non-contentious and meet specific criteria are retained at CCC. As is discussed in Section G.1, while CCC has been retaining and resolving such types of claims for many years, this work has not been reflected in the current allocator for this business area which is based only on newly opened exposures. ICBC is including in this Application a change to the existing allocator for CCC-related cost centres to better reflect the cost causality of the work being performed.

[23] Excluding the small number of claims as noted in footnote 21.
[24] Pursuant to Government Directive of April 19, 2010 by Order in Council 222/10, April 29, 2010, the TP is funded 100% by Optional insurance.

53. **MD programs**. Since 2014, in order to improve the efficiency of the overall repair process and provide greater convenience to customers, ICBC has steadily been directing more vehicle damage estimates to be performed by collision repair facilities rather than at an ICBC claim centre. As shown in Figure 2 below, as of March 2023, approximately 84% of vehicles were estimated at a collision repair facility. The remaining 16% of vehicles were estimated at ICBC’s claims centres and its Central Estimating Facility. Original estimates that are performed by ICBC are now typically done only for non-driveable vehicles that are borderline repairable or where there are policy/coverage issues that need to be reviewed.

**Figure 2 – Vehicles Originally Estimated by Collision Repair Facilities and ICBC**




*Rounding may affect totals and percentages.

54. The role of the estimator has evolved over the years to include performing more reviews of repair facility estimates and also providing greater focus on MD best practices, repair efficiencies and enhanced governance of lower-performing repair facilities.

55. Should ICBC’s proposal to move away from a WES approach not be approved, ICBC would need to align the change in the estimator role with work that is currently reflected in the

detailed WES relating to estimators. For example, the MD-Customer Care transaction type[25] is no longer necessary as this type of work (estimates assigned by CCC staff or requested by customers to be done by ICBC estimators) is now only rarely conducted. Other changes to the detailed WES would also be required.

## C.3 IMPLICATIONS OF INSURANCE MODEL AND CLAIMS OPERATIONS CHANGES FOR FINANCIAL ALLOCATION

56. This Section discusses the implications for FAM following the implementation of Enhanced Care. In particular, Enhanced Care brought significant changes to ICBC's insurance model such that claims coverages are now almost all directly attributable as either 100% Basic insurance or 100% Optional insurance, as shown in Figures 3, 4 and 5 below. This allows ICBC to consider using more objective claims data-driven allocators for allocating claims-related operating expenses based on the proportion of claims costs that are paid under Basic or Optional coverage, rather than estimates of work effort.

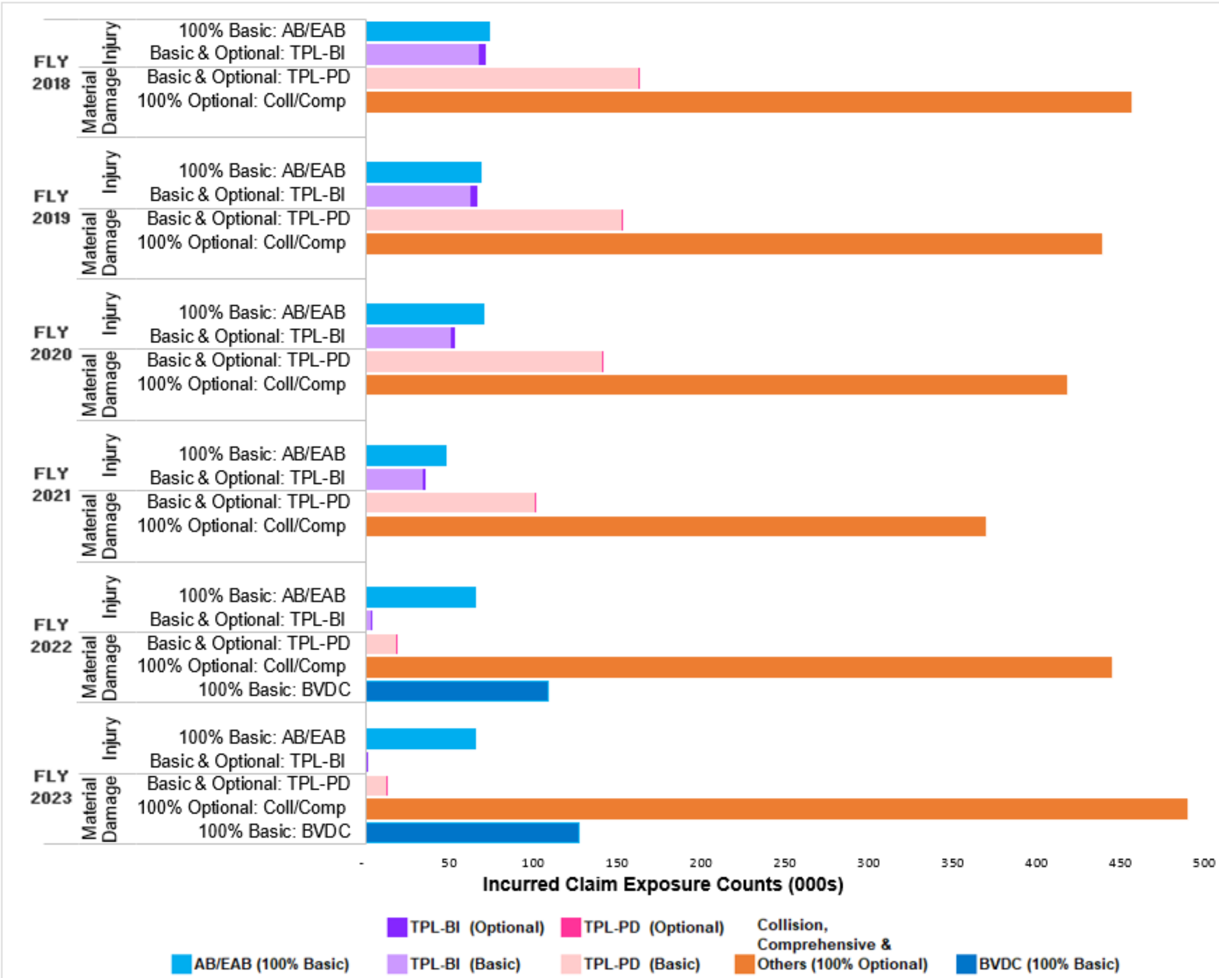
### C.3.1 IMPACT OF ENHANCED CARE ON ALLOCATION OF CLAIMS COSTS

57. Figure 3 below shows incurred claim counts for fiscal loss years (FLY) 2018 to 2023.[26] Since FLY 2022, after the introduction of Enhanced Care in May 2021, for collisions occurring in BC, almost all of the volume of injury claims are now Enhanced Accident Benefits (EAB) which are 100% Basic insurance. Non-injury claims are also almost all now either 100% Basic or 100% Optional insurance.

[25] MD-Customer Care is one of the eight transaction types that requires a work effort percentage estimate in the CISO detailed WES. Please see Appendix B for more information about the CISO detailed WES transaction types.

[26] The term fiscal loss year (FLY) is used to group accidents and claims associated with accidents occurring during the fiscal year. The costs for these claims will be incurred from the year in which the accident occurs and for several years into the future. For instance, FLY 2023 claims will be tracked from the 2022/23 fiscal year in which the accidents occur until all the claims in that group are fully settled, which could be 40 years or more.

**Figure 3 - FLY Incurred Claim Exposure Counts**




58. Figure 4 shows the changes in claims costs from FLY 2018 to FLY 2023 by coverage. Under Enhanced Care, nearly all of the new injury claims costs are covered by EAB, which is 100% attributable to Basic insurance. EAB claims severity is much lower compared to that of legal-based injury claims severity, resulting in a large decrease in the overall cost of injury claims. This can be seen in Figure 4 when comparing FLY injury claims incurred loss & ALAE before and after the introduction of Enhanced Care.[27]

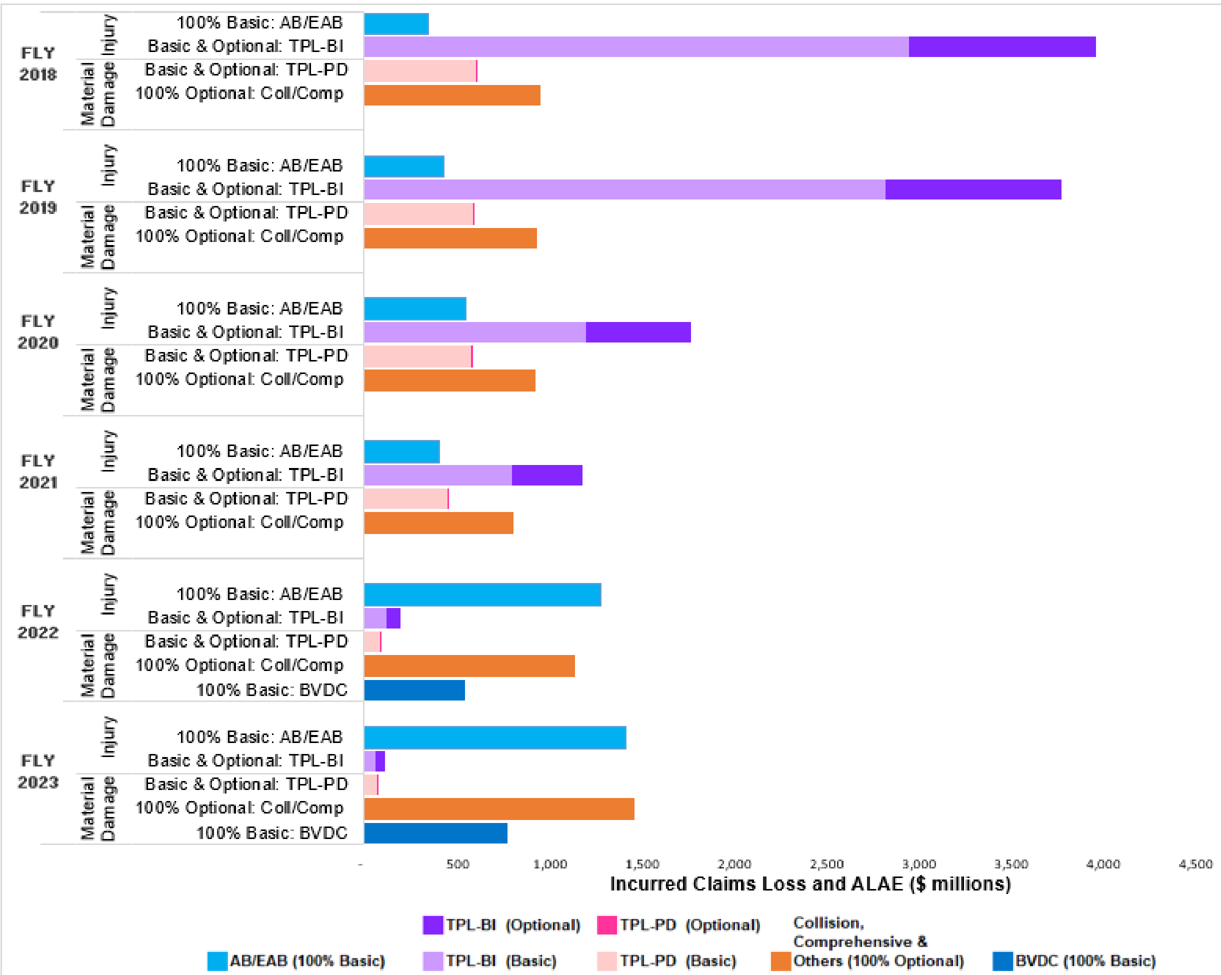
59. Since FLY 2022, MD claims costs (i.e., Basic Vehicle Damage Coverage (BVDC), Collision, Comprehensive and Others) have become a larger proportion of overall claims costs because legal-based injury claims costs have been largely removed from the system and

[27] Not including FLY 2020 and 2021, which had lower total injury costs due to the implementation of RAAP. In addition, lower injury claims volumes were experienced in FLY 2021 due to the impact of COVID-19 on traffic volumes.

non-injury claims costs have been increasing.[28] The increase in non-injury claims costs is largely due to a significant increase in MD repair costs primarily related to new vehicle technology and supply chain issues driving up costs of parts and increases in repair facility and glass shop labour rates. The increase is also due to higher new and used vehicle prices, which affects the cost of Total Loss claims.

60. As Figures 4 and 5 show, since Enhanced Care, the vast majority of claims costs can now be 100% directly attributed to either Basic or Optional insurance.

**Figure 4 - FLY Claims Incurred Loss & ALAE ($millions)**




[28] Under Enhanced Care, BVDC which is 100% Basic insurance, replaced the Basic component of vehicle-related TPL-PD coverage. This change had little impact on non-injury claims costs and allocation as it was mainly a change in business process to attribute vehicle-related claim payments (e.g., repair, total loss) to BVDC on the “not at fault” motorist’s insurance policy rather than to third-party liability coverage on the “at fault” motorist’s insurance policy. Unidentified (hit-and-run) vehicle damage claims, which were previously included in the statutory Basic insurance coverage are now only covered under Optional insurance.

61. Figure 5 below shows that as of FLY 2023, only 5% of claims incurred consist of TPL coverages that need to be split into Basic and Optional insurance, whereas it was 78% in FLY 2018.

**Figure 5 – TPL & Non-TPL Proportion of Claims Incurred Loss & ALAE**

| Proportion of Claims Incurred Loss & ALAE | FLY 2018 | FLY 2019 | FLY 2020 | FLY 2021 | FLY 2022 | FLY 2023 |
|---|---|---|---|---|---|---|
| **TPL Coverages (Basic and Optional)** | 78% | 76% | 61% | 57% | 9% | 5% |
| **Non-TPL Coverages (100% Basic or 100% Optional)** | 22% | 24% | 39% | 43% | 91% | 95% |
| **Total** | 100% | 100% | 100% | 100% | 100% | 100% |

### C.3.2 IMPACT OF ENHANCED CARE ON ALLOCATION OF CLAIMS HANDLING OPERATING EXPENSES

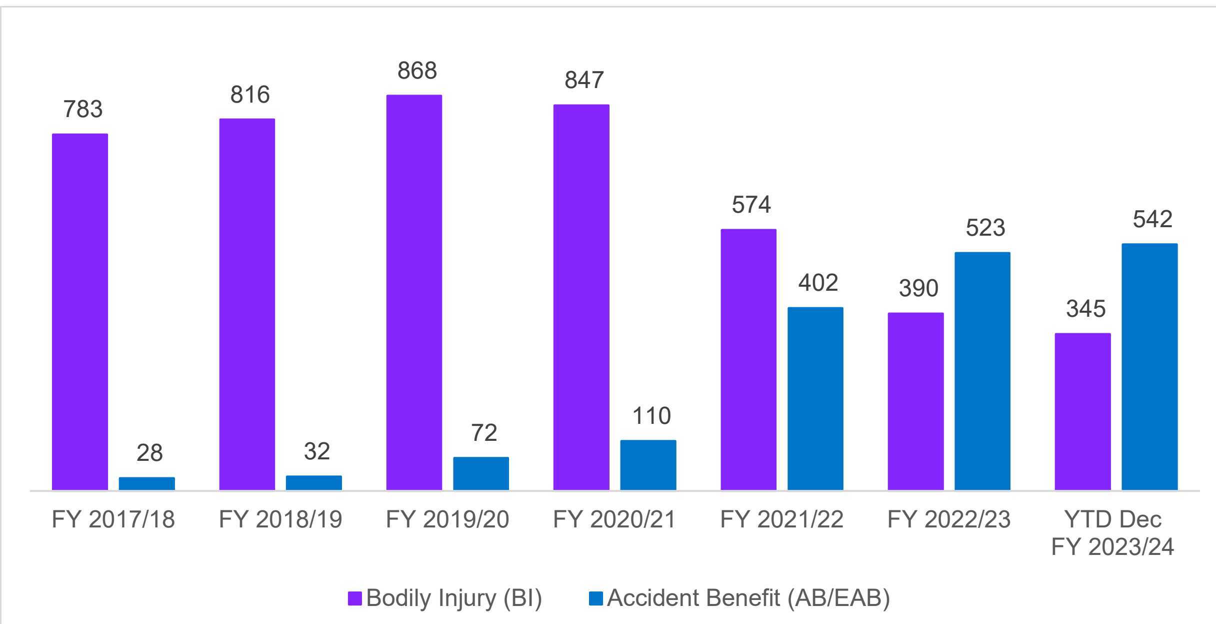
62. Under the legal-based system, the claims operating expense incurred to manage TPL BI claims and property damage claims had the potential to be allocated between Basic insurance and Optional insurance based on whether claim payments exceeded the TPL Basic insurance limit.[29] By contrast, as discussed above, under Enhanced Care new injury claims are now mostly EAB which is a Basic coverage and the costs of handling those claims are therefore also 100% attributed to Basic insurance. Likewise, since Enhanced Care, almost all MD claims costs can be directly attributed to either a Basic or Optional coverage. Accordingly, the operating expenses associated with handling these claims should also be allocated as either Basic or Optional insurance.

63. Now that Enhanced Care has been implemented, the remaining number of legal-based BI claims that were opened prior to Enhanced Care will gradually be resolved and the costs associated with handling these BI claims will reduce to zero. The vast majority of this shift has already occurred. As of December 2023, there were 38,000 pre-Enhanced Care (pre-EC) legal-based BI exposures still pending, which is a significant decrease from the high of approximately 122,000 exposures as of the end of FY 2019/20. Most of these remaining legal-based injury claims are complex and being litigated. As such, a significant amount of the work effort spent on these claims will continue to be associated with Optional TPL coverage (amounts over the pre-EC Basic TPL limit). For more details, please see Appendix A.

[29] The TPL limit is $200,000 except for certain commercial risks that have a $1 million or $2 million TPL Basic limit. The higher TPL Basic limits are taken into account when attributing claims costs to Basic and Optional coverage when determining financial allocations.

64. As shown in Figure 6, there were significant changes in staffing for injury claims handling. While the implementation of RAAP in 2019 resulted in ICBC adding new roles and staff handling Accident Benefits (AB) claims, the introduction of Enhanced Care in 2021 resulted in significantly greater claims-related organizational and product change. Enhanced Care has also further consolidated injury claim handling to the provision of accident benefits (i.e., EAB) which is 100% Basic insurance. As the number of staff handling the remaining legal-based BI claims will decrease over time as these claims get settled, the proportion of operating expenses related to injury claims handling will further shift towards Basic insurance.

**Figure 6 – Injury Claims Handling FTEs**




65. The current FAM was able to incorporate most of the impacts of the insurance model and business changes on the allocation of operating expenses by assigning existing allocators. For example, the operating expenses of claims staff who transitioned from handling legal-based injury claims to handling EAB claims were reallocated from the CISO WES allocator (based on work effort) to 100% attributable to Basic insurance.

66. However, the CISO detailed WES process has no transaction type to reflect EAB-related support work that is performed by claims administrative staff in claim field offices. Thus, an adjustment would be required going forward unless the BCUC approves ICBC's proposals in this Application. Other changes to the detailed WES process will also be required to reflect changes in coverages and claims processes.

67. While it would be possible to update and undertake a detailed WES for the segment of claims field office operating expenses that are still part of CISO, as is discussed in Section E, paragraph 88, this process is expensive and time-consuming. In addition, due to Enhanced Care, almost all new claims and the associated claims handling costs are now 100% directly attributable to either Basic or Optional insurance. As well, the number of staff handling legal-based injury claims and associated operating expenses in CISO has decreased significantly and will continue to further diminish. These factors present ICBC with the opportunity to now consider using a more direct, simpler data-based process for allocating these operating expenses.

68. As discussed in Section F.1, ICBC's submits that its proposal to replace the existing CISO detailed WES allocation model with claims-based allocators is both more efficient and produces a reasonable and appropriate result based on cost causality.

# D SUMMARY OF KPMG'S REVIEW OF ICBC'S FAM AND ICBC'S RESPONSES TO KPMG'S RECOMMENDATIONS

69. In March 2023, KPMG was retained by ICBC to conduct an independent review of ICBC's current BCUC-approved FAM and assess its continued appropriateness considering the changes to ICBC's business model that have occurred as a result of the introduction of Enhanced Care and other business changes. As noted above, the full KPMG Report is attached to this Application as Attachment A.

70. KPMG concluded that, overall, "ICBC's financial allocation methodology continues to be appropriate and provides a reasonable foundation for the allocation of revenues and costs for Basic insurance rate setting and ensuring that Basic insurance premiums are not to be used to subsidize ICBC's Optional insurance business."[30] KPMG identified opportunities, discussed in Section D.1 below, to optimize how ICBC applies the current financial allocation methodology,[31] but noted that these recommendations "do not materially impact the overall appropriateness of the financial allocation methodology as the proposed updates and changes in amounts and percentages are immaterial when compared to total balances."[32]

71. KPMG found that, given the changes that have occurred to ICBC's operations since 2004, there is an opportunity for ICBC to review alternative and less complex allocation approaches than the one ICBC currently uses.

## D.1 KPMG'S RECOMMENDATIONS ON ICBC'S CURRENT ALLOCATION METHODOLOGY

72. ICBC discusses below the opportunities that KPMG identified to optimize the current FAM, which represent small changes to the current methodology. Overall, ICBC agrees with most of KPMG's recommendations. After reviewing the KPMG Report, ICBC proposes to adopt the recommendations made related to Claims Services operating expenses as discussed in Section D.1.1. However, ICBC has not proposed adopting KPMG's recommendation relating to the calculation of the investment income ratio, as discussed below in Section D.1.2.

### D.1.1 CLAIMS SERVICES OPERATING EXPENSES

73. Following its review of business and organizational changes that occurred since the implementation of Enhanced Care, KPMG noted that there are several cost centres within the

[30] KPMG Report, page 4.
[31] KPMG Report, Section 5.
[32] KPMG Report, pages 4, 23 and 40.

Claims Services LOB where allocators could be updated to better reflect cost causality. These recommendations are discussed below and are also summarized in Table 12 of KPMG’s Report.

74. ICBC agrees with KPMG’s observations and recommendations related to the Claims Services LOB and discusses proposed revisions and rationale for changes to these allocators below:

- **Claims Contact Centre (CCC)** – KPMG noted that “the calculation of the allocator (Claims — Newly Opened Exposure) assigned for claims call centres may not fully capture all the coverages and/or transactions that claims call centres are now handling as a result of the transition to Enhanced Care."[33] ICBC agrees that due to changes in the nature and volume of the work performed at the CCC as discussed above in Section C.2.2, the existing allocator (Newly Opened Exposures — TCD) no longer fully reflects the current state of this business area’s operations. Therefore, ICBC is proposing a revision to the current allocator by including the count of claim exposures that are retained for handling and resolved by CCC staff. Further information and analysis of this proposal are discussed in Section G.1 below.

- **Recovery Services Functions** – KPMG recommended that the cost centres of senior claims management functions for Recovery Services that are assigned their own cost centres should be allocated as 100% Basic.[34] Currently, these are being allocated using the claims division average and the 50% Basic / 50% Optional (50/50) allocators. ICBC agrees with KPMG’s rationale and recommendation to change the allocator to 100% Basic insurance. This is discussed in Section G.1.

- **Work Effort – Bodily Injury (BI) Claims Handling** – During KPMG’s review with claims subject matter experts, it was identified that a particular cost centre had a change in function from handling medium complexity claims to high complexity BI claims but was still allocated based on performing medium complexity work. KPMG recommended that ICBC consider changing the current allocator to the head office claims (HOC) allocator, which pertains only to high complexity BI claims.[35] ICBC agrees with this proposed change as the cost centre now handles high complexity claims.

[33] KPMG Report, page 29.
[34] KPMG Report, pages 28–29.
[35] KPMG Report, page 28.

- **Work Effort Allocators and CISO Work Effort Study** – KPMG recommended that “the work effort allocator applied to Customer and Injury Services Operations (CISO) be reviewed and potentially updated to accommodate the business changes related to the transition to the Enhanced Care model and the changing landscape of outstanding legal-based claims.”[36] KPMG further recommended that “ICBC completes a review and identifies opportunities to update its work effort allocators, work effort percentages, and the CISO detailed WES if necessary in the future,…”.[37] ICBC has also considered the matter of updating the CISO detailed WES and agrees that, should it still be required, it would need to be updated. However, ICBC is proposing to change the allocation of CISO operating expenses in a manner that, if approved, results in the discontinuation of the detailed WES in favour of claims data-driven allocators. Further information and analysis of the impact of these proposals on operating expenses Basic insurance/Optional insurance split are discussed in Section F.1.

### D.1.2 CALCULATION OF THE INVESTMENT INCOME RATIO

75. ICBC’s investment portfolio is primarily the result of premiums collected and set aside for unpaid claims.[38] As per the BCUC-approved methodology, the investment income ratio allocator is calculated based on the weighted average Basic insurance/Optional insurance ratios of these sources of funds.

**Figure 7 – Investment Income Ratio Allocator**

| Components of Investment Income Ratio | Allocated Based on the Balance as of |
|---|---|
| Unearned Premiums | Year-end |
| Reserves Set Aside for Unpaid Claims | Year-end |
| Total Equity (Retained Earnings + Other Components of Equity) | Opening balance |

76. Figure 7 shows the components of the investment income ratio allocator. ICBC currently uses the opening balance for total equity, as this is what is available for investments to be made in the year. KPMG noted that during the Enhanced Care transition period, there is likely to be a shift in claims costs between Basic and Optional insurance at the start and end of the year

[36] KPMG Report, page 27.
[37] KPMG Report, page 32.
[38] Total equity consists of retained earnings and other components of equity (OCE). Since the transition to IFRS 9, a new accounting standard on financial investments, OCE consists of pension and post-retirement benefits re-measurements and non-controlling interest (NCI).

resulting in a different mix of Basic and Optional equity balances for the opening and ending of the year. KPMG therefore recommended that ICBC use the average total equity instead of the opening balance until such time as the Basic and Optional mix of the opening and ending equity stabilize.[39]

77. ICBC does not favour making this change for three reasons: First, KPMG's recommendation to use average total equity instead of opening equity requires year-end Basic and Optional equity values, which are the result of an investment income allocation, in order to calculate the investment income ratio. Therefore, this method introduces circularity into the calculation of Basic and Optional equity for the year. Second, there are potential events that could result in significant year-end adjustments to Basic equity (past examples include the Basic Relief Rebate, COVID-19 rebates). In such cases, using the KPMG recommended formula could result in an understatement or overstatement of Basic insurance investment income, contrary to the intent of KPMG's recommendation. Third, the aforementioned impact of a shift in claims costs during the Enhanced Care transition period is also offset by a corresponding shift in premium revenues (reduction in customer rates and Enhanced Care refund), which mitigates any significant transitional impact on equity as a result of Enhanced Care.

## D.2 KPMG REVIEW OF OTHER ALLOCATION APPROACHES AND ANALYSIS OF THE 2004 SIMPLIFIED ALLOCATION APPROACH

78. Section 7 of the KPMG Report examines alternative allocation methodologies, including those adopted by other provincial automobile insurers and by other utilities governed by BCUC. KPMG also conducted a review and comparison of ICBC's simplified allocation approach from the 2004 FAMA, which was significantly less involved than the detailed allocation approach that ICBC has been using (and contemplates continuing to use).

79. As part of its review, KPMG researched cost allocation methodologies adopted by other no-fault insurance providers in Canada (Saskatchewan Government Insurance and Manitoba Public Insurance) and utility companies regulated by the BCUC (BC Hydro and FortisBC). The allocation methodologies of these entities are similar in some aspects to ICBC's FAM (e.g., are based on cost causation); however, KPMG identified significant differences in the nature of business operations and financial allocation frameworks. In some cases, the available published information was insufficient to make suitable comparisons.

[39] KPMG Report, page 26.

80. KPMG also provided an analysis of the simplified allocation methodology approach that was originally proposed by ICBC in its 2004 FAMA. While the simplified approach considered in 2004 is markedly different from the current detailed approach, it did yield similar overall allocation percentage results. The 2004 simplified approach used only three allocators to allocate operating expenses: claims incurred; vehicle premiums written; and a weighted average of Claims, Road Safety and Loss Management, and Insurance LOB after first accounting for Non-Insurance expenses.[40] In Section 7.3 of its report, KPMG presents a comparison of the simplified approach to the current detailed allocation approach using FY 2022/23 cost details and finds that the impact of using the simplified approach resulted in an approximately $19.4 million shift (approximately 2.1%) towards Basic insurance operating expenses and had no impact on revenues, claims costs and premium acquisition costs. In this regard, KPMG believes that the impact is "immaterial compared to the total ICBC claims and operating expenses" and "minimal when compared to the results yielded by the detailed approach."[41]

81. In its conclusion, KPMG recommended that ICBC consider utilizing a more simplified approach to its current FAM. In its report, KPMG noted that:

> …there are opportunities to improve transparency by reducing the layers of calculation steps performed for allocators considering the materiality of the operating expense allocated, increase reliance on data-based information instead of management estimates of work effort to calculate allocators, and to improve the efficiency of administering and maintaining the allocation process. As well, an existing allocator may be applicable and can be used in lieu of some of the current calculation processes which involve a high level of complexity which may or may not be required.[42]

82. ICBC concurs with KPMG's comment that there are benefits to utilizing a more simplified approach to its FAM and has undertaken additional analysis to assess the feasibility and impact alternatives to ICBC's current detailed FAM. The main benefit that the detailed approach has relative to a simplified approach is that the overall allocation is subject to less volatility in response to swings in one of the underlying metrics of the three allocators used in the simplified methodology. ICBC and the BCUC would need to be comfortable accepting additional volatility in

[40] KPMG Report, page 37, Table 21: Comparison of Allocators Applied in Detailed Approach and Simplified Approach.
[41] KPMG Report, page 39.
[42] KPMG Report, page 5.

the overall allocation percentages in order to achieve greater responsiveness to business changes and administrative efficiency.

83. In this Application, ICBC is proposing what is, effectively, a middle ground that retains most of the existing allocators currently used to allocate revenues and costs based on revenue and cost causality at the cost centre level. The main distinction of ICBC's proposed approach in this Application compared to the current FAM is the replacement of work effort allocators with objective data-driven allocators. The proposed approach simplifies the overall allocation by removing layers of calculations and combinations of work effort approaches to arrive at the allocation result. This approach is more efficient and uses objective, verifiable data that reflects current business operations. It also maintains a similar level of cost and allocation detail and precision that is provided by the current BCUC-approved FAM for each LOB, thereby, maintaining the transparency and accuracy of the FAM.

84. ICBC's proposal and analysis for discontinuing the use of work effort allocators and replacing them with data-driven allocators are discussed in Sections E and F below.

# E OVERVIEW OF PROPOSED CHANGES TO ICBC'S FAM

85. In this Application, ICBC is proposing three sets of changes that will improve the objectivity, transparency and efficiency of ICBC's current FAM.

- **Replacement of work effort allocators with data-driven allocators** – ICBC proposes to discontinue using work effort allocators and instead use data-driven allocators such as claim costs or premiums written as appropriate.

- **Changes due to Enhanced Care and other business changes** – ICBC proposes allocator changes to certain cost centres to better align with Enhanced Care and other business changes.

- **Changes to improve cost causality** – ICBC proposes allocator changes that better align the allocation of the cost centres' operating expenses with the drivers of costs.

86. Other than these changes, ICBC is retaining all other elements of the current BCUC-approved FAM. No changes have been made to the allocation of ICBC revenues and claims costs.

87. Based on FY 2022/23 actual financial results, the overall financial allocation results of ICBC's proposed changes to the FAM are similar to the current BCUC-approved FAM. The estimated shift of $15.0 million from Optional insurance to Basic insurance increases the Basic insurance percentage of ICBC's total operating expense from 68% to 70%, which is a slight increase to this measure compared to the last several years. Moreover, based on the PY 2023 actuarial indicated rate change, the proposed allocation changes would have a negligible impact (less than 0.1 ppt) on Basic rate setting. Please see Section H for more information on how the impact of the proposed changes will be reflected in ICBC's financial reporting and Basic rate setting.

88. The benefits of the proposed changes include:

- **Increased reliance on allocators that are based on objective, verifiable and updated data.** Among the allocators used by ICBC's current methodology are a number of allocators based on work effort. Demonstrating the validity of specific work effort allocators tends to be far more onerous than demonstrating the validity of objective measures that rely on easily verified premiums and claims transactions, as well as accounting information that is audited. ICBC's proposed changes will rely entirely on allocators based on objective premiums, claims and accounting information (e.g., averages).

- **Improved cost efficiency, transparency and administrative efficiency by reducing complexity and layers of calculation.** The results of the CISO detailed WES allocator require several layers of calculations to be undertaken, as discussed in Appendix B. The overall process is time intensive and costly. For example, in the 2014 CISO detailed WES, the overall process from initial planning to the engagement of an ITP consultant and the preparation of a filing, including the ITP consultant's report for submission to BCUC, took approximately nine months. It also required the involvement of approximately 60 claim centre managers and directors and additional staff from Finance and Regulatory Affairs. The total cost of the 2014 CISO detailed WES, including the ITP consultant engagement and the estimated cost of ICBC staff involvement, was approximately $209,000.[43]

- **Improved responsiveness of allocation to business changes.** The replacement of work effort as the basis of the allocation with claims data improves the timeliness of the allocation process, making it more responsive to changes in the underlying business. The current methodology uses work effort allocators to allocate operating expenses for CISO and other business areas. These work effort allocators are developed at a point in time based on management estimates, which are not refreshed annually. Therefore, a historic year allocation between Basic and Optional insurance is being used as the basis for allocating costs for future reporting years. The validity of the allocation therefore depends on the stability of the allocation between the historic year and future years.

[43] Response to Information Request 2015.1 RR BCUC.51.3.

# F PROPOSAL TO REPLACE WORK EFFORT WITH DATA-DRIVEN ALLOCATORS

89. As noted above, ICBC proposes to discontinue using work effort estimates for allocating operating expenses between Basic insurance and Optional insurance for cost centres currently using this allocator type and instead use net claims costs or other data-driven allocators. If approved, there will no longer be a need for a CISO detailed WES nor a need to have other work effort estimates provided by managers to allocate their business areas' cost centre operating expenses between Basic insurance, Optional insurance and Non-insurance based on estimates of work performed by their staff.

90. Work Effort is also used as the basis for Field Broker Support within the Insurance LOB and six other allocation functions within the Administrative LOB. The operating expenses of these latter two groups represent only a small percentage of ICBC's operating expenses.

91. The rationale for discontinuing work effort and the proposed replacement allocators and the associated impacts are discussed in the sections below. A summary of the analysis is shown in Figure 10.

## F.1 CISO WORK EFFORT ALLOCATOR

92. CISO work effort allocator (CISO allocator) is the allocation function that is used to allocate the operating expenses of claims field offices, HOC and Out-of-Province (OOP) claims.[44] The CISO allocator is primarily based on estimates of work effort determined through the detailed WES process and work effort percentages that were last updated in 2014.

93. The CISO work effort allocator is derived for each fiscal year using the operating expenses for each fiscal year and work effort percentages that were developed as at point in time based on management estimates, which are not refreshed annually. In accordance with BCUC's direction, the work effort percentages should be updated approximately every two years.[45] Thus, a historic year allocation between Basic and Optional insurance is being used as the basis for allocating costs for future reporting years. The validity of the allocation therefore depends on the stability of the allocation between the historic year and future years. Figure 8 below shows the components

[44] Claims field offices consist of 34 claim offices plus several specialized claims handling departments, including Express Estimating and Specialty Vehicle Appraising services.

[45] Based on ICBC's interpretation of BCUC's Decision in Order G-75-10, updates to the detailed WES should be conducted within 24 months of BCUC's acceptance of the previous detailed WES and a detailed study should take place when significant business changes occur or at a minimum of every 5 years.

of the CISO work effort allocator. Further details of the CISO allocator and the CISO detailed WES can be found in Appendix B.

## Figure 8 – CISO Work Effort Allocator

**Customer and Injury Services Operations (CISO) Work Effort Allocator**

| FY 2022/23 Actual Compensation Costs (in $millions) | | WES Allocation Matrix* (a) OA Claims Administrative | | (b) Mgr Claims Managers | | (c) Adj-CA Non-injury Adjuster | | Estimators Non-injury | | (d) Adj-BI &Examiner Bodily Injury Adjusters | | Total Amount | (e) Net Claims Incurred Allocation % | | Allocation | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Files / Exposures by Coverage ** | WEP | Amount | WEP | Amount | WEP | Amount | WEP | Amount | WEP | Amount | | **Basic | Optional | Basic | Optional |
| 1 | MD Files-Customer Care | 12% | $ 2.0 | 8% | $ 1.7 | 0% | $ - | 38% | $ 6.9 | 0% | $ - | $ 10.6 | 16.5% | 83.5% | $ 1.8 | $ 8.9 |
| 2 | MD Files-Collision & Property Damage | 14% | $ 2.3 | 18% | $ 3.9 | 70% | $ 10.8 | 32% | $ 5.8 | 3% | $ 1.3 | $ 24.1 | 25.1% | 74.9% | $ 6.0 | $ 18.0 |
| 3 | MD Files-Comprehensive Theft | 6% | $ 1.0 | 5% | $ 1.1 | 5% | $ 0.8 | 10% | $ 1.8 | 0% | $ - | $ 4.7 | 0.0% | 100.0% | $ - | $ 4.7 |
| 4 | MD Files-Comprehensive Other | 8% | $ 1.3 | 6% | $ 1.3 | 12% | $ 1.8 | 12% | $ 2.2 | 0% | $ - | $ 6.6 | 0.0% | 100.0% | $ - | $ 6.6 |
| 5 | MD Files-Other | 6% | $ 1.0 | 5% | $ 1.1 | 8% | $ 1.2 | 8% | $ 1.4 | 1% | $ 0.4 | $ 5.2 | 0.2% | 99.8% | $ 0.0 | $ 5.2 |
| 6 | BI Exposures-Non-Represented | 13% | $ 2.2 | 20% | $ 4.3 | 3% | $ 0.5 | 0% | $ - | 40% | $ 17.1 | $ 24.0 | 100.0% | 0.0% | $ 24.0 | $ - |
| 7 | BI Exposures-Represented | 20% | $ 3.3 | 13% | $ 2.8 | 2% | $ 0.3 | 0% | $ - | 23% | $ 9.8 | $ 16.3 | 95.0% | 5.0% | $ 15.4 | $ 0.8 |
| 8 | BI Exposures-Litigated | 21% | $ 3.5 | 25% | $ 5.4 | 0% | $ - | 0% | $ - | 33% | $ 14.1 | $ 23.0 | 95.0% | 5.0% | $ 21.8 | $ 1.1 |
| | **Claims Field Operations** | 100% | $ 16.7 | 100% | $ 21.5 | 100% | $ 15.4 | 100% | $ 18.1 | 100% | $ 42.7 | $ 114.4 | 60.4% | 39.6% | $ 69.1 | $ 45.3 |
| f | Head Office Claims | | | | | | | | | | | $ 8.4 | 47.0% | 53.0% | $ 3.9 | $ 4.5 |
| g | Out of Province | | | | | | | | | | | $ 5.1 | 67.0% | 33.0% | $ 3.4 | $ 1.7 |
| h | *** **TOTAL CISO** | | | | | | | | | | | $ 127.9 | **59.8%** | **40.2%** | $ 76.5 | $ 51.5 |

* Work Effort Percentage (WEP) based on 2014 CISO WES as approved by BCUC.
For better clarity, descriptive updated job category names are added to the allocation matrix. OA represented office assistant roles that are now equivalent to claims administrative roles. Adj-CA represented claims adjusters who handle non-injury claims and are now within Customer Services.
** The WES Allocation Matrix is not updated for Enhanced Care coverage changes. For instance, Property Damage which used to have a Basic and Optional component, has been replaced by Basic Vehicle Damage Coverage (BVDC), which is 100% Basic. MD-Other files pertain to Hit & Run claims, which used to have a Basic and Optional component but are now 100% Optional under Enhanced Care.
*** Rounding may affect totals and percentages.

| | | |
|---|---|---|
| WEP | Work effort percentages | 2014 WES |
| a b c d | x $ by claims job categories | FY 2022/23 |
| e | x Net Claims Incurred Allocation % | FY 2022/23 |
| | **Claims Field Operations** | |
| f | **+ Head Office Claims** | FY 2022/23 |
| g | **+ Out of Province** | FY 2022/23 |
| h | **= CISO work effort allocator** | |

### F.1.1 IT IS THE RIGHT TIME TO DISCONTINUE THE CISO WORK EFFORT ALLOCATOR

94. As was discussed in Section C above, ICBC underwent significant insurance product and business changes over the past decade. As a result, claims coverages, claims volumes and costs, as well as the nature and types of claims handled and the mix of claims staff have evolved with most claims roles being segregated by functional area.

95. In the past, claims staff often performed work that involved a mix of injury and non-injury work. They could also be involved in working on claims that were attributed 100% to Basic insurance; 100% to Optional insurance or split between Basic and Optional insurance. In order to appropriately split claims staff compensation costs between Basic and Optional insurance, a detailed WES was necessary to determine how much time different claims staff (e.g., administrative staff, claims adjusters, estimators) spent handling claims associated with Basic insurance coverage or Optional insurance coverage.

96. However, each claims staff role is now exclusively focused on the provision of services to one of the following functional areas:

- Legal-based BI and AB injury claims (Injury Services)
- Enhanced Accident Benefit claims (Recovery Services)
- Material Damage claims (Customer and Estimating Services)

97. This specialization, along with the changes in coverages due to the implementation of Enhanced Care as discussed in Section C.3, enables ICBC to now consider discontinuing use of the CISO detailed WES process for allocating compensation and related expenses (operating expenses of claims field office staff) and instead allocate these expenses on the basis of net incurred claims for each functional area. Please see Appendix B, Section C for more discussion on the rationale for discontinuing the CISO Detailed WES.

98. Operating expenses for Recovery Services staff working in claims field offices and their managers are already directly allocated to 100% Basic insurance under the current BCUC-approved FAM and are therefore not part of CISO.

### F.1.2 PROPOSED APPROACH FOR ALLOCATING CISO OPERATING EXPENSES

99. ICBC proposes to remove the work effort component associated with CISO managers, adjusters and administrative roles shown in the CISO Allocation Matrix in Figure 8 above. The compensation for these roles is already tracked through distinct cost centres assigned based on each functional stream. Thus, there is direct cost causality based on claims handling transactions. The CISO allocator will be replaced by claims-based allocators as discussed below.

100. **Allocate Non-Injury Claims Handling Based on Net Incurred Claims Cost-MD** (Figure 8 - item c). Non-injury claims are handled by Customer Services and Estimating Services staff. Customer services staff confirm coverage, review the claim, and assess responsibility where necessary. Estimating services staff work with the customers and repair facilities to facilitate the repair of vehicles, or in some cases, evaluate the total loss amount for the replacement of a vehicle that is non-repairable.

101. ICBC is proposing to use the existing BCUC-approved Net Claims Cost-MD (excluding OOP and commercial claims) to allocate the operating expenses pertaining to adjusting staff, estimators and their managers handling non-injury claims within the Customer and Estimating Services. The Net Claims Cost-MD is based on the proportion of Basic and Optional MD claim incurred payments for the primary non-injury coverages, BVDC, Collision and Comprehensive. ICBC believes that this allocator appropriately reflects the cost causality of these expenses.

102. ICBC considered using MD claims volumes as a potential basis for allocating these costs; however, this allocator would disproportionately shift costs over to Optional insurance due to the impact of the volume of minor comprehensive claims such as glass claims, which have a relatively low dollar value and require very little involvement from MD claims staff.

103. **Allocate Legal-based Bodily Injury Claims Handling Based on Net Claims-BI** (Figure 8 - item d). The remaining legal-based BI claims are assigned to and handled by distinct functional teams of staff and managers outside of Recovery Services. Legal-based BI claims are paid based on the pre-EC TPL Basic limit coverage.[46] ICBC proposes allocating the operating expenses pertaining to adjusting staff and managers who handle legal-based BI (that are not considered HOC or OOP) be based on the proportion of the count of BI claim exposures settled with net incurred amounts less than or equal to the Basic TPL limit. These claims handling costs are

[46] A claim may contain multiple BI exposures. A claim with multiple BI exposures that are each under the Basic insurance coverage limit may have an Optional insurance component if their sum is greater than the Basic limit.

currently allocated on a similar basis within the CISO detailed WES process. This allocation was set at 95% Basic and 5% Optional when it was first approved for use in Order G-46-05 approving the April 2005 Negotiated Settlement Agreement relating to Selected Financial Allocation Functions.[47] Although the proportion of claims settled higher than the Basic TPL limit was actually less than 5%, the percentage allocated to Optional was adjusted upwards to 5% to account for additional time that is required to handle claims that exceeded the Basic TPL limit. This allocation split has remained fixed since that time.

104. As a result of the introduction of Enhanced Care, the majority of the remaining legal-based BI pending exposures now only consist of complex litigated claims that are increasingly costly to resolve. As the average age and severity of the remaining BI pending exposures increase, a greater proportion of these claim files are exceeding the Basic TPL limit. Figure 9 below shows that the proportion of claim exposures that exceed the Basic TPL limit has increased since FY 2021/22, such that now 93.3% fall under the Basic TPL limit and 6.7% over, as of FY 2022/23. ICBC proposes to adjust the allocation amount to 90%/10% (i.e., allocate slightly more to Optional insurance than the count would suggest) to reflect the additional time required on claims that exceed the Basic TPL limit, similar to what was done in the previous selection of 95%/5% in 2005. The impact of this change is shown in Figure 10 below.

105. ICBC notes that under the CISO detailed WES, handling costs of unrepresented legal-based injury claims are allocated 100% to Basic insurance (as shown in Figure 8, column e). Following the implementation of Enhanced Care, there are now very few (approximately 1,000 as of December 2023) unrepresented legal-based claims remaining to be resolved. Therefore, as part of simplifying the allocation process, ICBC proposes to group together the claims handling costs for all legal-based operating claims (i.e., unrepresented, represented and litigated) that are currently included in the CISO detailed WES and allocate these costs using Net Claims-BI.[48]

[47] Order G-46-05.
[48] With the exception of operating expenses for cost centres designated as exclusively handling legal-based accident benefits, which will continue to be allocated as 100% Basic.

### Figure 9 – Legal-based Bodily Injury Exposures Closed with Amount

| Coverage | CWA Paid Severity | FY2018/19 | FY2019/20 | FY2020/21 | FY2021/22 | FY2022/23 |
|---|---|---|---|---|---|---|
| **Basic** | **≤ Basic TPL Limit *** | 43,411 | 44,912 | 52,030 | 33,356 | 17,305 |
| **Optional** | **> Basic TPL Limit** | 903 | 1,091 | 1,109 | 1,237 | 1,251 |
| **Total**** | | 44,314 | 46,003 | 53,139 | 34,593 | 18,556 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Basic** | **% Closed ≤ Basic TPL Limit** | 98.0% | 97.6% | 97.9% | 96.4% | **93.3%** |

* As noted in footnote 28, Basic TPL limits are $200,000, $1 million or $2 million.
**Rounding may affect totals and percentages.

106. **Claims Administrative** (Figure 8 - item a). Claims administrative operating expenses are also currently allocated based on work effort as part of the CISO detailed WES. However, that reflects work performed on legal-based injury and MD claims only. Under Enhanced Care, the claims administrative teams in claim field offices also perform work on EAB claims, which is not reflected in the CISO detailed WES. ICBC's proposal on the allocation of Claims Administrative operating expenses (administrative staff and managers) is discussed in Section G.1.

107. **Claims Managers** (Figure 8 - item b). Claims managers now oversee a homogenous group of staff, and their associated operating expenses are combined or aggregated together with the costs of the claims staff they manage under each of the functional streams that are assigned distinct cost centres. Therefore, there is no longer any need to segment and allocate costs separately for the claims manager job category.

108. **OOP and HOC** (Figure 8 - items f and g).[49] Operating expenses related to staff and handling legal-based catastrophic and high-risk claims that are designated as HOC will be allocated using the existing BCUC-approved Net Claims-HOC allocator. Legal-based OOP claims will be allocated using the existing BCUC-approved Net Claims OOP allocator.

109. **Legal-Based BI-Related Support.** While these operating costs are not part of CISO, ICBC is proposing to align the allocation of business areas, such as In-House Counsel, that primarily provide support for legal-based BI handling and defense with the Net Claims-BI allocator (90% Basic / 10% Optional) discussed above. Currently, these are allocated using the Work Effort — Provincial Litigation allocator with a 95% Basic / 5% Optional allocation. The impact of this change is shown in Figure 10 below.

[49] As part of the initial steps of calculating the CISO allocator, compensation costs for staff and managers of HOC are allocated based on Net Claims Cost-HOC and OOP Claims based on Net Claims Cost-OOP).

### F.1.3 SUMMARY OF PROPOSAL TO REPLACE CISO WORK EFFORT ALLOCATOR

110. ICBC proposes to replace Work Effort (the primary allocator for CISO operating costs) with net incurred claims allocators specific to each functional area. Based on FY 2022/23 actual financial results, the estimated impact of these changes is a shift of $5.4 million towards Basic insurance operating expenses.

111. ICBC also proposes to update the allocator for the legal-based BI support business areas, currently using a Basic/Optional split of 95% / 5%, to align with the updated Net Claims-BI allocator as discussed in Section F.1.2. Based on FY 2022/23 actual financial results, the impact of this change is a shift of approximately $1.7 million from Basic to Optional insurance operating expenses.

112. Thus, the net impact of using claims-based allocators for CISO and the related legal-based BI support is a shift of approximately $3.7 million from Optional to Basic insurance operating expenses.

## F.2 REPLACING ALL OTHER WORK EFFORT ALLOCATORS

113. ICBC also proposes to replace all other work effort allocators that are being applied in the current FAM. These are found in the Administrative and Other LOB and Insurance LOB.

114. **Administrative and Other LOB.** As noted above and shown in Figure 10, there are six other business areas using work effort as the basis for allocating operating expenses in the Administrative and Other LOB. The Administrative and Other LOB includes operating expenses for support functions provided by Finance, Information Services, Human Resources, Corporate Strategy, General Counsel and Public Affairs.

115. The determination of work effort for these business areas is typically undertaken by a department manager, who provides an assessment of the work that their staff performs on various activities that can be assigned as either Basic insurance, Optional insurance or Non-insurance business segment functions.

116. ICBC is proposing to replace the work effort allocators for these business areas with the existing BCUC-approved Corporate Shared Services allocator. This allocator reflects the integrated nature of the functions performed within these business areas by allocating costs equally between Basic and Optional insurance after deducting the costs allocated to Non-insurance, in accordance with BCUC direction in Order G-9-05. Based on FY 2022/23 actual

financial results, the estimated impact of this proposed change is a shift of approximately $1.0 million in operating expenses from Optional insurance to Basic + Non-insurance.

117. **Insurance LOB - Field Broker Support.** The Field Broker Support cost category is within the Insurance Services LOB (Insurance LOB). This cost category consists of cost centres for teams managing broker accounts, broker relations and administration and compliance.

118. The broker provincial programs and policy team monitors compliance to ICBC procedures through audits, consultations, and reviews. Operating expenses for this team are appropriately allocated based on premiums written as work is mostly related to insurance product sales; therefore, no change is proposed for this business area.

119. The insurance sales and distribution broker accounts team provides support to brokers related to vehicle registration and insurance products. The current allocator is work effort based on subject matter experts' estimates of the departmental staff's overall work considered as Basic insurance, Optional insurance or Non-insurance tasks related to insurance sales and vehicle registration. ICBC proposes to simplify the allocation of this business area's operating costs and instead allocate these costs based on premiums and commission transaction data.

- ICBC proposes to use premium written as the most appropriate allocator for the broker relations coordinator and administrative assistant roles in this team, as these staff perform activities primarily related to insurance sales.
- The remaining positions will be allocated based on commissions paid, as commissions paid on an Optional insurance sale better reflect the focus of this team.

120. The Director of Insurance Sales and Distribution oversees the management of broker relations and ensures broker compliance. Its cost centre is currently allocated based on work effort. ICBC is proposing that the allocator should instead be based on the weighted average allocation of the teams managed.

121. Based on FY 2022/23 actual financial results, the estimated impact of the proposed changes above is an approximate $0.1 million shift in operating expenses from Optional insurance to Basic + Non-insurance.

## F.3 SUMMARY: IMPACT OF THE PROPOSAL TO REPLACE WORK EFFORT ALLOCATORS

122. The impact of ICBC's proposal to replace work effort with data-driven allocators is shown in Figure 10. Based on FY 2022/23 actual financial results, the estimated net impact of the proposed changes above is an allocation shift of $4.9 million in operating expenses from Optional insurance to Basic + Non-insurance.

## Figure 10 – Analysis of Impacts of Proposed Change to Replace Work Effort Allocators with Data-Driven Allocators

| Section Reference | Business Operations | FY2022/23 Actual ($ millions) | Current Allocation Approach | | | | Proposed for FAMA | | | | Shift To (From) $ millions | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Current Allocation Approach | % Basic | % Non-Insurance | % Optional | Proposed Allocator | % Basic | % Non-Insurance | % Optional | Basic | Non-Insurance | Total |
| F.1 Replacement of CISO work effort allocator | Customer Services | 19.2 | | 59.8 | - | 40.2 | Net Claims Cost-MD | 38.0 | - | 62.0 | (4.2) | - | (4.2) |
| | Estimating Services | 23.5 | | 59.8 | - | 40.2 | Net Claims Cost-MD | 38.0 | - | 62.0 | (5.1) | - | (5.1) |
| | Legal-based AB | 1.0 | | 59.8 | - | 40.2 | 100% Basic | 100.0 | - | - | 0.4 | - | 0.4 |
| | Legal-based BI (Non-HOC) | 50.0 | | 59.8 | - | 40.2 | Net Claims -BI | 90.0 | - | 10.0 | 15.1 | - | 15.1 |
| | Legal-based BI (HOC)* | 9.0 | | 59.8 | - | 40.2 | Net Claims Cost-HOC | 47.0 | - | 53.0 | (1.1) | - | (1.1) |
| | Out of Province * | 4.8 | | 59.8 | - | 40.2 | Net Claims Cost-OOP | 67.0 | - | 33.0 | 0.3 | - | 0.3 |
| | **CISO Work Effort Allocation** | **107.5** | **CISO Allocator** | **59.8** | **-** | **40.2** | | | | | **5.4** | **-** | **5.4** |
| | Employee Claims | 0.4 | Provincial Litigation | 95.0 | - | 5.0 | Net Claims -BI | 90.0 | - | 10.0 | (0.0) | - | (0.0) |
| | Legal-based BI Support | 2.0 | Provincial Litigation | 95.0 | - | 5.0 | Net Claims -BI | 90.0 | - | 10.0 | (0.1) | - | (0.1) |
| | In House Counsel | 25.6 | Provincial Litigation | 95.0 | - | 5.0 | Net Claims -BI | 90.0 | - | 10.0 | (1.3) | - | (1.3) |
| | Claims Litigation Support | 6.2 | Provincial Litigation | 95.0 | - | 5.0 | Net Claims -BI | 90.0 | - | 10.0 | (0.3) | - | (0.3) |
| | **Legal-Based BI-Related Support** | **34.1** | | | | | | | | | **(1.7)** | **-** | **(1.7)** |
| F.2 Replacement of other work effort allocators | General Counsel | 6.0 | work effort | 38.0 | 24.0 | 38.0 | Corporate Shared Services | 40.2 | 19.6 | 40.2 | 0.1 | (0.3) | (0.1) |
| | Freedom of Information | 2.2 | work effort | 50.0 | - | 50.0 | Net Claims -BI | 90.0 | - | 10.0 | 0.9 | - | 0.9 |
| | Corporate Communications | 3.2 | work effort | 43.5 | 13.0 | 43.5 | Corporate Shared Services | 40.2 | 19.6 | 40.2 | (0.1) | 0.2 | 0.1 |
| | Warehouse & Receiving | 1.9 | work effort | 40.0 | 20.0 | 40.0 | Corporate Shared Services | 40.2 | 19.6 | 40.2 | 0.0 | (0.0) | (0.0) |
| | Government Relations | 0.8 | work effort | 37.5 | 25.0 | 37.5 | Corporate Shared Services | 40.2 | 19.6 | 40.2 | 0.0 | (0.0) | (0.0) |
| | Fairness Commissioner | 2.1 | work effort | 50.0 | - | 50.0 | Corporate Shared Services | 40.2 | 19.6 | 40.2 | (0.2) | 0.4 | 0.2 |
| | **Administrative Services LOB** | **16.3** | | | | | | | | | **0.7** | **0.3** | **1.0** |
| | Broker Provincial Programs & Policy | 1.4 | Premiums | 57.6 | - | 42.4 | Premiums | 57.6 | - | 42.4 | - | - | - |
| | Insurance Sales & Distribution Broker Accts | 5.1 | work effort | 20.0 | 10.0 | 70.0 | Wtd Average - Transactions | 25.1 | 6.8 | 68.1 | 0.3 | (0.2) | 0.1 |
| | Director: Insurance Sales & Distribution | 0.4 | work effort | 20.0 | 10.0 | 70.0 | Wtd Average - Field Broker | 31.9 | 5.4 | 62.7 | 0.0 | (0.0) | 0.0 |
| | **Insurance LOB - Field Broker Support** | **6.9** | | | | | | | | | **0.3** | **(0.2)** | **0.1** |
| **Total**** | | | | | | | | | | | | | **4.9** |

* HOC and OOP currently use Net Claims Cost-HOC and Net Claims Cost-OOP to initially allocate these areas compensation costs to Basic insurance and Optional insurance before being included with claims field operations to arrive at the overall CISO allocation percentage. Therefore, the shift in costs for these two areas represents the difference between the CISO allocation percentage (59.8% Basic/40.2% Optional) and the Net Claims Cost Basic/Optional percentages for each of these areas.

** Rounding may affect totals and percentages.

# G PROPOSED CHANGES TO ALIGN TO ENHANCED CARE/BUSINESS CHANGES AND IMPROVE COST CAUSALITY

123. ICBC concurs with KPMG's recommendation to update certain allocators for its business operations to optimize its application of the FAM in order to better align with business changes following the implementation of Enhanced Care. In addition, ICBC has identified several other cost centres where the existing allocators could be changed to better align with cost causality. ICBC's proposed changes and the impacts to Basic insurance operating expenses are provided below.

124. The proposed changes in this Section are distinct from the proposal to replace work effort with data-driven allocators.

## G.1 PROPOSED CHANGES TO ALIGN TO ENHANCED CARE/BUSINESS CHANGES

125. The KPMG Report identifies several business areas within the Claims Services LOB that are assigned allocators that do not reflect the changes in claims handling and business processes resulting from Enhanced Care and other business changes.[50] ICBC has reviewed these recommendations and agrees with KPMG that adjustments are required. ICBC proposes alternative allocators for the following business functions.

126. **Claims Administrative Services**. As discussed in Section F.1, with the introduction of Enhanced Care, Claims Administrative Services now provides support to Recovery Services staff in addition to providing support to claims handling staff and claims managers in the Injury Services and Customer and Estimating Services functional streams that are part of CISO. Because Recovery Services is not reflected as a transaction type in the CISO detailed WES, ICBC proposes to allocate the costs for Claims Administrative Service using the weighted average of the CISO and Recovery Services functional streams that are being supported. Based on FY 2022/23 actual financial results, the estimated shift of operating expenses allocated from Optional insurance to Basic insurance is $3.8 million. Please see Figure 12 for more details.

127. **Claims Contact Centre (CCC)**. Under the existing BCUC-approved FAM, the allocator used for CCC is based only on newly opened non-injury claim exposures. This allocator was appropriate when the primary function of CCC was to record customer information and create a new claim file. However, CCC staff are also retaining and handling a significant number of non-injury claim exposures that meet specific criteria and are relatively straightforward and

[50] KPMG Report, Section 6.3.1.

non-contentious. As noted by KPMG in its report, the existing allocator may not reflect the full nature of the work performed at CCC.[51]

128. To address this, ICBC proposes to use a blended newly opened and retained claim exposures allocator for the CCC operating expenses. The blended allocator will include the counts of newly opened and retained claim exposures. In developing this new allocator, the counts of any transfers between coverages (i.e., a transfer occurs when there is a change in liability and a new exposure must be created) are removed to ensure that there is no double counting and to better reflect the work that is being performed. ICBC is also proposing to change the name of the allocator from Newly Opened-TCD to Newly Opened and Retained-CCC. TCD refers to the previous name of CCC, the Telephone Claims Department. Based on FY 2022/23 actual financial results, the estimated impact of this proposed change is a shift of $3.4 million in operating expenses from Optional to Basic insurance as shown in Figure 12 below.

129. Figure 11 shows the impact on the Basic insurance allocation percentage with the inclusion of retained (measured through claims that are completed or closed by CCC) claim exposures in the calculation of the allocation for FY 2017/18 to FY 2022/23.

**Figure 11 – Claims Contact Centre – Proposed New Allocator**

| % Basic | FY 2017/18 | FY 2018/19 | FY 2019/20 | FY 2020/21 | FY 2021/22 | FY 2022/23 |
|---|---|---|---|---|---|---|
| **Proposed: Newly Opened & Retained-CCC** | 31.9% | 31.8% | 30.5% | 28.5% | 36.9% | 33.6% |
| **Current: Newly Opened-TCD** | 39.0% | 39.0% | 38.0% | 37.0% | 32.0% | 26.0% |

* Differences between the proposed and current % also reflect changes to the Newly Opened report logic. This includes a correction to how newly opened exposures are counted and a provision for liability transfers.

130. **Senior claims management roles.** Directors and Senior Directors of each claims functional stream have their own cost centres and currently these are assigned allocators based on a 50/50 split or on averages. As noted by KPMG, some of these cost centres “fully support Enhanced Care activities and thus, should be assigned to a 100% Basic allocation”.[52] ICBC proposes to assign allocators to these cost centres that are reflective of the allocation of claims costs for the functional stream they oversee and manage. Based on FY 2022/23 actual financial results, the estimated shift from Optional to Basic insurance operating expenses is $1.0 million. Please see Figure 12 below for more details.

[51] KPMG Report, page 29.
[52] KPMG Report, page 28.

### G.1.1 SUMMARY: IMPACT OF PROPOSED CHANGES TO ALIGN TO ENHANCED CARE/BUSINESS CHANGES

131. Figure 12 shows that based on FY 2022/23 actual financial results, the estimated impact of the proposed changes to align to Enhanced Care/Business Changes is a total shift of $8.1 million in operating expenses from Optional insurance to Basic + Non-insurance.

## Figure 12 – Analysis of Impacts of Proposed Changes to Align to Enhanced Care/Business Changes

| Section Reference | Business Operations | FY2022/23 Actual ($ millions) | Current Allocation Approach | | | | Proposed for FAMA | | | | Shift To (From) $ millions | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Current Allocator | % Basic | % Non-Insurance | % Optional | Proposed Allocator | % Basic | % Non-Insurance | % Optional | Basic | Non-Insurance | Total |
| Section G.1 Alignment to Enhanced Care and other business changes | **Claims Administrative Services** | **19.3** | CISO Allocator | 59.8 | - | 40.2 | Wtd Avg-Cus,Est,BI,Recovery | 79.4 | - | 20.6 | 3.8 | - | 3.8 |
| | **Claims Contact Centre** | **44.3** | Newly Opened Exposure-TCD | 26.0 | - | 74.0 | CCC-Opened & Retained | 33.6 | - | 66.4 | 3.4 | - | 3.4 |
| | Directors: Recovery Services | 1.0 | 50/50 Basic Optional | 50.0 | - | 50.0 | 100% Basic | 100.0 | - | - | 0.5 | - | 0.5 |
| | Sr Directors: Recovery Services | 0.3 | Claims Division Average | 67.3 | - | 32.7 | 100% Basic | 100.0 | - | - | 0.1 | - | 0.1 |
| | Directors: Customer Services | 0.7 | 50/50 Basic Optional | 50.0 | - | 50.0 | Net Claims Cost-MD | 38.0 | - | 62.0 | (0.1) | - | (0.1) |
| | Directors: Estimating Services | 0.1 | 50/50 Basic Optional | 50.0 | - | 50.0 | Net Claims Cost-MD | 38.0 | - | 62.0 | (0.0) | - | (0.0) |
| | Directors: Injury Services (BI claims) | 0.9 | 50/50 Basic Optional | 50.0 | - | 50.0 | Net Claims -BI | 90.0 | - | 10.0 | 0.4 | - | 0.4 |
| | Sr Directors: Injury Services (BI claims) | 0.4 | Claims Division Average | 67.3 | - | 32.7 | Net Claims -BI | 90.0 | - | 10.0 | 0.1 | - | 0.1 |
| | **Senior Claims Management Roles** | **3.6** | | | | | | | | | **1.0** | **-** | **1.0** |
| **Total *** | | | | | | | | | | | | | **8.1** |

*Rounding may affect totals and percentages.

## G.2 OTHER PROPOSED CHANGES TO IMPROVE COST CAUSALITY

132. In addition to the above, ICBC proposes other allocation changes to better align ICBC's FAM with the principle of cost causality. ICBC identified six cost centres within the Administrative LOB that are currently allocated using a 50/50 Basic/Optional insurance split. ICBC proposes to use existing BCUC-approved allocators, such as division averages or premiums written, as alternatives to better reflect the causality and cost drivers of these cost centres. The overall impact of the proposed allocation changes to each cost centre is shown in Figure 13. Based on FY 2022/23 actual financial results, the total estimated shift of operating expenses allocated from Optional to Basic insurance is $2.0 million.

## Figure 13 – Analysis of Impacts of Other Proposed Changes to Improve Cost Causality

| Section Reference | Business Operations | FY2022/23 Actual ($ millions) | Current Detailed Approach | | | | Proposed for FAMA | | | | Shift To (From) $ millions | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Current Allocator | % Basic | % Non-Insurance | % Optional | Proposed Allocator | % Basic | % Non-Insurance | % Optional | Basic | Non-Insurance | Total |
| Section G.2 Improvement of Cost Causality | Other Claims Support | 2.5 | 50/50 Basic Optional | 50.0 | - | 50.0 | Claims Division Average | 67.3 | - | 32.7 | 0.4 | - | 0.4 |
| | Insurance Corporate Cost | (1.9) | Finance Shared Services | 50.0 | - | 50.0 | Insurance Division Average | 63.6 | - | 36.4 | (0.3) | - | (0.3) |
| | Merchant Fees | 0.7 | Premium-b | 50.0 | - | 50.0 | Premium | 57.6 | - | 42.4 | 0.1 | - | 0.1 |
| | Customer Contact Call Centre | 6.0 | Finance Shared Services | 50.0 | - | 50.0 | Premiums Written | 57.6 | - | 42.4 | 0.5 | - | 0.5 |
| | Regulator Costs | 2.2 | 100% Basic | 50.0 | - | 50.0 | 100% Basic | 100.0 | - | - | 1.1 | - | 1.1 |
| | Investment Portfolio Management | 1.1 | Investment Income Ratio | 50.0 | - | 50.0 | Investment Income Ratio | 66.2 | - | 33.8 | 0.2 | - | 0.2 |
| | | **10.7** | | | | | | | | | **2.0** | **-** | **2.0** |
| **Total *** | | | | | | | | | | | | | **2.0** |

*Rounding may affect totals and percentages.

## H SUMMARY OF THE IMPACTS OF PROPOSED CHANGES ON RATE SETTING AND FINANCIAL REPORTING

133. This Section summarizes the impacts of the proposed financial allocation changes and discusses how and why the impacts of the proposed changes are reflected differently in ICBC's rate setting and financial reporting. For more details on the difference between rate setting and financial reporting, please refer to the Participants Guide, Section C of the 2023 RRA.

- Rate setting is forward-looking and intended to enable ICBC to determine Basic insurance rates for a policy year through an actuarial indicated rate change analysis of the amount of premium that needs to be collected to cover claims and other costs associated with the specific policy year, as well as any required capital provision. Costs may be paid for several years into the future, in some cases beyond 40 years, for motor vehicle crashes associated with policies written during the policy year.
- In the context of this Application, financial reporting provides fiscal year views of operating results reflected through historical-looking financial statements, taking into account all activities (current and prior year re-estimations) that are expected to impact financial performance.

134. Figure 14 is a summary of all the proposed changes and impacts of the shift in the allocation of operating expenses from Optional to total Basic + Non-insurance based on FY 2022/23 actual operating expenses.

## Figure 14 – Summary of All the Proposed Changes and Impacts

| Section - Proposed Changes | FY2022/23 Actual ($ millions) | | | Excluded from Rate Setting (starting PY 2021) | Rate Setting - Components of Required Premium | |
|---|---|---|---|---|---|---|
| | Operating Expenses (a) | Shift To (From) Basic+Non-Insurance (b) | | Legal-Based Claims Handling (c) | EC Claims Handling (d) | General Expenses (excluding Claims Handling) (e) |
| **F.1 - Replacement of CISO work effort allocator** | | | | | | |
| CISO Work Effort Allocation | 107.5 | 5.4 | | 14.4 | (9.0) | |
| Legal-Based BI-Related Support | 34.1 | (1.7) | **3.7** | (1.7) | | |
| **F.2 - Replacement of other work effort allocators** | | | | | | |
| Administrative Services LOB | 16.3 | 1.0 | | | | 1.0 |
| Insurance LOB - Field Broker Support | 6.9 | 0.1 | **1.2** | | | 0.1 |
| **G.1 - Alignment to Enhanced Care/other changes** | | | | | | |
| Claims Administrative Services | 19.3 | 3.8 | | | 3.8 | |
| Claims Contact Centre | 44.3 | 3.4 | | | 3.4 | |
| Senior Claims Management Roles | 3.6 | 1.0 | **8.1** | 0.5 | 0.5 | |
| **G.2 - Improvement of Cost Causality** | 10.7 | 2.0 | **2.0** | - | 0.4 | 1.6 |
| **TOTAL ESTIMATED IMPACTS OF CHANGES (in $ millions) *** | | | **15.0** | **13.1** | **(0.9)** | **2.7** |

*Rounding may affect totals.

135. **Rate Setting** (Section H.1). The proposed changes have negligible impacts on rate setting.

- Net increase of approximately $1.8 million to the Basic insurance required premium.
- Negligible (less than a 0.1 ppt) impact on the PY 2023 actuarial indicated rate.

136. **Financial Reporting** (Sections H.2 and H.3). Overall, based on FY 2022/23 Actual, the $15.0 million shift of operating expenses from Optional to Basic + Non-insurance as a result of the proposed changes has minimal impacts on financial reporting.

- Increase of approximately 0.5% of the $2.9 billion Basic insurance component of total costs and expenses.
- Estimated decrease of 0.63 ppt in the Basic insurance MCT ratio.
- The overall Basic insurance allocation of operating expenses increased from 68% to 70%, which is a slight increase to this measure compared with the past several years.

## H.1 THE PROPOSED CHANGES HAVE A NEGLIGIBLE IMPACT ON BASIC RATE SETTING

137. ICBC, similar to other insurance companies, sets Basic insurance rates on a “policy year” basis and ICBC’s determination of required revenues for a policy year is performed by actuaries in accordance with their professional standards of practice.[53] Policies written during a policy year will remain in force up to one year after they are written. Claims costs associated with these policies will be incurred as a result of accidents (or losses) during the period that the policies are in force. Components that comprise the required premium represent the full value of all expected loss and loss adjustment expense, general expense, road safety and loss management costs, broker fees, premium tax, and capital provision, offsets for income attributable to both miscellaneous revenue and investment income, and an adjustment (to recognize income earned from policyholder supplied funds) to reflect the present value of these components. For further information on Basic rate setting and actuarial indicated rate change analysis, please refer to 2023 RRA, Chapter 3.

138. Overall, the proposed allocation changes that will have an impact on Basic rate setting are estimated to result in a net increase of $1.8 million to the Basic required premium. This would have a negligible (less than a 0.1 ppt) impact on the PY 2023 actuarial indicated rate. The proposed changes, which are discussed below, are organized based on their impact on rate setting. Details are shown in Figure 15.

139. **Legal-based claims handling** – Figure 15 column (c)**.** These are related to claims operations that exclusively handle the remaining book of legal-based accident benefits and BI exposures that are still open. The total estimated shift of operating expenses that are related to legal-based claims handling is $13.1 million from Optional insurance to Basic + Non-insurance.

140. Starting in PY 2021, when Enhanced Care was introduced, the actuarial rate indication analysis supporting ICBC’s RRAs for Basic insurance rate changes only includes Enhanced Care coverages.

141. Therefore, the operating expenses and impact of allocation changes associated with legal-based claims handling are not included in the rate indication analysis and no longer impact Basic rate setting.

[53] Policy year refers to the “year” [or period] in which a policy became effective, based on the period beginning with a rate change. A policy year comprises all the policies with effective dates during the defined policy year period (e.g., PY 2023 refers to the 24-month period commencing April 1, 2023 to March 31, 2025).

142. **Enhanced Care claims handling** – Figure 15 column (d)**.** Claims handling costs are the basis for forecasting the Enhanced Care claims handling component of the required premium. Only allocation changes that pertain to Enhanced Care claims handling operating expenses (that is, excluding legal-based claims handling shown in Figure 15, column (c) are considered in the forecasting of Enhanced Care claims handling costs in the Basic rate indication starting in PY 2021. Column (d) of Figure 15 shows the impacts of proposed changes related to claims operations, such as Claims Administrative Services, that do not exclusively handle legal-based claims. The total estimated shift of operating expenses from Basic + Non-insurance to Optional insurance is $0.9 million.

143. Therefore, this set of proposed allocation changes reduces the Basic insurance operating expenses and has a favourable impact (i.e., decrease) to the Basic insurance rate requirement of approximately $0.9 million. For more information on forecasting Enhanced Care claims handling costs, also referred to as unallocated loss adjustment expenses (ULAE), please refer to 2023 RRA, Chapter 3, Appendix C.6 and Technical Appendix C.6.

144. **General Expenses** – Figure 15 - column (e)**.** The Basic component of operating expenses in Road Safety and Loss Management (RSLM), Insurance, Non-insurance and Administrative lines of business are the basis for forecasting the General Expense component of Basic required premium. Column (e) shows the impacts of proposed changes related to business operations within the RSLM, Insurance, Non-insurance and Administrative lines of business. The total estimated shift of operating expenses from Optional insurance to Basic + Non-insurance under this set of proposed changes is $2.7 million.

145. This set of changes will have an unfavourable impact (i.e., increase) to the Basic insurance rate requirement of approximately $2.7 million. This unfavourable impact is offset by the $0.9 million favourable impact of changes associated with Enhanced Care claims handling. For more information on General Expenses, please refer to 2023 RRA, Chapter 3, Appendix D.

## Figure 15 – Financial Reporting and Rate Setting – Impacts of Proposed Changes

| Proposed Change (Section Reference) | Business Operations | FY2022/23 Actual ($ millions) Operating Expenses (a) | FY2022/23 Actual ($ millions) Shift To (From) Basic+Non-Insurance (b) | Excluded from Rate Setting (starting PY 2021): Legal-Based Claims Handling (c) | Rate Setting - Components of Required Premium: EC Claims Handling (d) | Rate Setting - Components of Required Premium: General Expenses (excluding Claims Handling) (e) |
|---|---|---|---|---|---|---|
| **Replacement of CISO work effort allocator (Section F.1)** | Customer Services | 19.2 | (4.2) | | (4.2) | |
| | Estimating Services | 23.5 | (5.1) | | (5.1) | |
| | Legal-based AB | 1.0 | 0.4 | 0.4 | | |
| | Legal-based BI (Non-HOC) | 50.0 | 15.1 | 15.1 | | |
| | Legal-based BI (HOC) | 9.0 | (1.1) | (1.1) | | |
| | Out of Province | 4.8 | 0.3 | | 0.3 | |
| | **CISO Work Effort Allocation** | **107.5** | **5.4** | | | |
| | **Legal-Based BI-Related Support** | **34.1** | **(1.7)** | (1.7) | | |
| **Alignment to Enhanced Care and other business changes (Section G.1)** | **Claims Administrative Services** | **19.3** | **3.8** | | 3.8 | |
| | **Claims Contact Centre** | **44.3** | **3.4** | | 3.4 | |
| | Directors: Recovery Services | 1.0 | 0.5 | | 0.5 | |
| | Sr Directors: Recovery Services | 0.3 | 0.1 | | 0.1 | |
| | Directors: Customer Services | 0.7 | (0.1) | | (0.1) | |
| | Directors: Estimating Services | 0.1 | (0.0) | | (0.0) | |
| | Directors: Injury Services (BI claims) | 0.9 | 0.4 | 0.4 | | |
| | Sr Directors: Injury Services (BI claims) | 0.4 | 0.1 | 0.1 | | |
| | **Senior Claims Management Roles** | **3.6** | **1.0** | | | |
| **Replacement of other work effort allocators (Section F.2)** | **Administrative Services LOB** | **16.3** | **1.0** | | | 1.0 |
| | **Insurance LOB - Field Broker Support** | **6.9** | **0.1** | | | 0.1 |
| **Improvement of cost causality (Section G.2)** | Other Claims Support | 2.5 | 0.4 | | 0.4 | |
| | All Others | 8.2 | 1.6 | | | 1.6 |
| | | **10.7** | **2.0** | | | |
| **TOTAL ESTIMATED IMPACTS OF CHANGES (in $ millions)*** | | | **15.0** | **13.1** | **(0.9)** | **2.7** |

*Rounding may affect totals.

## H.2 THE PROPOSED CHANGES HAVE A SLIGHT IMPACT ON THE OVERALL PERCENTAGE OF BASIC INSURANCE ALLOCATION OF OPERATING EXPENSES

146. The year-to-year percentage of corporate operating expenses allocated to Basic insurance is included as part of ICBC's compliance reporting to the BCUC. Slight variations in Basic insurance percentages may be caused by spending patterns unique to a particular year, organizational and product changes and also by BCUC-approved changes to the financial allocation methodology, if any.

147. As shown in Figure 16, there has been minimal variance in the overall percentage of operating costs allocated to Basic insurance in the past several years. The percentage of corporate operating expenses allocated to Basic insurance has remained consistent at or near 68% of total corporate operating expenses.

148. Based on FY 2022/23, the proposed changes to the FAM increase the Basic insurance allocation of operating expenses to 70% which represents a slight increase to this measure compared to prior years.

**Figure 16 – Year-to-Year Basic Insurance Allocation Percentages by LOB**

| Basic Insurance Allocation (%) | Actual | | | | | FY 2022/23 | |
|---|---|---|---|---|---|---|---|
| | FY 2017/18 | FY 2018/19 | FY 2019/20 | FY 2020/21 | FY 2021/22 | Actual | With Proposed Changes |
| Claims Services | 65 | 65 | 67 | 67 | 66 | 65 | 68 |
| RSLM | 87 | 85 | 87 | 86 | 87 | 88 | 88 |
| Administration and Other | 49 | 49 | 49 | 48 | 48 | 49 | 51 |
| Insurance Services | 57 | 56 | 55 | 56 | 61 | 57 | 56 |
| Non-insurance Operations | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| **Basic Percentage of Corporate Operating Expenses*** | **68%** | **68%** | **68%** | **68%** | **69%** | **68%** | **70%** |

* Excluding TP, RAAP, Autoplan Care Enhancements, and Cost Recoverable Government Initiatives. The presentation is the same as in ICBC's 2023 RRA, Appendix 8D, Figure 8D.4.

## H.3 THE PROPOSED CHANGES HAVE A MINIMAL IMPACT ON FINANCIAL REPORTING

149. The proposed changes to the allocation of operating expenses in this Application are presented based on a financial reporting view. ICBC's financial reporting provides information about the overall financial performance and financial position of the corporation in a particular fiscal year.

150. For the purpose of this Application, ICBC is presenting information related to the impacts of the proposed changes to the Basic/Optional split of its operating expenses and associated impacts on ICBC's financial reporting.

151. Changes in the FAM of revenues and costs flow through to the financial statements, in particular, these will be seen in the Basic insurance/Optional insurance statements in ICBC's annual service plan reports. A change in the components of the income statement will, in turn, impact the allocation of any related balance sheet items.

- Total corporate operating expenses will remain the same; only the allocation between Basic insurance, Optional insurance and Non-insurance will change.
- Changes in the allocation of operating expenses will affect the Basic and Optional components of operating expenses that are included in the Basic and Optional income statements.
  - The largest component of operating expenses is claims services expenses. The claims services operating expenses reflected in ICBC's financial reporting represent amounts paid by ICBC to administer claims both from prior years, including previous insurance products, and from new claims.
  - In addition to the paid amounts of claim services reported as operating expenses for a given fiscal year, ICBC holds a ULAE reserve which is required to account for certain future claims services expenses. [54]

[54] The ULAE reserve is reflected in the provision for unpaid claims liability line item in the Basic and Optional insurance balance sheets, and changes in the ULAE reserve affect the net income on the Basic and Optional insurance income statements. The value of the ULAE reserve is reassessed by ICBC's actuaries each fiscal year to account for the latest information on ICBC's claims liabilities and will include any allocation changes in the fiscal year that are approved by BCUC.

- Changes in the allocation will also impact the calculation of the Basic insurance minimum capital test (MCT) ratio that is reported in the Performance Measures appendix of ICBC’s RRA.

152. Column (b) in Figure 15 shows the proposed changes that will have an impact on the reporting of operating expenses. The financial impacts of the $15.0 million estimated shift from Optional insurance to Basic + Non-insurance operating expenses have a minimal impact on ICBC's financial reporting, as they represent only approximately 0.5% of the $2.9 billion Basic component of ICBC’s FY 2022/23 actual total costs and expenses. Based on FY 2022/23 actual financial results, the proposed changes will have an estimated decrease of 0.63 ppt to the Basic insurance MCT ratio.

## I CONCLUSION

153. With this Application, ICBC proposes to improve, rather than replace, its current FAM. This Application is responsive to BCUC's direction, KPMG's recommendations and ICBC's own review. ICBC submits that the proposed changes will maintain the benefits of the current BCUC-approved FAM, while improving its objectivity, transparency and efficiency.

154. ICBC proposes three categories of changes to improve the efficiency of the FAM while maintaining the overall transparency and accuracy of the existing model. These categories of changes involve:

- Replacement of work effort allocators with data-driven allocators.
- Changes to align with Enhanced Care and other business changes.
- Changes to improve cost causality.

155. The overall impact of these changes to ICBC's operating expenses is a shift from Optional to Basic insurance costs of approximately $15.0 million. The resulting 70% Basic insurance allocation of overall operating expenses represents a slight increase to this measure compared with the past several years. The impacts of the proposed changes are not material in the context of ICBC's income statement. In addition, there is a negligible impact on the Basic rate indication.

156. ICBC respectfully submits that the proposals in this Application are just and reasonable and should be approved.

# ATTACHMENT A – KPMG REPORT ON ICBC'S FINANCIAL ALLOCATION METHODOLOGY

# ICBC Financial Allocation Methodologies Final Report

KPMG LLP

September 2023

KPMG

# Table of Contents

KPMG

# Glossary

Summary of commonly used acronyms and abbreviations in this report:

| | |
|---|---|
| AB | Accident Benefits |
| ALAE | Allocated loss adjustment expense |
| Basic Insurance | Universal compulsory automobile insurance |
| BC | British Columbia |
| BCUC | British Columbia Utilities Commission |
| BI | Bodily Injury |
| BVDC | Basic Vehicle Damage Coverage |
| CCMDS | Claims Customer & Material Damage Services |
| CILS | Claims Injury & Legal Services |
| CISO | Customer and Injury Services Operations |
| EAB | Enhanced Accident Benefits |
| EC | Enhanced Care model |
| FAMA | Financial Allocation Methodology Application |
| FBC | FortisBC Inc. |
| FCAS | Financial Consulting and Advisory Services |
| FY | Fiscal Year |
| GAAP | Canadian Generally Accepted Accounting Principles |
| IASB | International Accounting Standards Board |
| ICA | Insurance Corporation Act |
| ICBC | Insurance Corporation of British Columbia |
| IFRS | International Financial Reporting Standards |
| IT | Information Technology |
| ITP | Independent Third Party |
| KPMG | KPMG LLP |
| LOB | Line of Business |
| MD | Material Damage |
| MPI | Manitoba Public Insurance |
| Optional Insurance | Optional automobile insurance coverages |
| P&C | Property and Casualty Insurance |
| RAAP | Rate Affordability Action Plan |
| RSLM | Road Safety and Loss Management |
| RRA | Revenue Requirements Application |
| SAF | Saskatchewan Auto Fund |
| SGI | Saskatchewan Government Insurance |
| TP | Transformation Program |
| TPL | Third Party Liability |
| UDAP | Unlisted Driver Accident Premium |
| UDP | Unlisted Driver Protection |
| ULAE | Unallocated Loss Adjustment Expense |
| WEP | Work Effort Percentages |
| WES | Work Effort Study |

# 1 Executive Summary

On May 1, 2021, the Insurance Corporation of British Columbia (ICBC) implemented the Enhanced Care insurance model, transitioning from a legal-based (tort) system to a care-based (no fault) approach for automobile insurance. This represented a significant change to ICBC's business model, and further to previous directions from the British Columbia Utilities Commission (BCUC) relating to ICBC's financial allocation methodology, necessitated a review of the financial allocation methodology. The foundation of ICBC's financial allocation methodology is based on the pro-rata approach that allocates revenues and costs to each Basic, Optional, and Non-insurance business segments based on the underlying drivers of those revenues and costs and the degree of causality.

In accordance with the BCUC's October 2021 Decision on the 2021 Revenue Requirements Application (RRA), ICBC was directed to file a review of the financial allocation methodology by December 2023, by which time, steady financial and operational states under Enhanced Care and resulting organizational changes were expected to be reached. In March 2023, KPMG LLP (KPMG) was retained by ICBC to conduct this review (the Review) and to determine the appropriateness of ICBC's current BCUC-approved financial allocation methodology, considering the changes to ICBC's business model that have occurred as a result of the introduction of Enhanced Care and any other operational or organizational changes.

Specifically, KPMG was engaged to:

- Review ICBC's allocation methodology and the framework of its business model (**Section 3 and 4**), including facilitating meetings with key stakeholders and subject matter experts, validating findings, and ensuring business functions are still properly aligned with the BCUC-approved financial allocation methodology (**Section 5 and 6**);
- Review the appropriateness of ICBC's financial allocation methodology under the new Enhanced Care model (**Section 6**); and
- Evaluate ICBC's allocation methodology against other allocation methodologies, industry practices, and with comparable entities in similar jurisdictions (**Section 7**).

**Overview of KPMG's Evaluation and Findings on ICBC Financial Allocation Methodology**

KPMG evaluated ICBC's financial allocation methodology and its appropriateness for continued use under the Enhanced Care model by considering whether it continues to appropriately allocate revenues and costs to the Basic, Optional, and Non-insurance business segments in accordance with the established principles of the financial allocation methodology and relevant government and BCUC directives relating to the allocation of revenues and costs for the purpose of ICBC's Basic insurance rate setting. Based on the Review, KPMG's findings and recommendations can be summarized as follows:

- ICBC's financial allocation methodology continues to be appropriate and provides a reasonable foundation for the allocation of revenues and costs for Basic insurance rate setting and ensuring that Basic insurance premiums are not to be used to subsidize ICBC's Optional insurance business;
- The allocation of operating expenses for some business areas could be updated to optimize how ICBC applies the allocation methodology as identified and summarized in **Section 6.1**. The optimization opportunities identified by KPMG do not materially impact the overall appropriateness of the financial allocation methodology as the impacts of the proposed updates and changes in allocators estimated, in terms of amounts and allocation percentages, are deemed to be immaterial;

- With regards to operating expenses, KPMG is recommending that ICBC considers utilizing a more simplified approach such as discussed in **Section 7.3**. It was identified that there are opportunities to improve transparency by reducing the layers of calculation steps performed for allocators considering the materiality of the operating expense allocated, increase reliance on data-based information instead of management estimates of work effort to calculate allocators, and to improve the efficiency of administering and maintaining the allocation process. As well, an existing allocator may be applicable and can be used in lieu of some of the current calculation processes which involve a high level of complexity which may or may not be required. For any alternative approach ICBC selects, it should be reflective of insurance and regulatory environments that are in place at any point in time; and
- To maintain the appropriateness and validity of ICBC's allocation methodology for the future, along with the specific optimization opportunities identified in **Section 6**, it is recommended that ICBC performs annual internal review of its allocation processes involving internal key stakeholders.

# 2 Purpose and Scope of KPMG's Review

## 2.1 Financial Allocation Methodology Review Scope

KPMG was retained by ICBC to review, validate, and determine the appropriateness of ICBC's existing financial allocation methodology in furtherance of ICBC's preparation of its December 2023 Financial Allocation Methodology filing to the BCUC.

Specifically, KPMG was engaged to:

- Review ICBC's allocation methodology and the framework of its business model (**Section 3 and 4**), including facilitating meetings with key stakeholders and subject matter experts, validating findings, and ensuring business functions are still properly aligned with the BCUC-approved financial allocation methodology (**Section 5 and 6**);
- Review the appropriateness of ICBC's financial allocation methodology under the new Enhanced Care model (**Section 6**); and
- Evaluate ICBC's allocation methodology against other allocation methodologies, industry practices, and with comparable entities in similar jurisdictions (**Section 7**).

ICBC's financial allocation methodology was originally approved by the BCUC in its January 19, 2005 Decision on ICBC's 2004 Financial Allocation Methodology Application (FAMA), with changes made and approved by the BCUC since the methodology's inception (the BCUC-approved financial allocation methodology).[1]

On May 1, 2021, ICBC implemented the Enhanced Care model, transitioning from a legal-based (tort) system to a care-based (no fault) system. This represents a significant change to ICBC's operating business model, necessitating a review of ICBC's financial allocation methodology to ensure that only revenues and costs associated with the Basic insurance and Non-insurance lines of business are included in its Basic insurance rate setting, and that ICBC's Basic insurance business is not used to subsidize its Optional insurance business.

The scope of KPMG's Review has been aligned to meet the foundation of ICBC's financial allocation methodology, the pro-rata approach that allocates revenues and costs to each Basic, Optional, and Non-insurance business segment based on the underlying drivers of those revenues and costs and the degree of causality. Further activities completed and the purpose of the Review are outlined below:

a. Determine the appropriateness of the financial allocation methodology given recent changes to ICBC's insurance business model, stemming from the implementation of the Enhanced Care model[2];
b. Assess and confirm that the current pro-rata approach remains valid, and identify if there are any opportunities to adopt a more efficient approach that meets both BCUC requirements and the objectives of verifiability, transparency, credibility, relevance, and objectivity; and
c. Ensure ICBC's financial allocation methodology is a repeatable process that can be applied annually to fairly and reasonably allocate ICBC's revenues and costs to its Basic and Optional business segments.

[1] Please refer to Section 3.4 which sets out key filings and BCUC decisions relating to ICBC's financial allocation methodology.

[2] Please refer to Section 3.2 for further details about the Enhanced Care model.

## 2.2 Responsibility and Engagement Scope

This section provides details of the engagement responsibilities for the Review. These are as follows:

### 2.2.1 ICBC Management Responsibilities

The financial allocation methodology criteria were developed by ICBC based on the first principles of the Canadian Generally Accepted Accounting Principles (GAAP), which require financial information to be presented following the principles of understandability, relevance, reliability, comparability, and applied using relevant data.

ICBC's management is responsible for ensuring:

- That ICBC's accounting policies and practices related to the allocation of revenues and costs comply with the standards and guidelines set out under GAAP and International Financial Reporting Standards (IFRS);
- The accuracy and completeness of revenues and costs and any other information associated with the financial allocation methodology; and
- The applicability of the allocation of its revenues and costs between the Basic insurance and Optional insurance business segments and that the Basic business does not subsidize the Optional business.

### 2.2.2 KPMG Engagement

KPMG was engaged to provide an independent review of ICBC's existing financial allocation methodology and to provide findings and recommendations on the appropriateness of the allocation methodology following the implementation of Enhanced Care.

This engagement does not constitute an audit or review engagement, as those terms are defined in CPA Canada literature applicable to the conduct of formal assurance engagements by Chartered Professional Accountants. The data included in this report is a result of the work completed by KPMG and the information provided to them during discussions with ICBC management and employees. Explanations and representations provided by ICBC personnel during the review were considered while preparing this report but have not been audited or verified by KPMG. Accordingly, KPMG does not express an opinion on such matters. For the avoidance of doubt, KPMG has neither audited nor reviewed the underlying fiscal year (FY) 2021/22, FY 2022/23 or budgeted FY 2023/24 revenues or costs to which the allocation percentages are applied in the allocation methodology. However, steps undertaken to assess the reasonableness of the underlying data have been outlined in **Section 5**.

As discussed above, KPMG reviewed and validated the application of the current financial allocation methodology employed by ICBC in accordance with the BCUC-approved financial allocation methodology, in order to assess its appropriateness under the new Enhanced Care model.

Based on the Review, KPMG has summarized the findings and recommendations in this report. It is understood that this report will be distributed by ICBC externally to the BCUC as part of its December 2023 Financial Allocation Methodology filing. KPMG disclaims any responsibility or liability for losses, damages, or costs incurred by anyone resulting from any external circulation, publication, reproduction, or use of the information contained herein.

## 2.3 Report Structure

This report is structured as follows:

**Section 1: Executive Summary** – Includes a brief discussion of the context of the engagement, KPMG's review approach, and a summary of findings and optimization opportunities.

**Section 2: Purpose and Scope of KPMG's Review** – Outlines the report's structure, an overview of the engagement, and provides a brief explanation of each section.

**Section 3: Background and Engagement Context** – Provides an overview of ICBC's background, BCUC regulatory oversight of ICBC, ICBC's development of the financial allocation methodology, and changes to ICBC's insurance business model impacting its business processes and cost structure.

**Section 4: Financial Allocation Methodology Review** – Provides a high-level summary of the components of the financial allocation methodology, allocation process, and allocation criteria.

**Section 5: KPMG Review Approach** – Explains KPMG's approach to assessing and validating ICBC's financial allocation methodology. The scope of the evaluation was agreed between KPMG and ICBC, and the evaluation approach is based on KPMG's experience with similar financial allocation methodology studies.

**Section 6: KPMG Evaluation** – Provides KPMG's analysis, findings, and recommendations regarding the appropriateness and reasonableness of the financial allocation methodology.

**Section 7: Review of Other Methodologies** – Provides KPMG's analysis and review of other allocation methodologies, approaches, industry practices, and ICBC's previously proposed simplified approach.

**Section 8: Conclusion** – Summarizes KPMG's findings and recommendations.

**Section 9: Appendix** – Supplementary and supporting material for this report.

# 3 Background on ICBC and ICBC's Financial Allocation Methodology

## 3.1 ICBC Background

ICBC is a provincial Crown Corporation established in 1973 mandated by the *Insurance Corporation Act*, *Insurance (Vehicle) Act*, and the *Motor Vehicle Act* to provide universal compulsory automobile insurance (Basic insurance) to British Columbia (BC) motorists. ICBC is the sole provider of Basic insurance within the province. ICBC's Basic insurance premiums also provide for the cost of vehicle and driver licensing, vehicle registration, government debt collection, and funding for commercial vehicle compliance.[3] These costs are classified as Non-insurance costs, and along with the cost of road safety initiatives, are included in the calculation of the Basic insurance rates.

In addition to providing Basic insurance products, ICBC competes with other private insurance companies in the sale of optional automobile insurance coverages (Optional insurance). ICBC operates the Basic insurance, Optional insurance, and Non-insurance business segments on a fully integrated basis such that economies of scope and scale of ICBC's operations can benefit BC motorists.

## 3.2 ICBC's Insurance Models

Since ICBC's creation in 1973 through to 2021, ICBC operated under a legal-based (tort) model. This means that an at-fault driver or vehicle owner may be taken to court for the full amount of damages caused by their operation of an automobile. Similar to other jurisdictions in Canada, motorists in BC were required by law to purchase a minimum level of Basic auto insurance that provided up to $200,000 Third-Party Liability (TPL) protection against damages they caused.[4]

Effective April 1, 2019, the BC government amended the Insurance (Vehicle) Regulation to introduce changes referred to by ICBC as the Rate Affordability Action Plan (RAAP) product reform. RAAP product reform initiatives included setting a $5,500 limit on pain and suffering payouts for minor injuries and introduced a new independent claims dispute resolution process for minor injury claims through the Civil Resolution Tribunal. [5]

**Enhanced Care**

On May 1, 2021, following the enactment of legislation, ICBC launched a new care-based model for automobile insurance. Per the Enhanced Care model details released and discussions with ICBC, the intent of the new Enhanced Care model was to improve auto affordability of insurance by reducing automobile insurance premiums for policyholders while giving British Columbians access to the improved accident benefits if injured in an automobile accident, regardless of fault. Key objectives for ICBC's implementation of the Enhanced Care model included improving rate affordability by reducing legal and expert report costs and general damage payments relating to injury claims and increasing benefits that injured customers are eligible for. In addition, under Enhanced Care, vehicle damage caused by another vehicle within BC will now be covered by the not at-fault vehicle owner's policy under the new first party coverage, Basic Vehicle Damage coverage (BVDC). Under the previous model, such material damage claims costs were indemnified through the at-fault vehicle owner's Third-Party liability Property Damage (PD) coverage.

---

[3] For the purposes of determining Basic insurance rates, Non-Insurance service costs are treated as part of Basic insurance in accordance with the government direction, *Special Direction IC2 to the British Columbia Utilities Commission, B.C. Reg. 307/204, (Special Direction IC2).*

[4] Reference: ICBC's 2013 Annual Report, [Annual Report 2013 PI186U (icbc.com)]

[5] Reference: ICBC's FY 2019/20 Annual Service Plan Report, [Annual Report 2019/20 (icbc.com)]

As a result, there were major changes in the types of coverages and what coverages are included in ICBC's Basic and Optional insurance products as follows:[6]

- Benefits for injury claims for crashes occurring in BC will now be provided under Enhanced Accident Benefits (EAB) coverage, which is fully under Basic insurance;
- Litigation for injury claims arising from crashes occurring in BC has been largely eliminated with the introduction of Enhanced Care;
- Vehicle damage claims by the not-at-fault driver for crashes occurring in BC will now come under Basic Vehicle Damage Coverage (BVDC), which will provide coverage for their vehicle up to $200,000. However, BVDC does not provide coverage for unidentified (hit & run) claims, which can be covered by an Optional insurance product; and
- Under Enhanced Care, claims costs for TPL coverages will only apply to a small number of cases such as damages other than injury or vehicle damages, out of province claims, and in some other limited circumstances.

## 3.3 BCUC Regulatory Oversight of ICBC

Following the Core Services Review[7] recommendations in 2003, the BC government assigned BCUC the responsibility to act as the independent regulator of ICBC's Basic insurance rates and services through the *Insurance Corporation Amendment Act*. A key function of the regulator is to review and approve ICBC's universal compulsory (Basic) automobile insurance rates. ICBC's Basic insurance rates are set under the authority of the BCUC, in accordance with Sections 44, 45, and 49 of the *Insurance Corporation Act* (ICA) and *Special Direction IC2*. The associated legal framework includes the following:

- The BCUC regulates ICBC's Basic insurance business. In this capacity, the BCUC reviews and approves rates for the Basic insurance product and this product will continue to be defined by the provincial government in legislation; and
- ICBC's Basic insurance premiums are not to be used to subsidize ICBC's Optional insurance business.

Optional insurance is not regulated by the BCUC.

## 3.4 History of the Financial Allocation Methodology

In developing the financial allocation methodology, a repeatable allocation process has been established to apply the revenues and costs incurred by ICBC to each of its business segments. The initial iteration of the financial allocation methodology was introduced in ICBC's first RRA submitted in August 2003. In 2005, the BCUC approved ICBC's use of a pro-rata allocation approach, and most of the current allocators for ICBC's allocation functions were also approved in this 2005 Decision. Further updates to various allocators, other allocation matters, and some highlights of key BCUC decisions and changes are as follows:

- *2005 Decision on ICBC's March 2005 Filing Related to Selected Allocation Functions (BCUC Order G-46-05)* – Approval of work effort as the allocator for Regional Claim Centres, and other allocators

[6] Reference: ICBC's 2021 RRA, https://docs.bcuc.com/documents/proceedings/2020/doc_60191_b-1-icbc-2021-revenue-requirements-application.pdf

[7] In the spring of 2001, the BC government initiated a "Core Services Review" of all Crown Corporations. The objective of the review for ICBC was to assess whether ICBC was operating in the public interest, was effective and efficient, was being accountable and whether the services provided were affordable.

for Provincial Litigation Services, Claims System Support, Claims General Support, Insurance Systems Support, Bad Debts, and General Broker Support & Direct Sales.

- *2006 RRA Decision (BCUC Order G-86-06)* – Included approval of allocators for Salvage, Claims Dispute Resolution, Customer Service Support, Insurance Corporate Costs, Insurance Services Applications Support, Auto Crime Expenditures, and Corporate Project Costs.
- *2010 RRA Decision (BCUC Order G-137-10)* – Included approval for the use of Corporate Shared Services Ratio as the allocator for Marketing and Brokers Services and name change to Marketing Communication.
- *2015 RRA Decision (BCUC Order G-74-16)* – Included approval of updates to the Regional Claim Centres Detailed Work Effort Study (WES) which were necessary to accommodate the organizational changes in the Claims Division following its transition from a regional to a functional claims services model – now referred to as the CISO detailed WES.
- *2018 RRA Decision (BCUC Order G-192-19)* – Included approval of ICBC's suggested timing to prepare the assessment of the impacts of the Rate Affordability Action Plan (RAAP)[8] on the financial allocation methodology for total corporate operating expenses.
- *2021 RRA Decision (BCUC Order G-307-21)* – Included approval of ICBC's request to postpone the review of the financial allocation methodology until December 2023, considering the need to reach a steady state of revenues and expenses under the Enhanced Care model.

## 3.5 Impact of ICBC's Transition to the Enhanced Care Model on the Financial Allocation Methodology

Based on discussions with ICBC, as a result of the changes in ICBC's insurance products and in particular the transition to the Enhanced Care model, the proportion of premiums written and claims incurred that is attributable to Basic insurance has changed. In ICBC's 2021 RRA, it was stated that the changeover from a tort-based system to the Enhanced Care model and resulting organizational changes, may impact allocation methodologies in the future. As a result, ICBC proposed to delay the financial allocation methodology filing to the following year, until December 2023, to allow for further development of the claims and insurance data for the allocation filing. This timeline was subsequently approved by BCUC.

[8] RAAP includes a suite of initiatives in the following four areas: product reform (including a modified tort system), rate design, road safety, and Material Damage initiatives. Most of the RAAP changes have been superseded by Enhanced Care.

# 4 Overview of Financial Allocation Methodology

## 4.1 Purpose and Principles of the Financial Allocation Methodology

ICBC operates on an integrated basis providing Basic and Optional insurance products and services. As such, it is necessary to fairly and reasonably allocate revenues and costs among the Basic and Optional insurance and Non-insurance business segments for Basic insurance rate setting purposes and in a manner that will allow BCUC to ascertain whether ICBC's Basic insurance rates are fair, just, reasonable, and in accordance with the provisions under the ICA.

ICBC utilizes a BCUC-approved financial allocation methodology to ensure that only revenues and costs associated with their Basic and Non-insurance business are included in its Basic insurance rate setting process. The BCUC-approved financial allocation methodology is a fully allocated (or pro-rata) costing methodology that allocates the actual revenues and costs in accordance with the principles of causality.

The essence of ICBC's financial allocation methodology is to allocate revenues and costs:

- That are associated exclusively with a single business segment (directly attributable revenues and costs) directly to the appropriate business segment (Basic, Optional and Non-insurance).
- The remaining revenues and costs (non-directly attributable), which are earned or incurred in support of multiple business segments, are allocated in a manner that reflects the principles of revenue and cost causality.
- Where the causal relationship may be unclear, revenues and costs are allocated in an equitable and reasonable manner following the principles of ICBC's financial allocation methodology.

The apportionment between Basic insurance, Optional insurance, and Non-insurance of actual revenues and costs is audited each fiscal year-end by ICBC's external auditors.

## 4.2 Criteria for Appropriate Basis of Allocation

ICBC's financial allocation methodology was developed based on Canadian Generally Accepted Accounting Principles (GAAP), industry practices (practices of other similar public insurance entities in Canada), and allocation guidelines established by Property and Casualty (P&C) regulators and standard setters in Canada and the United States. KPMG has not verified and does not attest to ICBC's compliance with the standards and regulations stated above and as mentioned in **Section 2.2.1**, it is ICBC's responsibility to ensure that the financial information used within the financial allocation methodology follows the principles of understandability, relevance, reliability, comparability, and that the methodology is applied using the most current data.

In completing the allocation of revenues and costs, ICBC must also comply with current accounting standards and guidelines set out in the International Financial Reporting Standards (IFRS). As a government organization, ICBC must comply with IFRS in accordance with the *Budget Transparency and Accountability Act.*

For insurance companies applying IFRS, there has been a recent transition to a new accounting standard known as IFRS 17, *Insurance Contracts.* IFRS 17, as issued by the International Accounting Standards Board (IASB), is now effective for accounting periods which began on or after January 1, 2023. For ICBC, the standard is effective beginning in the current fiscal year (April 1, 2023, or FY 2023/24). ICBC will apply the new accounting standards retrospectively with prior year comparatives (for FY 2022/23) restated in the

2023/24 Annual Service Plan Report for continuity in presentation of financial information. The standard establishes the principles of recognition, measurement, presentation, and disclosure of insurance and reinsurance contracts, and supersedes IFRS 4. ICBC anticipates there will be no impacts to its financial allocation methodology arising from the transition to IFRS 17.

In accordance with ICBC's original criteria for determining appropriate bases of allocation filed in its 2003 RRA, ICBC's financial allocation methodology should also be aligned with the following bases of allocation:

- National (US) Association of Insurance Commissioners (NAIC) – Statutory Paper No.94 – which outlines that there must be uniformity in the classification, allocation, and reporting of costs and consistency in the develop and application of accounting principles;
- Should be consistent with the guidelines laid out by the Insurance Bureau of Canada Expense Allocation Program, which requires a logical allocation of revenues and costs to a particular product line; and
- Should be consistent, where appropriate, with the bases of allocation used within the public automobile insurance industry in Canada.

## 4.3 Allocation Framework

The BCUC-approved financial allocation methodology is a fully allocated, using pro-rata allocation methodology originally approved in the January 2005 Decision (G-9-05) and modified by subsequent decisions. A pro-rata allocation is determined by using an allocator that most accurately reflects the drivers of revenues and costs. ICBC's financial allocation methodology uses allocators to reflect causality to determine the allocation of revenues and costs among the Basic, Optional and Non-insurance business segments.

Table 1 below shows the seven primary allocator types used in ICBC's allocation framework. These allocator types are further separated into 26 sub-types. Please refer to Appendix D for further details on how allocators are assigned to ICBC's business operations.

**Table 1: Seven Primary Allocators**

| Allocator | Description |
|---|---|
| Directly Attributable | Directly attributable to Basic and Optional insurance, and Non-insurance. |
| Work Effort | The allocation of costs based on the estimated amount of time and effort applied to activities of a cost centre related to Basic and Optional insurance, and Non-insurance. Work effort is quantified by analyzing work activities through cost centre work activities which may include use of operational management reports, management interviews, and management estimates based on knowledge and experience of subject matter expert. |
| Averages | This allocator was developed for activities that provide support for business operations where the causal relationship is unclear. The allocation between Basic insurance, Optional insurance, and Non-insurance is therefore determined by the average of associated cost centres or divisions. |

| Allocator | Description |
|---|---|
| Premiums | The allocation of activities relating to insurance product development, underwriting, and distribution, allocated proportionally based on premiums written split of Basic insurance and Optional insurance products. |
| Claims | The allocation of activities proportional to the related claims transactions (e.g., the proportion of claims costs attributed to the Basic insurance and Optional insurance products). |
| Shared Services | Shared services pertain to support functions provided by Finance, Information Services, Human Resources, Strategy & Legal, etc. This allocator is based on the weighted average of Basic, Optional, and Non-insurance split of the primary lines of business (Claims, Road Safety & Loss Management, Insurance, Non-insurance) or primary business areas supported. |
| Others | Ratio and percentage calculation dedicated to specific allocation purpose (e.g., ratio calculated based on sources of funds for the investment income allocator, percentage of comprehensive insurance market share for the comprehensive coverage allocator). |

Allocators are used to reflect the drivers of ICBC's revenues and costs. There are events, however, which would trigger ICBC's review of allocation focused on specific revenue or cost segments, or allocators within the existing financial allocation methodology framework. Where changes to business operations or systems do result in significant changes to the allocation formula or methods, such changes are to be reported to BCUC in any filing or application under either the streamlined or full revenue requirements application regulatory review models. If a new type of allocator is introduced or the type of allocator changed for a large segment of revenues or costs, the allocation impact is assessed and, if material, ICBC would bring forward the change to BCUC for review.

## 4.4 Revenue and Cost Categories Used for Allocation Methodology Review

ICBC's revenues and costs can be viewed from the perspective of the presentation of the line items in its income statement. This presentation format serves as the basis for KPMG's review framework. Tables 2A and 2B below provide definitions of ICBC's revenues and costs:

**Table 2A: Revenues, Claims Costs and Premium Acquisition Costs**

| Item | Description |
|---|---|
| Vehicle Premiums, Driver Premiums, Service Fees & Other Insurance Income[9] | • Vehicle Premiums are premiums from insurance policies sold.<br>• Driver Premiums include Driver Penalty Points, Driver Risk Premium, Unlisted Driver Protection (UDP), Unlisted Driver Accident Premium, and Graduated Licensing Program Road Test Fees.<br>• Service Fees primarily consist of interest and other fees received from policyholders who have chosen to finance their insurance premiums over the policy period, as well as cancellation fees.<br>• Reinsurance recoveries – Purchasing reinsurance coverage allows ICBC (the direct insurer) to insure larger risks with another insurance company to mitigate the amount of loss resulting from claims to be paid by ICBC. |

[9] Includes other revenue items such as fees for vehicle claims history records and allowance for bad debts. The portion of these other revenue items that are indirectly allocated through averages of the related business areas is ~ 0.25% of Total Earned Revenues.

| Item | Description |
|---|---|
| Claims Costs | Claims-incurred costs include payments made to settle claims, adjusters' case reserves and actuarial estimates of the additional costs that will be paid on current claims and future claims. |
| Premium Acquisition Costs (Commissions and Premium Taxes) | Premium acquisition costs consist of commissions and premium taxes:<br>• Commissions represent the compensation paid to brokers for the sale of ICBC insurance products as well as for the delivery of non-insurance services; and<br>• Under the *Insurance Premiums Tax Act*, 4.4% is levied on insurance premiums. |
| Investment Income | Investment income is derived from ICBC Investment portfolio. The investment portfolio is funded primarily from unearned premiums, funds set aside for unpaid claims, and total equity. |

**Table 2B: Operating Expense by Line of Business**

| LOB | Description |
|---|---|
| Claims Services | Internal costs to adjust and settle claims consisting mainly of compensation for claims staff, expenses, claims system technical support and facilities costs. Costs incurred in this LOB consist of:<br>• Claims Injury & Legal Services (CILS) – costs associated with injury and recovery claims handling and in-house counsel;<br>• Claims Customer and Material Damage Services (CCMDS) – costs associated with material damage claims handling in customer and estimating services, claims call centres; and<br>• Other departments supporting claims business operations (e.g., claims system support, procedures, claims strategy, etc.). |
| Road Safety & Loss Management (RSLM) | • ICBC provides funding for various road safety initiatives designed to prevent automobile accidents and auto crimes.<br>• Loss Management consists of auto-crime prevention and the investigation of claims-related and driver licensing fraud. |
| Insurance Services | Costs related to insurance product development, underwriting, promotion and administration of ICBC's insurance products, customer and broker enquiry call centres and merchant fees. |
| Administrative and Other | Includes shared services provided by Customer Experience & Public Affairs, Information Services, Finance, Strategy & Legal, Human Resources and executive offices. |
| Non-Insurance Operations | Costs to support non-insurance activities ICBC undertakes on behalf of Government – namely, driver licensing, vehicle licensing and registration, and other activities outlined in Service Agreements between ICBC and the BC Government. |

## 4.5 ICBC Financial Allocation Approach Overview

In adopting the pro-rata approach for financial allocation, ICBC applied the following approaches to arrive at the split for the Basic insurance, Optional insurance, and Non-insurance business segments.

**Directly Attributable:**

Revenues, claims costs, premium acquisition costs, and operating expenses within each of the categories outlined in **Section 4.4** that are exclusively associated with one business segment are directly attributed to either Basic insurance, Optional insurance, or Non-insurance. In the financial allocation methodology, this method is referred to as "directly attributable". All other allocation methods are referred to as "allocated".

As of FY 2022/23, approximately 86.7% of ICBC's total costs and expenses are directly attributable to Basic, Optional or Non-insurance, and thus do not require further allocation.

**Allocated:**
For non-directly attributable revenues, other income, and costs, the revenue and cost causality is used to determine the appropriate allocation basis. A pro-rata allocation is determined by using an allocator that most accurately reflects the cost drivers of revenues, other income, or the cost centre costs. The allocators applied determine the split between the Basic insurance, Optional insurance, and Non-insurance. ICBC's financial allocation methodology primarily employs seven allocators as discussed in **Section 4.3**.

## 4.6 Revenues, Claims Costs, and Premium Acquisition Costs

Revenues, claims costs, and premium acquisition costs data are based on transactions recorded in ICBC's insurance and claims systems. ICBC's total costs are comprised of claims costs, premium acquisition costs (commissions and premium taxes), and corporate operating expenses.

Claims incurred costs associated with specific policy coverages that are either 100% Basic (e.g., Accident Benefit, Enhanced Accident Benefit, BVDC, etc.) or 100% Optional (e.g., Collision, Comprehensive, etc.) are directly attributed as discussed in **Section 6.2.2**. If the costs cannot be directly attributed and require further analysis, the split is determined based on the type of coverage provided. For legal-based insurance products, Basic claims costs include Accident Benefits and the portion of property damage and bodily injury claims that fall within the $200,000 Basic Third-Party Liability (TPL) limit. Optional claims costs of legal-based TPL claims include claim settlements or awards that exceed the $200,000 Basic Insurance TPL limit.

As noted in **Sections 4.3-4.4**, the allocation of revenues, claims costs, and premium acquisition costs are either directly attributable or allocated as follows:

**Table 3: Allocation of Revenues, Claims Costs, and Premium Acquisition Costs**

| Category | Allocation Description |
|---|---|
| Vehicle Premiums, Driver Premiums, Service Fees & Other Insurance Income | • Vehicle Premiums – Directly attributable to Basic or Optional insurance based on the insurance coverage of policies issued;<br>• Driver Premiums – Directly attributable to 100% Basic based on government direction for non-insurance operations;<br>• Service Fees & other insurance income – Directly attributable based on vehicle premiums; and<br>• Reinsurance – Allocated to Basic or Optional insurance based on a case-by-case assessment of each reinsurance claim. |

<table>
<tr><th>Category</th><th>Allocation Description</th></tr>
<tr><td>Claims Costs</td><td><ul><li>Most claims costs are directly attributable to Basic or Optional based on policy type and coverage;</li><li>Loss and allocated loss adjustment expenses (ALAE)[10] are recorded in the claims system by coverage and are directly attributable to either Basic or Optional insurance based on the policy type and coverage, except for those incurred on Third-Party Liability coverages and garage policies where additional calculations are required;</li><li>Actuarial estimates of the additional costs required to settle claims are determined separately for Basic and Optional claims (using loss and ALAE data collected as above); and</li><li>Unallocated Loss Adjustment Expense (ULAE)[11] costs are allocated to Basic insurance and by coverage based on the claims handling roles and functions with which these costs are associated.</li></ul></td></tr>
<tr><td>Premium Acquisition Costs (Commissions and Premium Taxes)</td><td><ul><li>Commissions are fees paid to brokers:<ul><li>Commissions for insurance transactions are directly attributable to Basic and Optional based on the type of vehicle premiums;</li><li>Commissions for non-insurance transactions are allocated as 100% Basic; and</li></ul></li><li>Premium taxes are directly attributable to Basic or Optional based on the type of premium to which the tax is applied.</li></ul></td></tr>
<tr><td>Investment Income</td><td>Investment income is allocated based on a weighted average calculation of current year ending unpaid claims, current year ending unearned premiums, and current year opening total equity.</td></tr>
</table>

## 4.7 Operating Expenses

### 4.7.1 Allocation of Operating Expenses

ICBC's total controllable operating expenses are comprised of all costs incurred to run ICBC's Insurance and Non-insurance businesses, excluding claims costs, commissions, and premium taxes. Operating expenses include employee compensation, pension and post-retirement benefit expenses, project and depreciation expenses, merchant fees, road improvements and traffic safety costs, professional fees, administrative costs, and other expenses.

For the purposes of the RRA filing and ICBC's financial allocation methodology, ICBC presents financial information on operating expenses according to five lines of business (LOBs): Claims Services, Road Safety & Loss Management (RSLM), Insurance Services, Administrative and Other, and Non-insurance Operations. The financial allocation methodology is applied to operating expenses in detail as discussed in **Section 6.3** below.

ICBC allocates total corporate operating expenses by applying the BCUC-approved financial allocation methodology, except in circumstances where direction is issued by the BC Government to fund costs in a specific manner.[12]

[10] Allocated loss adjustment expenses (ALAE) are costs such as medical exams, police reports, towing and storage, etc. that are assigned directly to individual claims files. These are incurred to investigate, defend and settle claims.
[11] Unallocated Loss Adjustment Expenses (ULAE) accounts for expenses incurred in the management of claims, which cannot be allocated directly to a particular claim such as internal claims staff salaries.
[12] An example direction issued by the BC Government is the Government Directive of January 24, 2020, with respect to Funding Autoplan Care Enhancement from Optional insurance approved by Order in Council 046, February 6, 2020.

The application of the current financial allocation methodology for operating expenses starts with cost centre costs and applies an approved allocator to apportion the costs between the Basic insurance, Optional insurance, and Non-insurance (Non-insurance costs are allocated 100% to Basic insurance). A cost centre is the most granular organizational unit in which costs are recorded or planned. An allocator reflects the cost driver of a particular cost centre. As shown in Table 1, there are seven primary types of allocators in ICBC's allocation framework including directly attributable, claims, premium, work effort, shared service, or average-based. As of the time of this report, ICBC's operating expenses are managed through approximately 600 cost centres.

### 4.7.2 Cost Centre Administration Process

As ICBC's organization evolves, changes may occur, which may require the update of existing cost centres, or the corresponding allocators applied, the creation of new cost centres, or the retirement of existing cost centres. ICBC's cost centre update process is conducted through the following steps:

- Business operations managers are designated as the owner of cost centres. Managers request to create a new cost centre or update an existing cost centre in coordination with the Financial Consulting and Advisory Services (FCAS) team through a "New/Change/Close Cost Centre Request Form";
- FCAS discusses the business need for the request with the managers in order to ensure that the allocator assigned to the cost centre most appropriately reflects the function and allocation split;
- The Accounting and Tax department sets up the cost centre in SAP; and
- FCAS provides a governance role, including quality assurance and consistency of information corporate-wide.

The calculation of allocator values is refreshed each year to reflect an updated split between Basic insurance, Optional insurance, and Non-insurance business segments. If a cost centre function changes completely and the previous allocator no longer reflects its cost driver, a new cost centre is set up and an appropriate allocator is assigned based on a new function.

FCAS reviews, reconciles, and updates the financial allocation of operating expenses as part of regular quarter-end and year-end reviews. The cost centre functions and assigned allocators are reviewed and adjusted during the year-end review process by business owners, planners, and FCAS to ensure that these reflect the most current business operations.

# 5 KPMG Review Approach

KPMG's review of the total revenue and cost line items for FY 2021/22 and FY 2022/23 actuals were validated to the audited financial statements and previous RRA filings. FY 2023/24 budgeted operating expenses were also used for analysis and comparison purposes but were not verified. The detailed Basic, Optional, and Non-insurance allocation calculations were reviewed based on various supporting documents[13] provided by ICBC. This section summarizes KPMG's approach to conducting the review and analysis of ICBC's financial allocation methodology through the following steps:

- Step 1: Engagement Launch, Research, and Data Collection
- Step 2: Current State Analysis
- Step 3: Consultations and Workshops with ICBC Financial Allocation Methodology Subject Matter Experts on Revenues, Claims Costs, Premium Acquisition Costs, and Operating Expenses
- Step 4: Review of Operating Expense Allocation by Line of Business
- Step 5: Compliance Review and Other Methodologies Analysis
- Step 6: Validation of Findings and Recommendations
- Step 7: Report Preparation

## 5.1 Step 1: Engagement Launch, Research, and Data Collection

KPMG performed the following activities relating to the engagement launch, research, and data collection:

- Identified primary contacts at ICBC, confirmed the scope of the report required for BCUC regulatory filings, aligned on project structure, and determined key deliverables;
- Conducted initial research on ICBC RRAs and financial allocation filings. The focus of the research included gaining an understanding of any potential impacts from the transition to the Enhanced Care model on the financial allocation methodology;
- Conducted a market scan to understand financial allocation approaches employed by comparable entities in BC and other jurisdictions; and
- Gathered data from ICBC pertaining to the allocation methodology and BCUC's directions to ICBC to undertake a review of the financial allocation methodology.

## 5.2 Step 2: Current State Analysis

KPMG conducted an initial analysis in preparation for stakeholder meetings and validated data sets against audited financial statements and previous RRA filings through the following:

- Acquired an understanding of ICBC's financial allocation methodology framework, reviewed and assessed the existing financial allocation methodology filings and documentation, including cost centres descriptions, allocators, supporting documents, comparative allocation models, and areas where changes may be required;
- Validated financial allocation data against prior years' BCUC regulatory filings and previous fiscal years' financial statements; and
- Drafted a roadmap for an in-depth review of the operating expenses

[13] Supporting documents include regulatory filings and excel-based workbooks such as the master allocation file, investment income ratio calculation file, premiums allocation file, claims cost allocation file, etc.

## 5.3 Step 3: Consultations and Workshops with ICBC Financial Allocation Methodology Subject Matter Experts on Revenues, Claims Costs, Premium Acquisition Costs, and Operating Expenses

KPMG conducted reviews and workshops with ICBC subject matter experts to evaluate the appropriateness of revenues, claims costs, and premium acquisition costs allocation and the completeness of corporate operating expenses. Throughout the workshops, KPMG discussed and validated the reasonability of allocations and streamlining opportunities identified, and analyzed the results of KPMG's findings with the following ICBC subject matter experts and business owners:

- Finance (including FCAS, Financial Governance, Divisional Controllers, Investment) – to gather an understanding of the allocation methodology and challenges in ICBC's existing methodology;
- Regulatory Affairs – to understand financial allocation methodology in the context of government legislation, BCUC directions, and previous ICBC RRA filings;
- Business leaders from Claims Injury and Legal Services (CILS), Claims Customer and Material Damage Services (CCMDS), and other departments supporting claims (e.g., MD Strategy and Programs) – to understand the claims business model, nature of costs, rationale of allocation split, challenges with ICBC's existing methodology, and organizational changes that are associated with the Enhanced Care changes; and
- Actuarial – to assess and understand the nature, calculation, and allocation rationale of revenues, claims costs, and premium acquisition costs

## 5.4 Step 4: Review of Operating Expense Allocation by Line of Business

As noted in **Section 4**, the allocation of revenues, claims costs, and premium acquisition costs is mostly directly attributable, and did not require an in-depth review. KPMG conducted an in-depth review of operating expenses because the allocation of operating expenses is more detailed and various allocators are used to determine the percentage split.

In order to organize and prioritize the level of review needed for operating expenses, KPMG requested the FCAS team to assess and provide a preliminary review of the cost centres, providing an opinion on the impact of Enhanced Care on business areas based on the materiality of amounts, as well as discussions with cost centre managers on changes in business operation. KPMG further conducted an in-depth analysis of operating expenses by LOBs and prioritized the cost centre reviews using the selection criteria below:

**Table 4: Cost Centre Review Selection Criteria**

| Criteria | Light Review (all criteria met) | Moderate Review (one or more criteria met) | In-Depth Review (any criteria met) |
|---|---|---|---|
| Enhanced Care Impact | No impact | Low impact | Moderate to High impact |
| Cost Centre Amount (FY 2022/23 actual and FY 2023/24 budget) | $ < $500K in both fiscal years | $500K <= $ < $1M in either fiscal year | $ >= $1M in either fiscal year |
| Related to Claims Service LOB | No | Yes | Yes |
| Number of cost centres | 193 | 138 | 292 |

- A light review consisted of a review of current and historical cost centre amounts and an evaluation of the appropriateness of the functional allocations;
- A moderate review consisted of the process included in light review, plus discussions with the FCAS and Regulatory Affairs teams on allocation and rationale for the cost centre allocator; and
- An in-depth review consisted of an in-depth analysis into these cost centres, including the process of moderate review, plus understanding the nature of the costs, discussions with Claims Services business owners, analysis of operating expenses.

## 5.5 Step 5: Compliance Review and Other Methodologies Analysis

KPMG conducted a compliance review and an analysis of other methodologies, through the following:

- Conducted an assessment to determine whether ICBC's implementation of the current allocation methodology complies with BCUC's regulatory oversight of ICBC under the ICA, including:
    - No cross-subsidization of Optional by Basic;
    - Validation of allocating costs to the Basic and Optional insurance, and Non-insurance business segments;
    - Following BCUC directions on the financial allocation methodology;
- Compared ICBC's methodology with allocation methodologies adopted by other BCUC-regulated organizations, and to comparable entities in similar jurisdictions; and
- Analyzed the results derived from applying other methodology and the potential use by ICBC.

## 5.6 Step 6: Validation of Findings and Recommendations

KPMG performed the following activities to validate findings from **Sections 5.2** to **5.5**:

**Table 5: Steps of Validation**

| Steps | Activities |
|---|---|
| 1. Share initial findings | Summarized the initial findings based on the in-depth review, workshops and meetings with subject matter experts, presented the results to the Regulatory Affairs and FCAS teams and discussed the validation steps. |
| 2. Check reasonableness and accuracy of data and formula during the in-depth review | Checked the mechanical accuracy and reasonableness of the allocation rationale and calculation formula used to allocate revenues, claims costs, premium acquisition costs, and operating expense items based on the files and data provided. |
| 3. Confirm the consistency | Reviewed the financial allocators and approaches and confirmed the consistency of the application of the allocators with the allocation methodology principles by analyzing the files and data provided at the cost centre level. |
| 4. Research of other methodologies | • Conducted research and summarized the findings of other allocation methodologies of comparable jurisdictions;<br>• Presented to ICBC for consideration the potential application of alternative approach by conducting allocation sensitivity analyses using previous year's data to calculate the impact to operating expenses movements. |
| 5. Discuss findings | Based on the research, calculation, and analysis, discussed the findings with ICBC, identifying and documenting optimization opportunities throughout the Review. |

## 5.7 Step 7: Report Preparation

KPMG prepared the final report summarizing the results of the Review, including issuing a review on the appropriateness of the existing financial allocation methodology, any potential areas that can be optimized to improve the allocation process, and presented an independent opinion to ICBC leadership.

# 6 KPMG Evaluation

## 6.1 Evaluation Summary and Recommendation

Following the Review allocation framework discussed in **Section 4.3**, KPMG concludes that the current financial allocation methodology of ICBC's revenues, claims costs, premium acquisition costs, and operating expenses continues to be appropriate with changes and updates recommended in the sections below to optimize how ICBC applies the financial allocation methodology. Due to the changing insurance business landscape and resulting changes to the application of allocators, it is recommended that ICBC continues its regular review procedures and refinements to ensure alignment of cost centre functions, allocators, and rationales, and ultimately the financial allocation methodology.

KPMG's findings and recommendations from the review of ICBC's financial allocation methodology are summarized in Tables 6 and 7 below. The details of KPMG's evaluation are presented in **Section 6.2 and 6.3**. KPMG also conducted an analysis of the work effort allocator applied to the Customer and Injury Services Operations (CISO) within the Claims Services LOB. The details and recommendations are presented in **Section 6.4**. Please note that the optimization opportunities identified do not materially impact the overall appropriateness of the financial allocation methodology as the proposed updates and changes in amounts and percentages are immaterial when compared to total balances. The goal of considering and implementing the optimization opportunities is to further enhance ICBC's implementation of the current financial allocation methodology.

**Table 6: Summary and Recommendation of Revenues, Claims Costs, and Premium Acquisition Costs**

| Item | Proposed Recommendations |
|---|---|
| Vehicle Premiums, Driver Premiums, Service Fees & Other Insurance Income | Allocation remains appropriate, no changes recommended |
| Claim Costs | Allocation remains appropriate, no changes recommended |
| Commissions & Premium Taxes | Allocation remains appropriate, no changes recommended |
| Investment Income | Allocation remains appropriate with changes recommended:<br>• Use average of opening and closing total equity to calculate allocator |

**Table 7: Summary and Recommendation of Operating Expenses**

| Operating Expense LOB | Proposed Recommendations |
|---|---|
| Claims Services | Allocation remains appropriate with changes recommended:<br>• Certain cost centres to be assigned more appropriate allocators based on changes to business functions<br>• Certain allocator calculations need to be updated<br>• Use of Work Effort allocator, work effort percentage, and CISO Work Effort Study (WES) needs to be reviewed to accommodate business changes |
| Road Safety & Loss Management | Allocation remains appropriate, no changes recommended |
| Insurance Services | Allocation remains appropriate, no changes recommended |
| Administrative and Other | Allocation remains appropriate, no changes recommended |
| Non-Insurance Operations | Allocation remains appropriate, no changes recommended |

## 6.2 Evaluation of Revenues, Claims Costs, and Premium Acquisition Costs

The allocation of revenues, claims costs, and premium acquisition costs to Basic insurance and Optional insurance is allocated in ICBC's insurance and claims system based on the respective products and coverages, and requires little to no manual intervention to allocate. The changes to products and coverages that resulted from the transition to the Enhanced Care model from a legal-based insurance model are updated through ICBC's insurance and claims systems. The actual amounts of revenues, claims costs, and premium acquisition costs were not analyzed or reviewed in detail in this Review due to the directly attributable nature of these accounts.

KPMG concluded that the transition to the Enhanced Care had a low to minimal impact on the ability to derive causality and on the application of the allocation methodology for revenues, claims costs, and premium acquisition costs. KPMG also found that the financial allocation methodology applied to these components continues to be appropriate. Specific recommendations to revisit one of the three benchmarks used in the weighted average calculation for the allocation of investment income were identified and are discussed in **Section 6.2.4**.

### 6.2.1 Vehicle Premiums, Driver Premiums, Service Fees, and Other Insurance Income

The allocation methodology applied for vehicle premiums, driver premiums, service fees, and other insurance income remains appropriate, and no changes are recommended to the allocation methodology. Please note that actual amounts of premiums and fees were not analyzed or reviewed through the Review due to their directly attributable nature.

As discussed in **Section 4**, the allocation of revenues and other income items such as vehicle premiums, driver premiums, service fees and other insurance income are mainly directly attributable based on either premiums written or premiums earned of coverages purchased. The allocation of FY 2022/23 actuals of premiums written, premiums earned, services fees and other insurance income are shown in the table below.

**Table 8: FY 2022/23 Premiums Written, Premiums Earned, Service Fees and Other Income Amount and Allocation Percentages**

| Category ($Millions) | Basic | Non-Insurance | Optional | Total |
|---|---|---|---|---|
| Premiums Written | 3,216.2 | - | 2,212.7 | 5,428.9 |
| Premiums Earned | 3,183.8 | - | 2,106.4 | 5,290.2 |
| Service Fees & Other Insurance Income | 71.2 | 9.6 | 54.2 | 135.0 |
| **Allocation Percentage** | | | | |
| Premiums Written | 59.2% | - | 40.8% | 100.0% |
| Premiums Earned | 60.2% | - | 39.8% | 100.0% |
| Service Fees & Other Insurance Income | 52.7% | 7.1% | 40.2% | 100.0% |

### 6.2.2 Claims Costs

The allocation methodology applied to claims costs remains appropriate, and no changes are recommended. Please note that actual amounts of claims costs were not analyzed or reviewed through the Review due to their directly attributable nature.

As of FY 2022/23, claims costs are approximately 72.3% of ICBC's total costs and operating expenses, and as discussed in **Section 4.6**, Table 3, most claims costs are recorded in the claims systems by coverage and directly attributable to Basic insurance or Optional insurance based on the policy type and coverage related to the claim. The allocation of claims costs by coverages can be summarized as follows:

- Claims costs related to Accident Benefits, Enhanced Accident Benefits, and Basic Vehicle Damage Coverage are Basic insurance coverages and are thus allocated 100% to Basic insurance;
- Claims costs related to Collision and Comprehensive are Optional coverages and thus the claim costs are allocated 100% to Optional insurance; and
- For legal-based Third-Party Liability claims, additional calculations and analysis are required. Basic claims costs include the portion of property damage and bodily injury claims that fell within the $200,000 Basic TPL limit. Optional claims costs include the Optional portion of legal-based TPL claims (e.g., claim settlements or awards that exceed the $200,000 Basic insurance Third-Party Liability limit).

The table below is the FY 2022/23 allocation of claims costs:

**Table 9: FY 2022/23 Claims Costs Amount and Allocation Percentage**

| Category ($Millions) | Basic | Non-Insurance | Optional | Total |
|---|---|---|---|---|
| Claims Costs | 2,096.2 | - | 2,024.6 | 4,120.8 |
| Allocation Percentage | 50.9% | - | 49.1% | 100.0% |

### 6.2.3 Commissions and Premium Taxes

As of FY 2022/23, premium acquisition costs (commissions and premium taxes) are approximately 11.7% of ICBC’s total costs and operating expenses.

**Commissions**

The allocation methodology applied for commissions remains appropriate, and no changes are recommended. The allocation of premium commissions was 100.0% directly attributable based on the premiums on which the commissions were earned as shown in Table 10 below. Also, commissions for insurance and non-insurance are tracked separately as insurance commissions are allocated based on the coverages provided, while non-insurance commissions are directly attributable to Basic.

**Premium Taxes**

The allocation methodology applied for premium taxes remains appropriate, and no changes are recommended. The allocation of premium taxes was directly attributable based on the premiums written (FY 2022/23 tax rate was 4.4%). The breakdown of total premium taxes incurred ($238M) was found to be $143M allocated to Basic insurance and $95M allocated to Optional insurance as shown in Table 10 below.

**Table 10: FY 2022/23 Commissions and Premium Taxes Amounts and Allocation Percentages**

<table>
<tr><th>Category ($Millions)</th><th>Basic</th><th>Non-Insurance</th><th>Optional</th><th>Total</th></tr>
<tr><td>Commissions – Insurance</td><td>70.1</td><td>-</td><td>321.4</td><td rowspan="2">428.4</td></tr>
<tr><td>Commissions – Non-Insurance</td><td>-</td><td>36.9</td><td>-</td></tr>
<tr><td>Premium Taxes</td><td>143.1</td><td></td><td>95.0</td><td>238.0</td></tr>
</table>

| Category ($Millions) | Basic | Non-Insurance | Optional | Total |
|---|---|---|---|---|
| **Allocation Percentage** | | | | |
| Commissions – Insurance | 16.4% | - | 75.0% | 100.0% |
| Commissions – Non-Insurance | - | 8.6% | - | |
| Premium Taxes | 60.1% | - | 39.9% | 100.0% |

### 6.2.4 Investment Income

As discussed in **Section 4** above, investment income is derived from ICBC's Investment portfolio which is funded primarily from unearned premiums, funds set aside for unpaid claims, and total equity. Investment income is allocated based on the investment income rationale calculation. This calculation relies on current year-end unpaid claims, current year-end unearned premiums, and current year opening equity. These three components are split between Basic insurance and Optional insurance.

Investment income is allocated based on the weighted average of these amounts as shown in Table 11 below.

**Table 11: FY 2022/23 Investment Income Weighted Average Allocation Calculation**

| Factor ($Millions) | Basic | Non-Insurance | Optional | Total |
|---|---|---|---|---|
| Unpaid Claims - Ending Balance | 8,995.3 | - | 4,038.1 | 13,033.4 |
| Unearned Premiums - Ending Balance | 1,519.9 | - | 1,061.8 | 2,581.7 |
| Total Equity - Opening Balance | 2,274.4 | - | 1,440.7 | 3,715.2 |
| **Total** | **12,789.7** | **-** | **6,540.6** | **19,330.2** |
| **Weighted Average %** | **66.2%** | **-** | **33.8%** | **100.0%** |
| **Investment Income - Allocated based on Weighted Average % of Factors Above** | **48.8** | **-** | **25.0** | **73.8** |

Currently, ICBC uses the year-end balances for unpaid claims and unearned premiums and the opening balance of total equity in the calculation of the investment income allocation. ICBC uses the opening balance for total equity because it is what will be used for the investments to be made in the year, and thus, directly driving the investment income to be earned in the period. Using the year-end balance would also include the investment income to be allocated causing a circular reference bias (e.g., an overstatement of equity for the year that is used to derive the calculation of the weighted average) because the investment income earned in the current year is rolled into the year-end total equity balance.

During the Enhanced Care transition period, it was anticipated that the Optional insurance book of business would be changing because the Enhanced Care model will shift costs between Basic and Optional insurance coverages. This would result to a different mix of Basic and Optional allocation in the opening equity and the ending equity. Therefore, an optimization opportunity is present for ICBC to use average total equity until the balances between the opening equity and ending equity stabilize.

## 6.3 Evaluation of Operating Expenses

KPMG reviewed and analyzed the calculation and allocation for operating expenses at the cost centre level using ICBC's Master Allocation File. The Master Allocation File performs allocation calculations at the cost centre level to determine the split for each of the three business segments using cost centre identifiers such as description, function, historical recorded financial information, allocators applied, and allocation rationales. ICBC's FCAS team updates the Master Allocation File each year for changes in allocators, current year costs, and allocation rationales. KPMG conducted an in-depth analysis of operating expenses using the FY 2022/23 and FY 2023/24 Master Allocation Files (FY 2023/24 data was forecasted based on the previous year and obtained from ICBC's FY 2023/24 Service Plan), while FY 2019/20, FY 2020/21, and FY 2021/22 data were also used to assess trends.

As of FY 2022/23, operating expenses are approximately 16.1% of ICBC's total costs and operating expenses. Approximately 47.8% of operating expenses are directly attributable or are allocated based on premiums or claims causality. Approximately 52.2% of operating expenses required more detailed allocation based on work effort, average, shared services, and other allocators.

With the implementation of Enhanced Care, claims coverages, claims volumes by coverages, and the work of claims staff has changed significantly. Based on discussions with ICBC subject matter experts, KPMG deemed that the transition to Enhanced Care had significant organizational and task-related impacts on the Claims Services LOB, which is discussed further in **Section 6.3.1**. The other four operating expense LOBs were deemed to have low-to-moderate impacts as a result of Enhanced Care based on the analysis at the cost centre level and discussion with ICBC to understand the nature of the costs, cost causality, and rationale of using various allocators.

### 6.3.1 Claims Services LOB

Through KPMG's review, it was identified that the allocation split for the Claims Services LOB overall remains appropriate after the transition to Enhanced Care. KPMG recommends some changes for allocators assigned to cost centres that will add accuracy to ICBC's application of the financial allocation methodology. However, given the total dollar amount of the cost centres impacted, KPMG does not expect the overall split between Basic insurance and Optional insurance to change materially or to materially impact any rate change that ICBC may propose in the future.

Within the Claims Services LOB, KPMG recommends that the work effort allocator applied to Customer and Injury Services Operations (CISO) be reviewed and potentially updated to accommodate the business changes related to the transition to the Enhanced Care model and the changing landscape of outstanding legal-based claims. Please see **Section 6.4** for further discussion regarding the CISO detailed WES.

The Claims Services LOB applies four different allocator types and of the 232 total cost centres, all cost centres met the criteria to either be moderately reviewed or reviewed in-depth, based on the review criteria. Through the discussions with claims business leaders, subject matter experts, and the FCAS and Regulatory Affairs teams, KPMG identified that the allocators for certain cost centres require updates and changes as summarized in Table 12 and detailed in Table 13-15 below.

**Table 12: Claims Services LOB Allocator Review**

| Allocator Type | FY 2022/23 ($Millions) | Business Function and Allocator | KPMG Review |
|---|---|---|---|
| Directly Attributable[14] | 101.3 | Includes costs for recovery and rehabilitation (100% Basic) functions and Optional coverage claims handling | No changes recommended |

[14] These balances include RAAP $1.9M, TP $8.1M, and Autoplan Care Enhancements $9.4M

| Allocator Type | FY 2022/23 ($Millions) | Business Function and Allocator | KPMG Review |
|---|---|---|---|
| Work Effort | 160.9 | • Most of the costs for CISO cost centres are allocated based on the CISO detailed work effort study<br>• Provincial litigation allocator is used for functions supporting bodily injury litigation and strategy | Update allocator for bodily injury medium complexity claims handling and other components of the CISO detailed WES |
| Averages | 100.4 | Support functions within claims division and technical support for claims system are assigned based on the average of Basic and Optional split of business areas supported | Update allocator for cost centres within Recovery Services to 100% Basic |
| Claims | 77.3 | Allocators are based on claims transactions (volumes or costs) for claims handling (that are not included in CISO) and Material Damage (MD) support areas | Review calculation of allocator for claims call centres |
| **Total** | **439.9** | | |

**Work Effort - Bodily Injury Claims Handling**

Bodily injury (BI) claims files are segmented as low, medium, or high complexity based on claim type, risk, and complexity, and are assigned to the appropriate injury claims handling teams with the necessary skills and specialized body of knowledge. Based on discussions with ICBC, the remaining open (pending) BI files are becoming more complex and challenging to resolve or are more likely to proceed to trial.[15]

KPMG has identified a cost centre within CISO whose function has changed recently from handling medium complexity claims files to high-risk files but is still allocated based on the basis of performing medium complexity injury claim work. KPMG recommends that ICBC considers changing the allocator from the current basis which is based on work effort as part of the CISO detailed WES, to the allocator for Head Office Claims which handles only high complexity claims. The Claims Services business owners and FCAS team members are reviewing the cost centre and determining the appropriate allocator to be used. The dollar value impact of a 1.0% change in the allocation split is estimated to be $2.4K in line with the FY 2022/23 balance as shown in Table 13 below.

**Table 13: Current Allocator of Cost Centre Subject to Change**

| Allocator of Cost Centre Subject to Change | Current Allocation Basic/Optional | FY 2022/23 ($Millions) |
|---|---|---|
| Work Effort – Claims Operations (CISO related) | 59.8% / 40.2% | 0.2 |

**Averages - Recovery Services**

KPMG noted that all of the cost centres performing management functions within Recovery Services oversee Enhanced Accident Benefit claims handling and fully support Enhanced Care activities and thus, should be assigned to a 100% Basic allocation. However, some of these cost centres are currently assigned an average allocator which has an Optional component. KPMG recommends the allocator for these cost

[15] As a result of the transition to the Enhanced Care model, open legal-based injury (bodily injury and accident benefit) claims volumes are diminishing as claims get settled. Of the remaining bodily injury pending, most of these claims are highly complex and are litigated. ICBC anticipates that a higher percentage of the remaining bodily injury pending claims are likely to settle over the Basic Third-Party Liability limit of $200,000 than have in the past.

centres be updated to a 100% Basic instead of Weighted Average – Cost Centres and Claims Division Average in order to reflect the shift from Optional to Basic insurance as a result of the transition to Enhanced Care. The dollar value impact of this change is estimated to be $0.5M (50.0% of $1.0M) plus $0.1M (32.7% of $0.3M) equalling $0.6M from Optional insurance to Basic insurance by using the FY 2022/23 amount as shown in Table 14 below.

**Table 14: Current Allocator of Cost Centres Subject to Change**

| Allocator of Cost Centres Subject to Change | Current Allocation Basic/Optional | FY 2022/23 ($Millions) |
|---|---|---|
| Average – selected claims cost centres | 50.0% / 50.0% | 1.0 |
| Average – Claims Division | 67.3% / 32.7% | 0.3 |

**Claims - Call Centres**

Based on discussions with ICBC, the calculation of the allocator (Claims – Newly Opened Exposure) assigned for claims call centres may not fully capture all the coverages and / or transactions that claims call centres are now handling as a result of the transition to Enhanced Care. Business owners and the FCAS team are reviewing the cost centres and determining the appropriate allocator and allocation to be used. The dollar value impact of a 1.0% change in the allocation split is estimated to be $0.4M (1.0% of $42.7M) by using FY 2022/23 actual balance as shown in Table 15 below.

**Table 15: Current Allocator of Cost Centres Subject to Change**

| Allocator of Cost Centres Subject to Change | Current Allocation Basic/Optional | FY 2022/23 ($Millions) |
|---|---|---|
| Claims – Newly Opened Exposure | 26.0% / 74.0% | 42.7 |

### 6.3.2 Road Safety & Loss Management

Through KPMG's review, it was identified that the allocation split for the RSLM LOB is still appropriate as outlined below. The Road Safety & Loss Management (RSLM) LOB applied four different allocator types and of the 23 total cost centres, 12 required a moderate to in-depth review based on the review criteria.

**Table 16: RSLM LOB Allocator Review**

| Allocator Type | FY 2022/23 ($Millions) | Business Function and Allocator | KPMG Review |
|---|---|---|---|
| Directly Attributable | 33.0 | Road Safety initiative are 100% Basic as per *Special Direction IC2* | No changes recommended |
| Averages | 14.4 | • Claims-related fraud investigations are allocated based on the Claims LOB average of Basic and Optional split<br>• Support functions are allocated based on the average of Basic and Optional split of primary RSLM functions | No changes recommended |
| Others | 2.1 | Auto crime prevention costs are allocated based on comprehensive market share | No changes recommended |
| **Total** | **49.5** | | |

### 6.3.3 Insurance

Through KPMG's review, it was identified that the allocation split for the Insurance LOB is still appropriate as outlined below. The Insurance LOB applied five different allocator types and of the 66 total cost centres, 41 required a moderate to in-depth review based on the review criteria.

**Table 17: Insurance LOB Allocator Review**

| Allocator Type | FY 2022/23 ($Millions) | Business Function and Allocator | KPMG Review |
|---|---|---|---|
| Directly Attributable[16] | 30.2 | Projects that are 100% directly attributable based on business area or government directives | No changes recommended |
| Work Effort | 5.5 | Broker account and relations providing support for Basic, Optional, and Non-insurance product costs allocated based on weighted average of time spent on functions performed | No changes recommended |
| Averages | 46.3 | Costs are allocated based on the average of Basic and Optional split of primary business areas support (e.g., functions such as insurance service application, actuarial, etc., and bad debts and allowances) | No changes recommended |
| Premiums | 71.1 | Allocation based on premiums written for costs such as merchant fees, insurance product development, product sales and insurance system support, etc. | No changes recommended |
| Shared Services | 3.8 | Services such as corporate website and marketing communications, etc. | No changes recommended |
| **Total** | **156.9** | | |

### 6.3.4 Administrative and Other

Through KPMG's review, it was identified that the allocation split for the Administrative and Other LOB is still appropriate as outlined below.

The Administrative and Other LOB has six different allocator types and 112 out of the 170 cost centres required a moderate to in-depth review based on the review criteria, as the cost centres had amounts over the review threshold and / or were impacted by the Enhanced Care changes. The Administrative and Other LOB consists mainly of support functions for Finance, HR, Information Services, etc. Therefore, the majority of costs are allocated using the Basic and Optional percentage split, 50/50 equal split, or average of the business supported.

**Table 18: Administrative and Other LOB Allocator Review**

| Allocator Type | FY 2022/23 ($Millions) | Business Function and Allocator | KPMG Review |
|---|---|---|---|
| Directly Attributable[17] | 6.7 | Corporate and project costs which are directly attributable to either Basic insurance or Optional insurance | No changes recommended |

[16] These balances include RAAP $8.6M, TP $12.5M, and Autoplan Care Enhancements $7.7M

[17] These balances include RAAP $0.2M, and TP $1.7M

| Allocator Type | FY 2022/23 ($Millions) | Business Function and Allocator | KPMG Review |
|---|---|---|---|
| Work Effort | 20.9 | Costs for corporate functions such as general counsel, supply management and communications, etc. are allocated based on weighted average of time spent on functions performed | No changes recommended |
| Averages | 7.6 | • Customer collections, corporate training costs, etc. are allocated based on the average of primary business areas supported<br>• Facilities and document management costs are allocated based on the square footage | No changes recommended |
| Shared Services | 125.3 | Corporate shared service functions such as Information Services and technology related costs, Human Resources, Corporate Initiatives, Executive Office and Finance, etc. are allocated based on weighted Basic and Optional averages of primary lines of business supported and BCUC direction on shared costs | No changes recommended |
| Others | 1.1 | Investment department costs | No changes recommended |
| **Total** | 161.7 | | |

### 6.3.5 Non-Insurance LOB

Through KPMG's review, it was identified that the Non-insurance cost centres were appropriately classified under the Non-insurance business and there was no impact from Enhanced Care. There are 108 cost centres within the Non-insurance LOB and of these, 57 cost centres required a moderate to in-depth review based on the review criteria, as the cost centre amounts were over $500K.

**Table 19: Non-Insurance LOB Allocator Review**

| Allocator Type | FY 2022/23 ($Millions) | Business Function and Allocator | KPMG Review |
|---|---|---|---|
| Directly Attributable | 108.1 | Driver Licensing operations and other Non-insurance specific functions are allocated 100% to Basic | No changes recommended |

## 6.4 Work Effort Allocators and CISO Work Effort Study

Work effort allocators are used to allocate operating expenses to Basic, Optional or Non-insurance in cases when activities within a cost centre are not directly attributable, the premium or claims causality is not clear, or can not be calculated through averages of business areas supported. Work activities are analysed based on underlying transactions or management estimates of time spent, and may include the use of operational reports, management interviews and estimates based on knowledge and experience of subject matter experts. As of FY 2022/23, work effort allocators are approximately 20.7% of ICBC's total operating expenses and approximately 3.3% of total costs and expenses. The majority of the operating expenses that work effort allocators pertain to are within CISO.

Specifically, for the Customer and Injury Services LOB[18], the work effort percentages were determined based on a detailed Work Effort Study (WES) that included oversight by an Independent Third Party (ITP), which once completed, was submitted to, and duly approved by the BCUC. The detailed WES for CISO estimated the amount of time that claims staff within CISO spent on Basic coverage claims file handling activities versus Optional coverage claims file handling activities. As of FY 2022/23, CISO expenses are approximately 13.8% of ICBC's total operating expenses and approximately 2.2% of total costs and expenses.

The last detailed WES for CISO submitted to the BCUC for approval was completed in 2014. A detailed CISO WES with ITP oversight has not been conducted since as ICBC has been waiting for operations and data from several significant organizational and operating model changes to stabilize. This includes the Transformation Program (TP), which concluded in 2016, and subsequently, major changes to ICBC's insurance business model under the Rate Affordability Action Plan (RAAP) in April 2019 and Enhanced Care in May 2021.

Thus, KPMG recommends that ICBC completes a review and identifies opportunities to update its work effort allocators, work effort percentages, and the CISO detailed WES if necessary in the future, as it is expected that ICBC will already have had sufficient experience under the Enhanced Care model to ensure accuracy, relevance, and timeliness of data used for financial allocation purposes.

[18] As of August 2023, the work effort allocator for CISO is applied to the operating expenses (compensation and facilities costs) for 32 claim centres and 5 specialized claims facilities (does not include staff in Recovery Services who handle Enhanced Accident Benefits claims).

# 7 Review of Other Methodologies

KPMG conducted research and analysis of other allocation methodologies, including the methodologies adopted by other provincial automobile insurance providers governed by other regulated entities (**Section 7.1**), methodologies adopted by other BC utility companies governed by the BCUC (**Section 7.2**), and ICBC's proposed simplified approach in 2004 (**Section 7.3**).

## 7.1 Methodologies Adopted by Other Provincial Automobile Insurance Providers

KPMG reviewed allocation methodologies adopted by other no-fault insurance providers and Crown Corporations in Canada, including Manitoba Public Insurance (MPI) and Saskatchewan Government Insurance (SGI), to understand the allocation methodologies undertaken by other provincially run automobile insurance companies and other regulated entities. The allocation methodologies applied by other insurance providers are also on the basis of causality. KPMG reviewed these methodologies to ensure that ICBC is consistent in their application of causality and to ensure that ICBC is aligned with other provincially run automobile insurance providers.

### 7.1.1 Manitoba Public Insurance

MPI is a Crown corporation that administers Manitoba's public automobile insurance, motor vehicle registration, and driver licensing. It operates under a no-fault insurance plan instituted in 1994 called Personal Injury Protection Plan (PIPP). The insurance coverage for injuries from crashes under MPI's PIPP is similar to the Enhanced Care model for injury claims adopted by ICBC. MPI allocates its corporate operating expenses across four LOBs, including Basic, Extension, Special Risk Extension (SRE), and Non-insurance (Driver and Vehicle Administration).

MPI's allocation of investment income, claim costs, premium taxes and commissions, vehicle premiums, driver premiums, fees, and service charges are either directly attributable or allocated using premiums written, premiums earned, or claims incurred. This is in line with the approach used by ICBC.

MPI's allocation methodology for corporate operating expenses uses a top-down approach consisting of 6 steps and 5 levels as explained below:[19]

- **Step 1 – Purification:** All identifiable direct accounts and expenses are allocated to the applicable LOB and all occupancy and benefit expenses are distributed to the various cost centres within MPI and subsequently assigned to cost allocation categories.
- **Step 2 – Level A:** Direct allocation of costs to one of the four LOBs if applicable. All costs not directly attributed are assigned to a cost category and moved to Level B.
- **Step 3 – Level B:** Costs remaining from level A are classified into one of the three categories of business (COB), which are Insurance, Subject to Allocation, and Non-insurance. Insurance COB costs will be further allocated to Basic, Extension and SRE, Non-insurance COB is directly allocated to Non-insurance LOB, while the costs Subject to Allocation are further allocated under the fourth step – Level C.
- **Step 4 – Level C:** Allocators such as the weighted average customer contact centre call ratio (WACCCCR) are used to further split the expenses under the Subject to Allocation COB to either Insurance or Non-insurance. Expenses under this level are related to corporate support functions, shared costs such as HR, IT, and Finance.

[19] Reference: MPI's 2023 General Rate Application, apps.mpi.mb.ca/Rate-Application/2023/2023_GRA.pdf

- **Step 5 – Level D:** Allocators such as claims incurred are used to allocate those costs assigned to Insurance into the Basic, Extension, and SRE LOBs.
- **Step 6 – Level E:** Expenses are reassigned into one of the four expense line items (Claims Expenses, Operating Expenses, Loss Prevention / Road Safety, and Regulatory / Appeal), similar to the five LOBs of ICBC (Claims Services, RSLM, Insurance, Administrative and Other, and Non-insurance).

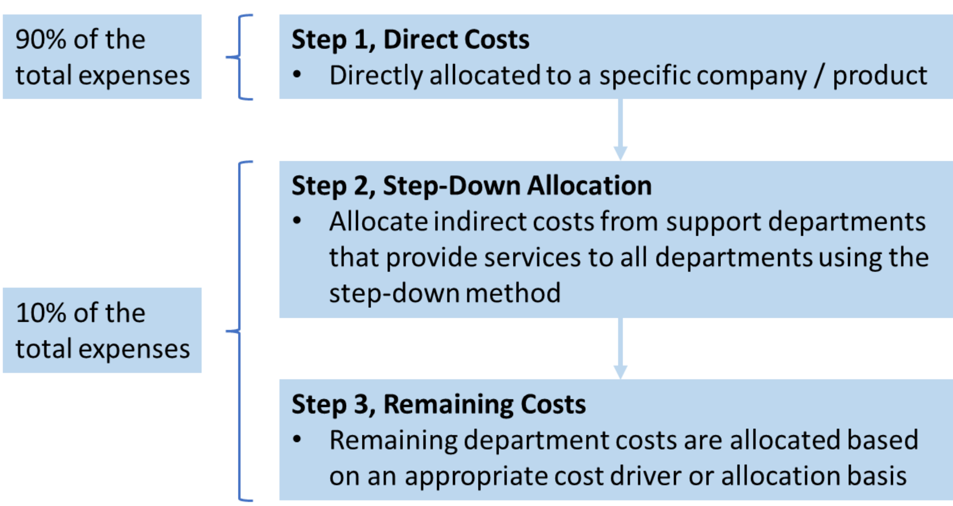
ICBC's methodology determines the allocators, analyzes the cost centre functions, assigns allocators to cost centres to determine the split, and then completes the allocation at the specific cost centre level. Further review of MPI's allocation methodology would have to be completed to understand the nuances of their allocation process and whether there are any streamlining opportunities for ICBC.

### 7.1.2 Saskatchewan Government Insurance

SGI Canada is the trade name of the provincial property and casualty insurance provider for individuals, businesses, and large industries in five of Canada's provinces. SGI offers services across automobile insurance, house insurance, condo insurance, tenant insurance, and business insurance. One of SGI's service lines is the provision of compulsory auto insurance to the province of Saskatchewan through the Saskatchewan Auto Fund (SAF). The SAF is the province's compulsory (Basic) auto insurance program, operating the driver licensing and vehicle registration system. The SAF is administered by SGI and is financially self-sustaining, operating on a break-even basis over time.

SGI's insurance product is similar to ICBC's Enhanced Care model and MPI's no-fault model, however it provides an option for customers to access a legal-based product which provides customers who opt-in the ability to sue the responsible motorist for their injuries and financial losses. Throughout the studies of SGI and SAF, it was found that SAF only has compulsory (Basic) auto insurance and does not maintain any Optional components. The cost allocation methodology of SGI is for allocating inter- and intra-common costs to related companies following a three-step cost allocation methodology as shown in **Figure 1** below.[20] This allocation methodology is filed on a confidential basis and therefore, KPMG was unable to review SGI or SAF's allocation methodology in detail and compare them with ICBC's allocation methodology.

**Figure 1: SGI Three-Step Cost Allocation Methodology**




[20] Reference: SAF's 2021 Rate Proposal, SAF Report Final 09.28.2021 (saskratereview.ca)

## 7.2 Methodologies Adopted by British Columbia Utility Companies

ICBC's operations do not directly align with the utility companies regulated by the BCUC as the costs and services provided by utility companies are mostly tangible in nature. Furthermore, ICBC's allocation does not reference the book value of tangible assets since ICBC is not a heavily tangible assets-based organization. Despite these differences, KPMG felt that it was also important to review methodologies adopted by other BCUC regulated companies. This review was intended to provide insights and ensure a holistic review of ICBC's allocation methodology.

### 7.2.1 FortisBC

FortisBC Holdings Inc. (FHI) is a utility holding company which provides oversight functions to FortisBC Energy Inc. (FEI) as well as its other regulated and non-regulated affiliates, including FortisBC Inc. (FBC) and Aitkin Creek Gas Storage Facility (ACGS), respectively. The corporate services cost allocation model used by FHI is part of the rate application submitted to the BCUC.

FHI allocates shared services costs to subsidiaries through the Massachusetts formula approach.[21] The Massachusetts formula is commonly used in regulated utility companies and allocates costs across the different areas of business. The formula uses a three-factor weighted average method, calculating the average revenue, payroll expenses, and net book value (NBV) of tangible assets for each of the businesses. The calculated weighted average percentage of each business is then applied to the total corporate shared operating expenses. The calculated operating expense portion is allocated to each of the businesses.

The Massachusetts formula approach allocates inter- and intra- company corporate shared costs by using the weighted average of an entity's revenue, payroll expense, and NBV of assets. ICBC uses a pro-rata allocation methodology that distributes revenues and costs and corresponding cost centres across its Basic insurance, Optional insurance and Non-insurance businesses based on cost causality. This is different from allocating shared costs among subsidiaries using the Massachusetts formula with three factors. Therefore, this approach may not be suitable for ICBC's operating expenses allocation.

### 7.2.2 The British Columbia Hydro and Power Authority (BC Hydro)

BC Hydro is one of the largest electric utility providers in Canada, offering services to residential, commercial, and industrial customers over an area representing approximately 94.0% of BC's population. BC Hydro is also regulated by the BCUC and one of its responsibilities is to review BC Hydro's Fully Allocated Cost of Service Study (FACOS) and the range of reasonableness proposed by BC Hydro for the revenue-to-cost (R/C) ratios for various customer classes.

BC Hydro allocates its costs under different customer classes (e.g., Residential, Commercial, Industrial, Irrigation, Transmission, etc.), and must ensure the reasonableness of the R/C ratio for each of these customer classes. Under the FACOS methodology, a cost is directly assigned to a customer class, if it can be attributed to that specific customer class. Costs incurred for delivering electricity services that cannot be directly assigned to a customer class follow a three-step allocation process (functionalization, classification, and allocation) according to the principles of cost causality.[22]

[21] Reference: BCUC's Decision on FortisBC's Multi-Year Rate Plan
https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/481438/1/document.do

[22] Reference: BC Hydro's Time-of-Use Rate Application
https://docs.bcuc.com/Documents/Proceedings/2023/DOC_70443_B-1-BCH-Optional-Residential-TOU-Rate-Application.pdf

**Table 20: BC Hydro Three-Step Allocation**

<table>
<tr><th>Steps</th><th colspan="2">Allocation Description</th></tr>
<tr><td>Functionalization</td><td colspan="2">Costs are grouped by four functions with associated facilities:<br>• Generation<br>• Transmission<br>• Distribution<br>• Customer Care</td></tr>
<tr><td>Classification</td><td colspan="2">Functionalized costs are classified based on the components of utility service being provided:<br>• Energy related costs<br>• Demand related costs<br>• Customer related costs</td></tr>
<tr><td rowspan="7">Allocation</td><td colspan="2">Classified costs are allocated to Rate Classes based on Commission approved allocation factors (cost allocators):</td></tr>
<tr><th>Classified Cost</th><th>Cost Allocator</th></tr>
<tr><td>Energy-related Cost</td><td>Proportion of total energy – calculated based on a formula using total energy related costs times the proportion of energy consumption of a rate class of customers</td></tr>
<tr><td>Generation Demand-related Cost</td><td rowspan="2">Coincident Peak Factor – directed by BCUC to calculate its allocation based on the four coincident peak (CP) method. The four CP method uses customer demand from November to February (a cyclical model) as the allocator for generation and transmission costs for each of the rate classes</td></tr>
<tr><td>Transmission Demand-related Cost</td></tr>
<tr><td>Distribution Demand-related Cost</td><td>Non-Coincident Peak Factor – peak demand of a customer class regardless of the time of occurrence during a year</td></tr>
<tr><td>Customer-related Cost</td><td>90% number of customer invoices, 10% revenues</td></tr>
</table>

In the allocation step, BC Hydro's FACOS is based on:

1. A formula which allocates direct energy-related costs to a rate class;
2. The peak demand incurred by utilities in the winter or during a year; and
3. Bills and revenues that are directly related to customer.

Overall, there are some similarities between the direct attribution of revenues and costs based on the type of amount incurred, which can be reviewed by ICBC. However, a majority of the FACOS approach may not be suitable for ICBC's allocation of revenues and costs as ICBC does not complete its allocation based on rate or customer classes nor is ICBC's insurance business model cyclical in nature.

## 7.3 ICBC 2004 Proposed Simplified Approach

ICBC has employed its current detailed financial allocation methodology since 2004, using allocators, sub-allocators, and allocation functions. However, since 2004, ICBC has undergone significant business and operational changes as a result of organizational restructuring, updates to its insurance model, and changes to the legislative environment under which it is governed. These initiatives include the Transformation Program which brought about significant organizational, job roles, business process, and systems changes from 2011 to 2016, the implementation of the Rate Affordability Action Plan in 2019, and transition to the Enhanced Care model in 2021. Enhanced Care heightened the impacts of these changes with a shift to a no-fault based system.

In its 2004 FAMA, ICBC proposed the use of a simplified approach to allocate operating expenses, which would reduce the complexity of applying the financial allocation framework. The simplified approach was not approved by the BCUC in their January 19, 2005 Decision. In BCUC's view, the more detailed approach (ICBC's current financial allocation methodology) allowed the understanding of cost allocations for operating expenses at a granular level that would provide confidence on the split between Basic insurance and Optional insurance and the ability to "drill down" into the cost categories where any concerns were identified.

### 7.3.1 KPMG's Analysis of ICBC 2004 Proposed Simplified Approach

KPMG completed a review of the ICBC's 2004 proposed simplified approach. The 2004 proposed simplified approach is markedly different from the detailed approach currently used by ICBC. It utilized only three allocators (claims incurred, vehicle premiums written, and weighted average) to allocate operating expenses, while the detailed approach uses various allocators, sub-allocators, and allocation function groupings (see **Section 4,** Table 1 for allocator types used in the detailed approach).

Table 21 shows the comparison between the allocators currently used in the detailed approach and the allocators applied in the proposed simplified approach.

**Table 21: Comparison of Allocators Applied in Detailed Approach and Simplified Approach**

<table>
<tr><th>Operating Expenses</th><th>Detailed Approach (Existing allocator types used)</th><th>ICBC 2004 Proposed Simplified Approach</th></tr>
<tr><td>Claims Services</td><td>• Averages<br>• Claims<br>• Directly Attributable<br>• Work Effort</td><td>Used FY 2022/23 Claims Incurred amount to calculate allocation percentage</td></tr>
<tr><td>RSLM</td><td>• Averages<br>• Directly Attributable<br>• Others<br>• Work Effort</td><td>Separated the costs under RSLM:<br>• Road Safety program costs directly to Basic insurance;<br>• The remainder of the Loss Management costs use Claims Incurred as the allocator</td></tr>
<tr><td>Insurance</td><td>• Averages<br>• Directly Attributable<br>• Premiums<br>• Shared Services<br>• Work Effort</td><td>Used FY 2022/23 Vehicle Premiums Written as the allocator.</td></tr>
<tr><td>Administrative and Other</td><td>• Averages<br>• Directly Attributable<br>• Others<br>• Premiums<br>• Shared Services<br>• Work Effort</td><td>• Step 1: Based on FY 2022/23 amounts, identify the Non-insurance component of weighted average of Claims, RSLM, Insurance and Non-insurance LOBs<br>• Step 2: Allocate the appropriate Non-insurance amount of Admin and Others LOB based on Step 1 above<br>• Step 3: Allocate the Basic and Optional amount of Admin and Others LOB based on the weighted average of Claims, Insurance, and Road Safety LOBs</td></tr>
<tr><td>Non-Insurance</td><td>100% allocated to Basic</td><td>100% allocated to Basic insurance</td></tr>
</table>

KPMG then tested the impacts to Basic and Optional splits from applying the assumptions laid out in the 2004 proposed simplified approach by using FY 2022/23 actual amounts. Table 22 below shows the comparison between the detailed approach and the simplified approach for each operating expense LOB.

**Table 22: Comparison of Detailed Approach Allocation and Simplified Approach Allocation**

| LOB | Basic | Non-insurance | Optional | Total |
|---|---|---|---|---|
| **Detailed Approach – FY 2022/23 ($Millions)** | | | | |
| Claims Services | 271.7 | - | 168.2 | 439.9 |
| RSLM | 43.2 | - | 6.2 | 49.5 |
| Insurance Services | 70.8 | 3.4 | 82.7 | 156.9 |
| Administrative and Other | 67.1 | 23.0 | 71.5 | 161.7 |
| Non-insurance Operations | - | 108.1 | - | 108.1 |
| **Total Operating Expenses** | **452.9** | **134.6** | **328.6** | **916.0** |
| | | | | |
| **Detailed Approach – Allocation Percentage** | | | | |
| Claims Services | 61.8% | 0.0% | 38.2% | 100.0% |
| RSLM | 87.4% | 0.0% | 12.6% | 100.0% |
| Insurance Services | 45.1% | 2.2% | 52.7% | 100.0% |
| Administrative and Other | 41.5% | 14.2% | 44.3% | 100.0% |
| Non-Insurance Operations | 0.0% | 100.0% | 0.0% | 100.0% |
| **Total Operating Expenses** | **49.4%** | **14.7%** | **35.9%** | **100.0%** |
| | | | | |
| **Simplified Approach – Application of Assumptions using FY 2022/23 ($Millions) *** | | | | |
| Claims Services | 256.7 | - | 183.1 | 439.9 |
| RSLM | 42.3 | - | 7.2 | 49.5 |
| Insurance Services | 92.5 | - | 64.4 | 156.9 |
| Administrative and Other | 83.9 | 23.2 | 54.6 | 161.7 |
| Non-Insurance Operations | - | 108.1 | - | 108.1 |
| **Total Operating Expenses** | **475.5** | **131.3** | **309.2** | **916.0** |
| | | | | |
| **Simplified Approach – Allocation Percentage** | | | | |
| Claims Services | 58.4% | 0.0% | 41.6% | 100.0% |
| RSLM | 85.5% | 0.0% | 14.5% | 100.0% |
| Insurance Services | 59.0% | 0.0% | 41.0% | 100.0% |
| Administrative and Other | 51.9% | 14.3% | 33.8% | 100.0% |
| Non-Insurance Operations | 0.0% | 100.0% | 0.0% | 100.0% |
| **Total Operating Expenses** | **51.9%** | **14.3%** | **33.8%** | **100.0%** |

* See Table 21 for assumptions used in ICBC 2004 Proposed Simplified Approach.

Table 23 below shows a summary of the impact to Basic and Optional splits from applying the assumptions.

**Table 23: Summary of Changes and Impact**

| Reference | Description | | FY 2022 / 2023 Actual (1) | Current Approach (2) | Simplified Approach (3) | Increase / (Decrease) (4) = (3)-(2) |
|---|---|---|---|---|---|---|
| [A] | **Operating Expenses (in $Millions)** | **Total** | **916.0** | | | |
| [B] | | Basic + Non-insurance | | 587.4 | 606.8 | 19.4 |
| [C] | | Optional | | 328.6 | 309.2 | (19.4) |
| [D] = [B] / [A] | **% to Total Operating Expenses** | Basic + Non-insurance | | 64.1% | 66.2% | 2.1% |
| [E] = [C] / [A] | | Optional | | 35.9% | 33.8% | -2.1% |
| | | | | | | |
| [F] | **Total Costs and Expenses (in $Millions)** | | **5,331.8** | | | |
| [G] = [B] / [F] | **% to Total Costs and Expenses** | Basic + Non-insurance | | 10.6% | 11.0% | 0.4% |
| [H] = [C] / [F] | | Optional | | 6.0% | 5.6% | -0.4% |

### 7.3.2 KPMG's Findings on ICBC 2004 Proposed Simplified Approach

The impacts of applying the proposed simplified approach from 2004 using current assumptions are minimal when compared to the results yielded by the detailed approach:

- For revenues, claims costs, and premium acquisition costs, there is no difference in the allocation between the simplified approach and the detailed approach and therefore, no change or impact is anticipated; and
- For operating expenses, the impacts due to the changes in allocation factors are immaterial compared to the total ICBC claims and operating expenses.

The simplified approach was proposed in 2004 when ICBC's operations were quite different from their operations today. Given the changes that have occurred since then, there is an opportunity for ICBC to review alternative approaches that are less complex or involve fewer layers of calculation, are more efficient, and reflective of insurance and regulatory environments that are in place at any point in time.

# 8 Conclusion

Following the approach described in **Section 5**, KPMG conducted the Review beginning in March 2023 as an ITP consultant, understanding ICBC's allocation methodology and framework, reviewing the appropriateness of ICBC's current allocation methodology, and evaluating and comparing other allocation methodologies in similar jurisdictions to ICBC's allocation methodology. KPMG's findings and recommendations can be summarized as follows:

1. The overall financial allocation methodology used to allocate ICBC's revenues and costs to Basic insurance, Optional insurance, and Non-insurance remains appropriate and is accommodated with the recent changes to ICBC's business model and organizational structure, primarily as a result of Enhanced Care;
2. There are several recommended changes for ICBC's consideration to optimize how ICBC applies the current financial allocation methodology as stated and summarized in **Section 6.1** (Table 6 and 7), and recommendations to review and update the CISO WES if necessary, as discussed in **Section 6.4**. Please note that the optimization opportunities identified do not materially impact the overall appropriateness of the financial allocation methodology as the proposed updates and changes in amounts and percentages are immaterial when compared to total balances;
3. With regards to operating expenses, KPMG is recommending that ICBC considers utilizing a more simplified approach such as discussed in **Section 7.3**. It was identified that there are opportunities to improve transparency by reducing the layers of calculation steps performed for allocators considering the materiality of the operating expense allocated, increase reliance on data-based information instead of management estimates of work effort to calculate allocators, and to improve the efficiency of administering and maintaining the allocation process. As well, an existing allocator may be applicable and can be used in lieu of some of the current calculation processes which involve a high level of complexity which may or may not be required. For any alternative approach ICBC selects, it should be reflective of insurance and regulatory environments that are in place at any point in time; and
4. To maintain the appropriateness and validity of ICBC's allocation methodology for the future, along with the specific optimization opportunities identified in **Section 6,** it is recommended that ICBC performs annual internal review of its allocation processes involving internal key stakeholders.

# 9 Appendix

## Appendix A: ICBC Historical Filings and BCUC Outcomes

ICBC's filings regarding ICBC Financial Allocation Methodology and BCUC Decisions:

| Ref # | Application / Decision | Key Contents | KPMG Review |
|---|---|---|---|
| 1 | 2004 ICBC Revenue Requirement Application (RRA) | Discuss overall allocation methodology employed for the 2004 RRA. Topics include:<br>• Guiding principles for approach used<br>• Allocation Criteria<br>• Allocation process<br>• Includes allocation of claims costs and investments | Reviewed and discussed with ICBC |
| 2 | 2004 RRA Decision (*BCUC Order G-75-03*) | For the purposes of the 2004 RRA, BCUC Commission Panel accepted the pro-rata approach undertaken by ICBC provided a reasonable segregation of costs and income between the Basic and Optional Insurance. However, the Commission expected ICBC to fully address the alternative allocation methodologies in its next application. | Reviewed and discussed with ICBC |
| 3 | 2004 ICBC Financial Allocation Methodology | Review of ICBC FAM from the 2004 RRA by John Todd of Elenchus:<br>• To determine whether the financial allocation methodology used by ICBC to separate its costs and revenues between Basic and Optional insurance for 2003 is consistent with generally accepted regulatory principles for allocating costs and revenues<br>• To recommend changes, if appropriate, to the corporation's financial allocation methodology for purposes of future RRAs<br>• To respond to the specific alternative approaches identified in the Decision with respect to ICBC's financial allocation methodology | Reviewed and discussed with ICBC |
| 4 | 2004 ICBC Addendum to Financial Allocation Methodology | *Insurance Corporation Act (ICA)* and *Special Direction IC2* set out the allocation of ICBC's retained earnings as of December 31, 2003, between Basic and Optional insurance. | Reviewed |

| Ref # | Application / Decision | Key Contents | KPMG Review |
|---|---|---|---|
| 5 | 2005 BCUC Decision on an Application by ICBC for Approval of a Financial Allocation Methodology (*BCUC Order G-9-05*) | BCUC's decisions on the 2004 Financial Allocation Methodology application, including:<br>• The Commission Panel accepts that a fully allocated costing, or pro-rata, methodology is the most appropriate methodology for allocating costs among the three business lines of Basic, Optional and Non-Insurance<br>• The Commission Panel does not approve ICBC's proposed Simplified Approach<br>• The Commission Panel accepts that the evidence does not justify implementation of a fully integrated organization-wide ABC system at ICBC<br>• The Commission Panel accepts the allocation process for claims incurred and prior years' claims adjustments<br>• The Commission Panel concludes that the fairest allocation of Operating Costs – Administration and Other is to allocate the costs equally between Basic Insurance and Optional Insurance, after deducting the costs allocated to non-insurance | Reviewed and discussed with ICBC |
| 6 | ICBC Selected Financial Allocation Functions used in its Financial Allocation Methodology | As required by *BCUC Order G-9-05*, ICBC presented its proposal on 7 allocation functions:<br>• Overview of BCUC approved Financial Allocation methodology<br>• Proposed allocation functions for Claims services<br>• Proposed allocation functions for Insurance services | Reviewed |
| 7 | ICBC Regional Claim Centres Work Effort Allocation Supplemental filing | Sets out the transactional costing approach that ICBC uses to determine the work effort for the Regional Claim Centres allocation function. | Reviewed |
| 8 | 2005 BCUC Approval of Negotiated Settlement Agreement relating to ICBC's 2005 filing (*BCUC Order G-46-05*) | Approval of allocators for Regional Claim Centres, Provincial Litigation Services, Claims System Support, Claims General Support, Insurance Systems Support, Bad Debts, and General Broker Support & Direct Sales. | Reviewed |

KPMG

| Ref # | Application / Decision | Key Contents | KPMG Review |
|---|---|---|---|
| 9 | 2006 ICBC RRA | The January 2005 Decision directed ICBC to provide information at a much more detailed level in respect of seven additional allocation functions.<br>• Salvage<br>• Claims Dispute Resolution-MD<br>• Claims Dispute Resolution-BI<br>• Customer Service Support<br>• Marketing & Broker Services<br>• Insurance Corporate Cost<br>• Insurance Services Application Support<br>• Customer Accounting | Reviewed |
| 10 | 2006 RRA Decision (*BCUC Order G-86-06*) | Approval of allocators for Salvage, Claims Dispute Resolution, Customer Service Support, Insurance Corporate Costs, Insurance Services Applications Support, Auto Crime Expenditures, and Corporate Project Costs. | Reviewed |
| 11 | 2007 ICBC RRA | In the July 2006 Decision, the Commission identified certain allocation issues which<br>require further information including:<br>• Premiums Written Allocator<br>• Salvage allocation function<br>• Marketing and Broker Support Services<br>• Customer accounting<br>• Reinsurance | Reviewed |
| 12 | 2008 RRA Decision (*BCUC Order G-3-08*) | BCUC decision relating to financial allocation functions above. | Reviewed |
| 13 | 2010 ICBC RRA | ICBC proposes that the most appropriate allocator for Marketing and Broker Services is that based on allocating the departmental costs according to the Corporate Shared Services Ratio, both from the perspective of simplicity and because it has a stronger causal link with the current departmental function, uses objective data, and does not require periodic updating. | Reviewed |
| 14 | 2010 RRA Decision (*BCUC Order G-137-10*) | Approval for the use of Corporate Shared Services Ratio as the allocator for Marketing and Brokers Services and name change to Marketing Communication. | Reviewed |

KPMG

| Ref # | Application / Decision | Key Contents | KPMG Review |
|---|---|---|---|
| 15 | 2013 ICBC Proposal Regarding Update to the 2011 Regional Claim Centres Work Effort Study | ICBC submitted proposal to delay the detailed WES that was due in 2013 to 2014 due to the impact of TP on the Claims Division including the reclassification of costs in the Claims business areas into a new functional allocator, the Customer and Injury Services Operations (CISO). In its stead, ICBC would submit an informational filing on Claims Transformation in November 2013 and update the detailed WES in the Fall of 2014. | Reviewed |
| 16 | 2013 BCUC Decision on ICBC's proposal regarding the update to the 2011 WES (*BCUC Order G-63-13*) | The proposal by ICBC to forego the update to the 2011 Regional Claim Centres Detailed Work Effort Study (2011 Detailed WES on November 17, 2013, is approved.<br>ICBC must file a new detailed work effort study by December 31, 2014, based the new Claims Division functional organizational structure. | Reviewed |
| 17 | 2015 ICBC RRA | Includes history of the approval of use of a transactional costing methodology for determining work effort percentage for allocation of Claims field operations expenditures.<br>• Provides a description of the steps that were undertaken during the 2014 Detailed WES to determine work effort percentages that are based upon the new Claims Division organizational structure in accordance with the Commission's direction in *Order G-63-13*<br>• Includes an Independent Third-Party report by Ernst & Young who was retained to be involved in the planning stage of the work effort study and the processes by which the final work effort percentages were determined | Reviewed and discussed with ICBC |
| 18 | 2015 RRA Decision (*BCUC Order G-74-16*) | Approval of changes made to the Regional Claim Centres Detailed Work Effort Study to accommodate the reorganization of the Claims Division due to a transition from a regional to a functional Claims Services model – now referred to as the CISO detailed WES. | Reviewed and discussed with ICBC |
| 19 | 2016 ICBC RRA | A proposal for approval of methodology for allocation of Deferred Premium Acquisition Costs (DPAC). ICBC's proposal to first determine DPAC at a corporate level and then allocate by line of business is the standard by which other Canadian insurance companies determine DPAC. | Reviewed |
| 20 | 2016 RRA Decision (*BCUC Order G-71-17*) | Approval of ICBC's proposal to calculate Deferred Premium Acquisition Costs on a corporate basis and then allocate between Basic and Optional. | Reviewed |
| 21 | 2018 ICBC RRA | RAAP, specifically product reform and resulting organizational changes, may impact allocation methodologies in the future. ICBC plans to bring forward a financial allocation methodology application to the BCUC once the RAAP initiatives have been implemented and sufficient data is available for analysis. | Reviewed |

| Ref # | Application / Decision | Key Contents | KPMG Review |
|---|---|---|---|
| 22 | 2018 RRA Decision (*BCUC Order G-192-19*) | Approval of ICBC's suggested timing to prepare the assessment of the impacts of the Rate Affordability Action Plan (RAAP) on the financial allocation methodology for total corporate operating expenses. | Reviewed |
| 23 | 2021 ICBC RRA | ICBC seeks approval to defer the review of the financial allocation methodology due December 2022 until December 2023, considering the need to first reach steady state under Enhanced Care. | Reviewed and discussed with ICBC |
| 24 | 2021 RRA Decision (*BCUC Order G-307-21*) | Approval of ICBC's request to postpone the review of the financial allocation methodology until December 2023, considering the need to reach a steady state of revenues and expenses under the Enhanced Care model. | Reviewed and discussed with ICBC |

## Appendix B: KPMG and ICBC Discussions and Workshops

Discussions held between KPMG and ICBC internal stakeholders and subject matter experts on the application of ICBC Financial Allocation Methodology:

| Month | Meeting and Purpose | Key Findings and Recommendations | Key Stakeholders / Subject Matter Experts |
|---|---|---|---|
| March & April 2023 | Weekly Working Sessions:<br>• Build project roadmaps<br>• Confirm project scope<br>• Identify stakeholders about Claims Business owners and schedule workshops | Claims Services LOB was identified as an area of potential changes and impacts due to ICBC's business model change. | • Regulatory Affairs<br>• FCAS |
| May 2023 | Workshops to discuss revenues, claims costs, and premium acquisition costs in the following items<br>• Vehicle Premiums, Driver Premiums, Service Fees & Other Insurance Income<br>• Claims Costs<br>• Premium Acquisition Costs (Commissions and Premium Taxes)<br>• Investment Income | Financial allocation methodology applied continues to be appropriate, with specific recommendation to revisit the calculation for the allocation of investment income. | • Regulatory Affairs<br>• FCAS<br>• Insurance Business Owners<br>• Actuary<br>• Investment Operation<br>• Corporate Forecasting |
| | Workshops to discuss Claims Services LOB and understand the claims business model, nature of costs, rationale of allocation split, challenges with ICBC's existing methodology, and organizational changes that are associated with the Enhanced Care changes<br>• CILS department<br>• CCMDS department<br>• Other departments supporting claims | Financial allocation methodology applied to these areas remains appropriate with some optimization opportunities for updating the allocator selection of cost centres. | • Regulatory Affairs<br>• FCAS<br>• Business Owners<br>○ Director, Claims Shared Services<br>○ Director, Claims Customer and MD Strategy<br>○ Director, Claims Operations<br>○ Director, Claims Injury Services<br>○ Director, Claims Recovery Services |

| Month | Meeting and Purpose | Key Findings and Recommendations | Key Stakeholders / Subject Matter Experts |
|---|---|---|---|
| June 2023 | Weekly Working Sessions:<br>• Consolidate findings and meeting summaries<br>• Validate meeting summaries and key findings<br>• Prepare report drafting and discuss table of contents | • The current version of work effort allocators and the CISO detailed WES are not reviewed annually, and it is recommended to review and update the work effort allocators and CISO detailed WES<br>• There are unused cost centers and cost centres using inaccurate or outdated names and function descriptions. It is recommended to update and better align cost centre functions, allocators, and rationales | • Regulatory Affairs<br>• FCAS<br>• Business Owners |
| July 2023 | Weekly Working Sessions:<br>• Discuss and track report progress<br>• Validate findings<br>• Discuss comments on report | Not Applicable | • Regulatory Affairs<br>• FCAS |
| August 2023 | Weekly Working Sessions:<br>• Discuss comments on report<br>• Follow-up items with business owners and actuarial team<br>• Review and finalize report | Not Applicable | • Regulatory Affairs<br>• FCAS<br>• Business Owners<br>• Actuary |

## Appendix C: ICBC Annual Operating Expenses by LOB – FY 2021/22 and FY2022/23 Actuals and FY 2023/24 Budget[23]

| Operating Expenses by LOB | FY 2023/24 Budget ($Millions) | | | |
|---|---|---|---|---|
| **Line of Business** | **Basic** | **Optional** | **Non-insurance** | **Total** |
| Claims Services | 287.8 | 156.2 | - | 443.9 |
| RSLM | 44.5 | 6.5 | - | 51.0 |
| Insurance Services | 81.0 | 82.7 | 4.0 | 167.7 |
| Admin and Other | 70.5 | 73.8 | 21.4 | 165.7 |
| Non-insurance Operations | - | - | 116.7 | 116.7 |
| **Total** | **483.8** | **319.1** | **142.1** | **945.1** |

| Operating Expenses by LOB | FY 2022/23 Actual ($Millions) | | | |
|---|---|---|---|---|
| **Line of Business** | **Basic** | **Optional** | **Non-insurance** | **Total** |
| Claims Services | 271.7 | 168.2 | - | 439.9 |
| RSLM | 43.2 | 6.2 | - | 49.5 |
| Insurance Services | 70.8 | 82.7 | 3.4 | 156.9 |
| Admin and Other | 67.1 | 71.5 | 23.0 | 161.7 |
| Non-insurance Operations | - | - | 108.1 | 108.1 |
| **Total** | **452.9** | **328.6** | **134.6** | **916.0** |

| Operating Expenses by LOB | FY 2021/22 Actual ($Millions) | | | |
|---|---|---|---|---|
| **Line of Business** | **Basic** | **Optional** | **Non-insurance** | **Total** |
| Claims Services | 283.7 | 173.2 | - | 456.9 |
| RSLM | 47.5 | 7.8 | - | 55.3 |
| Insurance Services | 76.1 | 88.0 | 4.1 | 168.2 |
| Admin and Other | 61.9 | 68.4 | 20.8 | 151.1 |
| Non-insurance Operations | - | - | 99.6 | 99.6 |
| **Total** | **469.2** | **337.4** | **124.5** | **931.1** |

[23] Source: Annual Master Allocation File prepared and provided by ICBC FCAS team.

## Appendix D: ICBC Allocator and Description[24]

| Allocator | Description |
|---|---|
| **Directly Attributable** | |
| Directly attributable to Basic | Directly attributable to Basic insurance |
| Directly attributable to Non-insurance | Directly attributable to Non-insurance |
| Directly attributable to Optional | Directly attributable to Optional insurance |
| **Work Effort** | |
| Work Effort | Ratio based on analysis of underlying work activities within the cost centre(s) |
| Work Effort – Provincial Litigation | Based on volume of low-value bodily injury (BI) files |
| 100% Basic with Exceptions | Directly attributable to Basic insurance, except for auto crime expenditures |
| **Averages** | |
| Claims Division Average | Weighted average of Claims Services cost centres in the Claims and Driver Licensing Operations Division, exclusive of Driver Licensing |
| Insurance Division Average | Weighted average of Insurance Services cost centres in the Insurance Strategy, Product & Pricing Division (Non-insurance charged to Basic insurance) |
| Road Safety Division Average | Weighted average of Road Safety and Loss Management cost centres |
| Square Footage | Average of each business area weighted by square footage |
| Weighted Average – Projects | Weighted average of projects undertaken by the cost centre |
| Weighted Average – Cost Centres | Weighted average of cost centres supported |
| Weighted Average – Transactions | Weighted average based on transactions processed |
| Weighted Average – Special Coverages | Weighted average based on special coverage premiums |
| Weighted Average – FTEs | Weighted average based on number of FTEs performing a function |
| **Premiums[25]** | |
| Premiums Written | Based on annual Autoplan Premiums Written, adjusted for Non-insurance portion per January 2005 Decision |
| Premiums Written – with Exceptions | Premiums written ratio except for certain expenses which are 100% Basic insurance or 100% Optional insurance |

[24] Reference: ICBC 2023 RRA, Chapter 8, Appendix 8D, https://docs.bcuc.com/documents/proceedings/2022/doc_69311_b-1-icbc-2023-rra.pdf

[25] Commercial Premiums Written does not appear in the Cost Allocation Tables, as any related activities have been operationalized elsewhere.

| Allocator | Description |
|---|---|
| **Claims** | |
| Newly Opened Exposures – TCD | Allocated based on newly opened exposures in Claims Contact Centre (formerly known as Telephone Claims Department, TCD) |
| Net Claims Costs – MD | Allocated based on corporate-wide net Material Damage (MD) claims costs |
| Net Claims Costs – HE | Allocated based on net claims costs of Heavy Equipment (HE) department |
| **Shared Services** | |
| Finance Shared Services Ratio | Weighted average of Claims and Driver Licensing Operations, and Insurance Strategy, Product and Pricing Divisions, with Non-insurance portion prorated between Basic insurance and Optional insurance |
| Finance Shared Services Ratio, modified by Commission Decision | Allocated equally between Basic insurance and Optional insurance per January 2005 Decision |
| Corporate Shared Services Ratio | Weighted average of Claims and Driver Licensing Operations, and Insurance Strategy, Product and Pricing Divisions |
| Corporate Shared Services Ratio – with Exceptions | Corporate Shared Services Ratio except for certain expenses which are 100% Basic insurance, or 100% Optional insurance, or 100% Non-insurance, or Comprehensive Coverage – Market share |
| **Others** | |
| Investment Income Ratio | Ratio calculated based on sources of funds, i.e., unpaid claims, unearned premiums, and retained earnings |
| Comprehensive Coverage – Market Share | Percentage of Comprehensive Insurance market share held by ICBC |

# APPENDICES TO ICBC'S APPLICATION

## APPENDIX A – ENHANCED CARE INSURANCE PRODUCT CHANGES

1. Since the introduction of Enhanced Care, new injury claims occurring within the province have been handled as Enhanced Accident Benefits (EAB) claims. ICBC's injury claims handling has transformed from being primarily focused on defending injury claims under the legal-based system (tort environment) to instead focusing on the delivery of benefits that promote the care and recovery of individuals injured in motor vehicle related crashes. New injury claims in the province are assigned to recovery specialists within Recovery Services, and the claims costs and operating expenses associated with the provision of EAB benefits are allocated 100% to Basic insurance. ICBC transitioned the majority of Claims Injury and Legal Services claims staff to roles in Recovery Services to handle EAB claims.

2. Figures A.1 and A.2 show the components of claims exposure counts and costs by coverage from FLY 2018 to FLY 2023.

### Figure A.1 – FLY Incurred Claim Exposure Counts

| FLY Incurred Claim Exposure Counts (000s) | | FLY 2018 | FLY 2019 | FLY 2020 | FLY 2021 | FLY 2022 | FLY 2023 |
|---|---|---|---|---|---|---|---|
| **Injury Coverages** | | | | | | | |
| * AB/EAB | 100% Basic | 74 | 69 | 71 | 49 | 66 | 66 |
| TPL - Bodily Injury | Basic | 68 | 63 | 51 | 35 | 4 | 1 |
| TPL - Bodily Injury | Optional | 4 | 4 | 2 | 2 | 0 | 0 |
| **Material Damage Coverages** | | | | | | | |
| TPL - Property Damage | Basic | 162 | 153 | 141 | 101 | 19 | 12 |
| TPL - Property Damage | Optional | 1 | 1 | 0 | 0 | 0 | 0 |
| Basic Vehicle Damage Coverage | 100% Basic | - | - | - | - | 109 | 128 |
| ** Collision, Comprehensive & Others | 100% Optional | 457 | 439 | 418 | 370 | 445 | 490 |

* Includes legal-based accident benefits (AB) up to April 30, 2021, and Enhanced AB from May 1, 2021.
** Includes Collision, Comprehensive and other non-injury coverages (e.g., Roadside Assistance, etc.).

### Figure A.2 – FLY Incurred Claims Loss & ALAE

| FLY Incurred Loss & ALAE ($ millions) | | FLY 2018 | FLY 2019 | FLY 2020 | FLY 2021 | FLY 2022 | FLY 2023 |
|---|---|---|---|---|---|---|---|
| * AB/EAB | 100% Basic | 348 | 431 | 553 | 410 | 1,285 | 1,421 |
| TPL - Bodily Injury (Basic) | Basic | 2,953 | 2,824 | 1,200 | 804 | 124 | 59 |
| TPL - Bodily Injury (Optional) | Optional | 1,017 | 956 | 576 | 380 | 79 | 53 |
| **Injury Coverages** | | **4,318** | **4,212** | **2,328** | **1,594** | **1,488** | **1,534** |
| TPL - Property Damage (Basic) | Basic | 607 | 591 | 582 | 457 | 93 | 70 |
| TPL - Property Damage (Optional) | Optional | 8 | 5 | 5 | 3 | 1 | 2 |
| Basic Vehicle Damage Coverage | 100% Basic | - | - | - | - | 549 | 776 |
| ** Collision, Comprehensive & Others | 100% Optional | 956 | 939 | 929 | 815 | 1,141 | 1,463 |
| **Material Damage Coverages** | | **1,571** | **1,536** | **1,515** | **1,275** | **1,784** | **2,312** |
| **Total *** ** | | **5,890** | **5,748** | **3,843** | **2,870** | **3,272** | **3,845** |

* Includes legal-based accident benefits (AB) up to April 30, 2021, and Enhanced AB from May 1, 2021.
** Includes Collision, Comprehensive and other non-injury coverages (e.g., Roadside Assistance, etc.).
*** Rounding may affect totals.

3. While ICBC transitioned to Enhanced Care in 2021, there are still open pre-Enhanced Care BI claims that need resolution under the legal-based system. Figure A.3 below shows the bodily injury (BI) pending (number of legal-based BI exposures that are still to be resolved) as of the end of each period. The BI pending is influenced by the relative pace at which claims exposures are opened and resolved (completed). With the introduction of Enhanced Care, the only new legal-based injury claims still being opened are out-of-province claims from jurisdictions that still operate under a legal-based system. These have historically been low in volume, approximately 1,000 exposures per year. This enables ICBC's remaining legal-based BI claims handling and internal counsel and litigation support staff to focus on winding down the legal-based BI pending. As of December 2023, the BI pending has decreased to approximately 38,000 exposures, less than 1/3 of the high of 122,000 exposures at the end of FY 2019/20.

**Figure A.3 – Legal-Based BI Pending Exposure Volumes**

| Exposure Counts | Mar 2019 | Mar 2020 | Mar 2021 | Mar 2022 | Mar 2023 | Dec 2023 |
|---|---|---|---|---|---|---|
| Unrepresented | 24,000 | 31,000 | 21,000 | 5,000 | 2,000 | 1,000 |
| Represented | 55,000 | 38,000 | 22,000 | 11,000 | 5,000 | 3,000 |
| Litigated | 40,000 | 53,500 | 58,000 | 54,000 | 44,000 | 34,000 |
| **Total*** | **119,000** | **122,000** | **101,000** | **70,000** | **51,000** | **38,000** |

*Rounding to 000s may affect totals.

4. Figure A.4 shows that as of December 2023, approximately 2/3 of the total BI pending exposures are claims that were opened under the pre-RAAP model (i.e., prior to April 1, 2019) which are typically more complex and more expensive to settle. The remaining BI pending exposures were opened under RAAP product reform.

**Figure A.4 – Legal-Based BI Pending Exposure Volumes as of End of December 2023**

| Exposure Counts | Pre-RAAP | RAAP Product Reform | Total |
|---|---|---|---|
| Unrepresented | 0 | 1,000 | **1,000** |
| Represented | 2,000 | 1,000 | **3,000** |
| Litigated | 23,000 | 11,000 | **34,000** |
| **Total*** | **25,000** | **13,000** | **38,000** |

* Rounding to 000s may affect totals.

5. As of May 1, 2021, ICBC has been managing injury claims that arise from three different insurance models: legal-based full tort (pre-April 1, 2019 claims), legal-based modified tort (RAAP

product reform, April 1, 2019 to April 30, 2021), and Enhanced Care (May 1, 2021 and ongoing). Having three different models presents challenges for ICBC's claims staff, as there are different insurance coverages, processes, and legal avenues available under each. The coverages available under each insurance model are described in more detail below.

6. **Legal-Based.** Under the legal-based insurance models, vehicle and injury claims costs (general and special damages) at or below the Basic TPL limit are paid under Basic insurance, while amounts incurred over the limit are paid for under Optional TPL coverage.[1] In addition to the TPL protection, Basic coverage also included $1 million of underinsured motorist protection, protection against uninsured and unidentified motorists within and outside the Province of BC, and access to accident benefits coverage regardless of fault. Optional insurance coverages included the cost of own-vehicle material damage (MD) costs and the Optional insurance portion of legal-based TPL claims and other insurance products (e.g., roadside assistance).

- **Legal-Based Full Tort.** Up until March 31, 2019, accident benefits (AB) included up to $150,000 in medical and rehabilitation costs and up to $300 per week for wage loss.
- **Legal-Based Modified Tort (RAAP).** RAAP was in place from April 1, 2019, up until April 30, 2021. AB coverage limits were increased to a maximum of $300,000 for medical and rehabilitation expenses and up to $740 per week for wage loss. In addition, and more significantly, RAAP set a $5,500 limit on pain and suffering payouts for minor injuries and introduced a new independent claims dispute resolution process for minor injury claims through the Civil Resolution Tribunal.

7. **Enhanced Care.** Since May 1, 2021, indemnity for injury claims for crashes occurring in BC or involving BC-insured motor vehicles is provided under Enhanced Accident Benefits (EAB) coverage.

- The new Enhanced Care product significantly increased the no-fault accident benefit limits to ensure better recovery outcomes, including providing life-time support for individuals who have catastrophic injuries. Disability and income replacement have increased from a maximum of $740 per week to up to a maximum of $90,000

[1] The Basic compulsory TPL limit is $200,000, except for certain commercial risks that have a $1 million or $2 million TPL Basic limit.

per year.[2] Maximum coverage for EAB coverage for those who are severely disabled has increased to over $7 million from $300,000.

- Vehicle damage claims by the not-at-fault driver for crashes occurring in BC involving BC insured motor vehicles now come under Basic Vehicle Damage Coverage (BVDC) which will provide coverage for their vehicle up to $200,000. BVDC which is 100% Basic, replaced the Basic component of vehicle-related TPL-PD coverage.

- Unidentified (hit and run) vehicle damage claims, which were previously included in the statutory Basic insurance coverage, are now only covered under Optional Collision coverage or by an Optional hit-and-run insurance product.[3]

[2] These benefits are increased annually with BC Consumer Price Index (CPI) inflation, so that generally the real value of the benefits does not erode over time.

[3] Prior to Enhanced Care, under Section 24 of the IVA, victims of a hit-and-run accident were afforded coverage up to $200,000 for injuries and vehicle damage repairs. Vehicle repairs, subject to a $750 deductible, were paid under Basic insurance coverage unless Optional collision coverage was available.

# APPENDIX B – CUSTOMER AND INJURY SERVICES OPERATIONS (CISO) ALLOCATION

1. This Appendix is organized as follows:

- Section A provides details of how the CISO work effort allocator is calculated.
- Section B provides details on the 2014 CISO detailed WES.
- Section C provides further rationale on why the CISO allocator is no longer relevant.

## A CISO WES ALLOCATOR CALCULATION

2. CISO is the allocation function that includes the operating expenses for all claim-related activities carried out in claims field operations, Head Office Claims (HOC) and Out-of-Province (OOP). CISO operating expenses for each fiscal year are allocated each year utilizing net claims costs allocators, compensation costs by claims job category and work effort percentages (WEPs) that were determined through the 2014 CISO WES.

3. Figure B.1 shows the components of the CISO work effort allocator that is calculated through a complex multi-step process:

## Figure B.1 – CISO Work Effort Allocation Matrix

**Customer and Injury Services Operations (CISO) Work Effort Allocator**

| FY 2022/23 Actual Compensation Costs (in $millions) | | a OA Claims Administrative (WES Allocation Matrix*) | | b Mgr Claims Managers | | c Adj-CA Non-injury Adjuster | | Estimators Non-injury | | d Adj-BI &Examiner Bodily Injury Adjusters | | Total Amount | e Net Claims Incurred Allocation % | | Allocation | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Files / Exposures by Coverage ** * | WEP | Amount | WEP | Amount | WEP | Amount | WEP | Amount | WEP | Amount | | **Basic | Optional | Basic | Optional |
| 1 | MD Files-Customer Care | 12% | $ 2.0 | 8% | $ 1.7 | 0% | $ - | 38% | $ 6.9 | 0% | $ - | $ 10.6 | 16.5% | 83.5% | $ 1.8 | $ 8.9 |
| 2 | MD Files-Collision & Property Damage | 14% | $ 2.3 | 18% | $ 3.9 | 70% | $ 10.8 | 32% | $ 5.8 | 3% | $ 1.3 | $ 24.1 | 25.1% | 74.9% | $ 6.0 | $ 18.0 |
| 3 | MD Files-Comprehensive Theft | 6% | $ 1.0 | 5% | $ 1.1 | 5% | $ 0.8 | 10% | $ 1.8 | 0% | $ - | $ 4.7 | 0.0% | 100.0% | $ - | $ 4.7 |
| 4 | MD Files-Comprehensive Other | 8% | $ 1.3 | 6% | $ 1.3 | 12% | $ 1.8 | 12% | $ 2.2 | 0% | $ - | $ 6.6 | 0.0% | 100.0% | $ - | $ 6.6 |
| 5 | MD Files-Other | 6% | $ 1.0 | 5% | $ 1.1 | 8% | $ 1.2 | 8% | $ 1.4 | 1% | $ 0.4 | $ 5.2 | 0.2% | 99.8% | $ 0.0 | $ 5.2 |
| 6 | BI Exposures-Non-Represented | 13% | $ 2.2 | 20% | $ 4.3 | 3% | $ 0.5 | 0% | $ - | 40% | $ 17.1 | $ 24.0 | 100.0% | 0.0% | $ 24.0 | $ - |
| 7 | BI Exposures-Represented | 20% | $ 3.3 | 13% | $ 2.8 | 2% | $ 0.3 | 0% | $ - | 23% | $ 9.8 | $ 16.3 | 95.0% | 5.0% | $ 15.4 | $ 0.8 |
| 8 | BI Exposures-Litigated | 21% | $ 3.5 | 25% | $ 5.4 | 0% | $ - | 0% | $ - | 33% | $ 14.1 | $ 23.0 | 95.0% | 5.0% | $ 21.8 | $ 1.1 |
| | **Claims Field Operations** | 100% | $ 16.7 | 100% | $ 21.5 | 100% | $ 15.4 | 100% | $ 18.1 | 100% | $ 42.7 | $ 114.4 | 60.4% | 39.6% | $ 69.1 | $ 45.3 |
| f | Head Office Claims | | | | | | | | | | | $ 8.4 | 47.0% | 53.0% | $ 3.9 | $ 4.5 |
| g | Out of Province | | | | | | | | | | | $ 5.1 | 67.0% | 33.0% | $ 3.4 | $ 1.7 |
| h | **TOTAL CISO** | | | | | | | | | | | $ 127.9 | **59.8%** | **40.2%** | $ 76.5 | $ 51.5 |

* Work Effort Percentage (WEP) based on 2014 CISO WES as approved by BCUC.
For better clarity, descriptive updated job category names are added to the allocation matrix. OA represented office assistant roles that are now equivalent to claims administrative roles. Adj-CA represented claims adjusters who handle non-injury claims and are now within the Customer Services.

** The WES Allocation Matrix is not updated for Enhanced Care coverage changes. For instance, Property Damage which used to have a Basic and Optional component has been replaced by Basic Vehicle Damage Coverage (BVDC) which is 100% Basic. MD-Other files pertain to Hit & Run claims which used to have a Basic and Optional component is now 100% Optional under Enhanced Care.

| | | | |
|---|---|---|---|
| **Step 1:** | **Allocate Claims Field Operations Compensation Costs** | | |
| | Work Effort Percentages | 2014 WES | WEP |
| | Compensation Costs by Claims Job Category | FY 2022/23 | a b c d |
| | Net Claims Incurred Allocation % by Claim Transaction Type | FY 2022/23 | e |
| | Total Claims Field Operations | | |
| **Step 2:** | **Allocate Head Office Claims Compensation Costs** | | f |
| | Net Claims-HOC Allocator | FY 2022/23 | |
| **Step 3:** | **Allocate Out of Province Compensation Costs** | | g |
| | Net Claims-OOP Allocator | FY 2022/23 | |
| **Step 4:** | **Calculate CISO Allocator** | | h |

4. The total CISO allocator derived from the above steps is then applied uniformly to the total operating expenses of all the cost centres in CISO (claims field operations, HOC and OOP). Thus, the CISO allocator is the result of management estimates of time spent, net claims costs and layers of average calculations.

## B 2014 CISO DETAILED WORK EFFORT STUDY (WES)

5. ICBC's most recent detailed WES occurred in 2014. The planning and completion of this study spanned approximately nine months and included a submission to the BCUC. Approximately 60 ICBC claims managers and directors were involved, with Ernst & Young (LLP) providing independent oversight of the WES process.

6. The goal of the detailed WES is to obtain a credible estimate of the amount of time that claim staff take handling Basic and Optional claim file work, based on a percentage of time that they perform during a typical week, on the various types of claims transactions that are processed in claim field offices and specialized claims handling departments. The overall methodology and steps for determining work effort that were used in the 2014 detailed CISO WES remain as the current process for determining updated WEPs. However, should the detailed WES process still be required, it will need to be amended to reflect changes in coverages and the nature of the work performed in claim field offices as a result of Enhanced Care and other business changes.

7. The multi-step detailed WES process begins with selecting claims managers and directors who represent the functional claims business areas (injury and non-injury) and all claims staff job categories from claims handling departments. These managers and directors, using a combination of claims data, business knowledge and experience, are tasked with providing an estimate of the work that staff in each job category perform in handling eight different types of claims handling activities (transaction types) that are undertaken in claims field offices. Transaction types and job categories are discussed below:

- **Transaction Types.** There are eight different transaction types, as shown in the first column in Figure B.1. Each transaction type represents a specific type of claim or work process undertaken in the administration and handling of claims. In addition, each transaction type has an associated Basic/Optional percentage assigned to it based on BCUC-approved allocators, some of which are directly attributable to Basic or Optional insurance and others requiring allocation between Basic and Optional insurance. The Basic/Optional split of each transaction is shown in column e in Figure B.1.

- **Job Categories.** Claims staff in claims field offices and specialized departments fall into one of five different job categories, as shown in Figure B.1 in columns a,b,c and d. Staff in each job category spend a differing amount of time on different transaction types. For example, a BI Adjuster could handle a mix of unrepresented, represented, and litigated BI claims, but they spend little if any time handling MD claims. In contrast, a Claims Adjuster's role includes handling claims under different types of claims coverages including comprehensive, collision and property damage, theft and hit-and-run, but little if any on injury claims handling. Administrative staff work involves tasks that could include all of the different transaction types to varying degrees.

8. The WEPs and compensation costs for each job category are then input into the WES allocation matrix. The final step for determining the overall CISO Basic/Optional allocation percentages is to include the operating costs for HOC and OOP, which are allocated based on Net Claims costs for each cost centre. A Basic and Optional dollar amount is determined for each transaction type, as well as for HOC and OOP to derive the total Basic/ Optional split of CISO operating expenses.

## C RATIONALE FOR RETIRING CISO WORK EFFORT ALLOCATOR

9. As discussed in the Application Section C, the significant changes to ICBC's business operations and insurance products related to Claims Transformation and Enhanced Care have increased the line of sight to Basic/Optional cost causality. Specifically, these changes enable ICBC to retire the CISO work effort allocator that is based on management estimates at a point-in-time. The level of detail in the CISO allocation is no longer necessary after the changes from Claims Transformation and Enhanced Care.

10. **Claims Transformation.** From 2010 to 2015, ICBC undertook claims systems and business process changes and reorganization under the Transformation Program, referred to as Claims Transformation (CT). These included:

- A new claims management system (Guidewire ClaimCenter®), which moved ICBC from paper-based claim files to an electronic claim system that is fully electronic and provides a consolidated view of a customer's claim and automated distribution of claim files by claim type, risk and complexity.

- A new Claims job hierarchy was implemented that defined roles by sets of specific skills and a specialized body of knowledge and more clearly set out claims manager and adjuster positions and accountabilities. This enabled greater claims segmentation and claims assignment by claims type, risk and complexity claims based on adjusting staff and managers' skill sets.

11. Under CT, the Claims Division was reorganized from a geographic to a functional organizational structure that is based upon claims handling by type, risk, and complexity. Under the functional organization structure that was put in place, claims managers and staff were either under one of the two major functional work streams: injury or non-injury (MD claims handling and estimating services).

12. ICBC also created new roles and changed its internal claims organization, as well as the financial reporting of operating expenses, to reflect the new functional organizational structure. Claims operating cost reporting was no longer based on a claims office (or geographical model) reporting structure but instead based on the functional organizational structure (i.e., either Injury or Non-Injury work streams).

13. The previous geographic model that was in place up to 2010 was claim centre location-based; within each claims centre physical location or geographic area, a manager was responsible for all functional streams (i.e., injury-related claim functions and non-injury related claim functions). A cost centre was assigned for each claim centre location to track and manage the compensation and operating expenses.

14. After CT, the geographic cost centres were decommissioned and new cost centres were created to track the compensation and operating expenses incurred by managers and claims handling staff of each functional group.

15. Under this new functional organizational structure, the task of estimating work effort for the purpose of the CISO detailed WES by claims managers overseeing claims staff who were directly handling claims (i.e., adjusters and injury adjusters) became somewhat easier. Instead of having to determine the amount of time their staff were spending on both injury and non-injury related claims, each manager involved with the WES only needed to consider the amount of time that their staff were handling either injury or non-injury type claims.

16. **Enhanced Care.** After Enhanced Care was implemented, there were major changes in the coverages that are included in ICBC's Basic and Optional insurance products. As such, the volume and type of claims handled by claims staff changed. Many injury claims staff roles shifted from handling legal-based coverages that, based on risk and complexity, may have required the allocation of operating expenses related to the handling of these claims between Basic insurance and Optional insurance, to handling EAB claims, which are allocated 100% to Basic insurance.

17. As most of the injury claims staff now handle only 100% Basic insurance claims, their operating expense allocation can therefore be directly attributable to Basic insurance. Only a very small volume of new injury claims could possibly be over the Basic TPL coverage limit and the associated operating expenses can appropriately be allocated using either net claims costs or based on the volume of claims over the Basic TPL limit.

18. With the changes from Enhanced Care, there is no longer a need to segment claims handling as it is currently done in the CISO matrix. ICBC is therefore proposing to retire the CISO detailed WES process.

## APPENDIX C – OPERATING EXPENSES ALLOCATION TABLES

1. This Appendix shows detailed views of how ICBC's FY 2022/23 corporate operating expenses are allocated to Basic insurance, Non-insurance, and Optional insurance, using the FAM approved by the BCUC. The presentation is the same as in ICBC's compliance reports in the RRA. Autoplan Care Enhancements (ACE) expense, Rate Affordability Action Plan (RAAP) expense, costs associated with the TP completed in 2016, and cost-recoverable government initiatives are excluded as these costs are not borne by Basic insurance premiums.

# Figure C.1 – Cost Allocation Tables: BCUC-Approved Allocators Using FY 2022/23 Actual Operating Cost Detail

**2022/23 Actual Cost Detail - Claims Services**

| Operating Costs - Claims Services | Allocator | ($000s) [2] Basic insurance | Non-insurance | Optional insurance | Total | Allocation % [2] Basic insurance | Non-insurance | Optional insurance | Total |
|---|---|---|---|---|---|---|---|---|---|
| Customer and Injury Services Operations (CISO) | Work Effort | 75,817 | - | 51,006 | 126,823 | 59.8 | - | 40.2 | 100.0 |
| Recovery | Directly attributable to Basic | 80,011 | - | - | 80,011 | 100.0 | - | - | 100.0 |
| Call Centre Department | Newly Opened Exposures - TCD | 11,516 | - | 32,776 | 44,291 | 26.0 | - | 74.0 | 100.0 |
| Claims Building Support | Square Footage | 20,282 | - | 21,526 | 41,808 | 48.5 | - | 51.5 | 100.0 |
| Claims System Support | Claims Division Average | 23,475 | - | 11,391 | 34,866 | 67.3 | - | 32.7 | 100.0 |
| In-House Counsel (Provincial Litigation Services) | Work Effort - Provincial Litigation | 24,288 | - | 1,278 | 25,566 | 95.0 | - | 5.0 | 100.0 |
| Claims General Support | Claims Division Average | 11,963 | - | 5,805 | 17,769 | 67.3 | - | 32.7 | 100.0 |
| Heavy Equipment | Net Claims Cost - HE | 4,753 | - | 7,434 | 12,187 | 39.0 | - | 61.0 | 100.0 |
| Centralized Estimating Facilities | Net Claims Cost - MD | 3,075 | - | 5,017 | 8,092 | 38.0 | - | 62.0 | 100.0 |
| Material Damage Support | Net Claims Cost - MD | 3,762 | - | 6,137 | 9,899 | 38.0 | - | 62.0 | 100.0 |
| Claims Litigation Support | Work Effort - Provincial Litigation | 5,876 | - | 309 | 6,186 | 95.0 | - | 5.0 | 100.0 |
| Claims Administrative Support | Weighted Average - Cost Centres | 2,653 | - | 2,653 | 5,305 | 50.0 | - | 50.0 | 100.0 |
| Salvage | Net Claims Cost - MD | 1,073 | - | 1,751 | 2,825 | 38.0 | - | 62.0 | 100.0 |
| BI Support | Work Effort | 2,209 | - | 116 | 2,325 | 95.0 | - | 5.0 | 100.0 |
| Optional Coverage (Claims) | Directly attributable to Optional | - | - | 1,451 | 1,451 | - | - | 100.0 | 100.0 |
| Basic Coverage (Claims) | Directly attributable to Basic | 448 | - | - | 448 | 100.0 | - | - | 100.0 |
| Rehabilitation | Directly attributable to Basic | 23 | - | - | 23 | 100.0 | - | - | 100.0 |
| **Total Claims Services Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives** | | **271,223** | **-** | **148,651** | **419,874** | **64.6** | **-** | **35.4** | **100.0** |
| Claims Services Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives Using Financial Statement View [1] | | 271,223 | - | 148,651 | 419,874 | 64.6 | - | 35.4 | 100.0 |

[1] Used to calculate Basic percentage, see Figure 8D.4 describing Year to Year Basic Insurance Allocation Percentages. For Non-insurance, see Summary of Total Corporate Operating Expenses Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives.
[2] Rounding may affect totals and allocation percentages.

**2022/23 Actual Road Safety and Loss Management Services**

| Operating Costs - RSLM | Allocator | ($000s) [2] Basic insurance | Non-insurance | Optional insurance | Total | Allocation % [2] Basic insurance | Non-insurance | Optional insurance | Total |
|---|---|---|---|---|---|---|---|---|---|
| Road Safety Initiatives | Directly attributable to Basic | 32,885 | - | - | 32,885 | 100.0 | - | - | 100.0 |
| Fraud Management | Weighted Average - Cost Centres | 8,540 | - | 4,400 | 12,940 | 66.0 | - | 34.0 | 100.0 |
| Auto Crime Expenditures | Comprehensive Coverage - Market Share | 416 | - | 1,666 | 2,082 | 20.0 | - | 80.0 | 100.0 |
| Regional Loss Prevention | 100% Basic with Exceptions | 2,036 | - | 177 | 2,213 | 92.0 | - | 8.0 | 100.0 |
| Road Safety General Support [1] | Road Safety Division Average | (627) | - | (89) | (716) | 87.5 | - | 12.5 | 100.0 |
| **Total RSLM Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives** | | **43,250** | **-** | **6,154** | **49,404** | **87.5** | **-** | **12.5** | **100.0** |
| Road Safety and Loss Management Services Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives Using Financial Statement View | | 43,250 | - | 6,154 | 49,404 | 87.5 | - | 12.5 | 100.0 |

[1] Negative amount due to pension adjustment
[2] Rounding may affect totals and allocation percentages.

**2022/23 Actual Cost Detail - Administrative**

| Operating Costs - Administrative | Allocator [1] | ($000s) [5] Basic insurance | Non-insurance | Optional insurance | Total | Allocation % [5] Basic insurance | Non-insurance | Optional insurance | Total |
|---|---|---|---|---|---|---|---|---|---|
| ISD Shared Services: Insurance, Claims, Non-insurance | Corporate Shared Services Ratio | 14,939 | 7,287 | 14,939 | 37,165 | 40.2 | 19.6 | 40.2 | 100.0 |
| Human Resources | Corporate Shared Services Ratio | 9,070 | 4,424 | 9,070 | 22,564 | 40.2 | 19.6 | 40.2 | 100.0 |
| Finance Shared Services - Insurance Operations | Finance Shared Services Ratio | 8,805 | - | 8,805 | 17,610 | 50.0 | - | 50.0 | 100.0 |
| Business Intelligence | Weighted Average - Cost Centres | 3,534 | 1,724 | 3,534 | 8,792 | 40.2 | 19.6 | 40.2 | 100.0 |
| General Counsel | Work Effort | 2,283 | 1,442 | 2,283 | 6,008 | 38.0 | 24.0 | 38.0 | 100.0 |
| Supply Management Department | Work Effort | 2,739 | 1,145 | 2,739 | 6,623 | 41.4 | 17.3 | 41.4 | 100.0 |
| Customer Contact Call Centre | Premiums Written | 3,024 | - | 3,024 | 6,048 | 50.0 | - | 50.0 | 100.0 |
| Technology Renewal | Corporate Shared Services Ratio | 3,407 | 1,662 | 3,407 | 8,476 | 40.2 | 19.6 | 40.2 | 100.0 |
| Optional Coverage (Admin) [2] | Directly attributable to Optional | - | - | 2,492 | 2,492 | - | - | 100.0 | 100.0 |
| Customer Collections | Weighted Average - Transactions | 1,895 | 832 | 1,895 | 4,622 | 41.0 | 18.0 | 41.0 | 100.0 |
| Executive Office | Finance Shared Services Ratio | 2,327 | - | 2,327 | 4,654 | 50.0 | - | 50.0 | 100.0 |
| Infrastructure Expenditure | Finance Shared Services Ratio | 4,121 | - | 4,121 | 8,242 | 50.0 | - | 50.0 | 100.0 |
| Freedom of Information Department | Work Effort | 2,114 | - | 2,114 | 4,228 | 50.0 | - | 50.0 | 100.0 |
| Finance Division Banking Operations | Work Effort | 2,244 | - | 2,244 | 4,489 | 50.0 | - | 50.0 | 100.0 |
| Corporate Strategic Services | Corporate Shared Services Ratio | 1,673 | 816 | 1,673 | 4,162 | 40.2 | 19.6 | 40.2 | 100.0 |
| Document Services | Square Footage | 1,231 | 359 | 1,231 | 2,821 | 43.6 | 12.7 | 43.6 | 100.0 |
| Call Centres Support (Admin) | Weighted Average - Cost Centres | 772 | 857 | 772 | 2,401 | 32.1 | 35.7 | 32.1 | 100.0 |
| External Corporate Communications | Work Effort | 1,395 | 417 | 1,395 | 3,208 | 43.5 | 13.0 | 43.5 | 100.0 |
| Regulator Costs | Directly attributable to Basic | 1,118 | - | 1,118 | 2,236 | 50.0 | - | 50.0 | 100.0 |
| Facilities Management (Victoria) | Square Footage | 56 | 2,143 | 56 | 2,256 | 2.5 | 95.0 | 2.5 | 100.0 |
| Corporate Costs (Admin) | Finance Shared Services Ratio | (510) | - | (510) | (1,020) | 50.0 | - | 50.0 | 100.0 |
| Corporate Training | Insurance Division Average and Claims Division Average | 1,057 | - | 1,057 | 2,114 | 50.0 | - | 50.0 | 100.0 |
| Investment Portfolio Management | Investment Income Ratio | 556 | - | 556 | 1,112 | 50.0 | - | 50.0 | 100.0 |
| Project Management Service Costs | Finance Shared Services Ratio | 727 | - | 727 | 1,454 | 50.0 | - | 50.0 | 100.0 |
| Facility Projects (Admin) | Corporate Shared Services Ratio | 872 | 425 | 872 | 2,168 | 40.2 | 19.6 | 40.2 | 100.0 |
| Communication - Government relations | Work Effort | 298 | 198 | 298 | 793 | 37.5 | 25.0 | 37.5 | 100.0 |
| Business Transformation Shared Services | Corporate Shared Services Ratio | 230 | 112 | 230 | 572 | 40.2 | 19.6 | 40.2 | 100.0 |
| Fair Practices Review | Work Effort - Provincial Litigation | 45 | - | 45 | 89 | 50.0 | - | 50.0 | 100.0 |
| Facilities Management[3] | Square Footage | (2,893) | (843) | (2,893) | (6,628) | 43.6 | 12.7 | 43.6 | 100.0 |
| **Total Administrative Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives** | | **67,130** | **23,000** | **69,622** | **159,752** | **42.0** | **14.4** | **43.6** | **100.0** |
| Administrative Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives Using Financial Statement View [4] | | 67,130 | - | 69,622 | 136,752 | 49.1 | - | 50.9 | 100.0 |

[1] Using the allocator indicated, a portion of the costs is allocated to Non-insurance. The remainder of the costs are allocated equally between Basic insurance and Optional insurance (see page 42 of the January 2005 Decision) or for significant corporate projects, directly attributed to Basic insurance or Optional insurance (see page 61 of the July 2006 Decision).

[2] ICBC incurred expenses related to projects that are 100% Optional insurance.

[3] Negative amount due to pension adjustment

[4] Used to calculate Basic percentage, see Figure 8D.4 describing Year to Year Basic Insurance Allocation Percentages. For Non-insurance, see Summary of Total Corporate Operating Expenses excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives.

[5] Rounding may affect totals and allocation percentages.

**2022/23 Actual Cost Detail - Insurance**

| Operating Costs - Insurance Services | Allocator | ($000s) [3] Basic insurance | Non-insurance | Optional insurance | Total | Allocation % [3] Basic insurance | Non-insurance | Optional insurance | Total |
|---|---|---|---|---|---|---|---|---|---|
| Merchant Fees | Premiums Written | 23,169 | - | 17,055 | 40,224 | 57.6 | - | 42.4 | 100.0 |
| Insurance Services Applications Support | Insurance Division Average | 7,984 | - | 4,573 | 12,557 | 63.6 | - | 36.4 | 100.0 |
| Product Development | Premiums Written | 5,361 | - | 3,946 | 9,308 | 57.6 | - | 42.4 | 100.0 |
| Bad Debts & Allowances | Weighted Average - Transactions | 6,598 | 102 | 3,451 | 10,151 | 65.0 | 1.0 | 34.0 | 100.0 |
| Insurance System Support | Premiums Written | 4,564 | - | 3,360 | 7,923 | 57.6 | - | 42.4 | 100.0 |
| General Broker Support & Direct Sales | Premiums Written | 3,511 | - | 2,584 | 6,095 | 57.6 | - | 42.4 | 100.0 |
| Actuarial | Weighted Average - FTE | 3,520 | 457 | 2,224 | 6,201 | 56.8 | 7.4 | 35.9 | 100.0 |
| Field Broker Support | Work Effort | 1,105 | 552 | 3,867 | 5,525 | 20.0 | 10.0 | 70.0 | 100.0 |
| Insurance Business Support | Weighted Average - Cost Centres | 2,663 | 120 | 1,556 | 4,339 | 61.4 | 2.8 | 35.9 | 100.0 |
| Marketing Communication | Corporate Shared Services Ratio - With Exception | 1,965 | 564 | 1,441 | 3,970 | 49.5 | 14.2 | 36.3 | 100.0 |
| Insurance Basic Projects | Directly attributable to Basic | (1,377) | - | - | (1,377) | 100.0 | - | - | 100.0 |
| Market Research | Weighted Average - Projects | 1,914 | - | 1,125 | 3,040 | 63.0 | - | 37.0 | 100.0 |
| Corporate Website | Corporate Shared Services Ratio | 850 | 326 | 485 | 1,661 | 51.2 | 19.6 | 29.2 | 100.0 |
| Chief Underwriter | Premiums Written - With Exception | 1,619 | - | 1,372 | 2,991 | 54.1 | - | 45.9 | 100.0 |
| Garage & Fleet | Weighted Average - FTE | 1,348 | - | 1,246 | 2,594 | 52.0 | - | 48.0 | 100.0 |
| Insurance Project Expense | Insurance Division Average | 2,999 | - | 1,718 | 4,716 | 63.6 | - | 36.4 | 100.0 |
| Customer Accounting | Weighted Average - Transactions | 680 | 680 | 299 | 1,659 | 41.0 | 41.0 | 18.0 | 100.0 |
| Optional Coverage (Autoplan) | Directly attributable to Optional | - | - | 2,455 | 2,455 | - | - | 100.0 | 100.0 |
| ADP Technical | Premiums Written | 811 | - | 597 | 1,408 | 57.6 | - | 42.4 | 100.0 |
| Internet Services | Premiums Written | 782 | - | 576 | 1,358 | 57.6 | - | 42.4 | 100.0 |
| Product Research | Premiums Written | 623 | - | 459 | 1,082 | 57.6 | - | 42.4 | 100.0 |
| Premium Financing Plan Operations | Premiums Written | 435 | - | 320 | 755 | 57.6 | - | 42.4 | 100.0 |
| Specialty Lic & Ins | Weighted Average - Special Coverages | - | 634 | - | 634 | - | 100.0 | - | 100.0 |
| Insurance Corporate Cost[1] | Finance Shared Services Ratio, modified by Commission Decision | (939) | - | (939) | (1,878) | 50.0 | - | 50.0 | 100.0 |
| **Total Insurance Services Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives** | | **70,185** | **3,435** | **53,770** | **127,389** | **55.1** | **2.7** | **42.2** | **100.0** |
| Insurance Services Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives Using Financial Statement View [2] | | 70,185 | - | 53,770 | 123,955 | 56.6 | - | 43.4 | 100.0 |

[1] Negative amount due to pension adjustment
[2] Used to calculate Basic percentage, see Figure 8D.4 describing Year to Year Basic Insurance Allocation Percentages. For Non-insurance, see Summary of Total Corporate Operating Expenses excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives.
[3] Rounding may affect totals and allocation percentages.

| Operating Costs Administrative - Non-insurance | Allocator | ($000s) [3] Basic insurance | Non-insurance | Optional insurance | Total | Allocation % [3] Basic insurance | Non-insurance | Optional insurance | Total |
|---|---|---|---|---|---|---|---|---|---|
| Registration and Licensing | Directly attributable to Non-insurance | - | 10,448 | - | 10,448 | - | 100.0 | - | 100.0 |
| ISD Non-insurance Vehicle Application | Directly attributable to Non-insurance | - | 1,249 | - | 1,249 | - | 100.0 | - | 100.0 |
| Non-insurance Corporate Cost[1] | Directly attributable to Non-insurance | - | (1,102) | - | (1,102) | - | 100.0 | - | 100.0 |
| **Total Non-insurance Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives.** | | **-** | **10,595** | **-** | **10,595** | **-** | **100.0** | **-** | **100.0** |
| Administrative - Non-insurance Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives Using Financial Statement View [2] | | - | - | - | - | - | - | - | - |

[1] Negative amount due to pension adjustment
[2] Used to calculate Basic percentage, see Figure 8D.4 describing Year to Year Basic Insurance Allocation Percentages. For Non-insurance, see Summary of Total Corporate Operating Expenses excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives.
[3] Rounding may affect totals and allocation percentages.

**2022/23 Actual Cost Detail - Summary of Corporate Operating Expenses Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives**

| Corporate Operating Expenses Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives | ($000s) [1] | | | | Allocation % [1] | | | |
|---|---|---|---|---|---|---|---|---|
| | Basic insurance | Non-insurance | Optional insurance | Total | Basic insurance | Non-insurance | Optional insurance | Total |
| Claims Services (ULAE) | 271,223 | - | 148,651 | 419,874 | 64.6 | - | 35.4 | 100.0 |
| Road Safety and Loss Management (RSLM) | 43,250 | - | 6,154 | 49,404 | 87.5 | - | 12.5 | 100.0 |
| General Expenses - Administraton and Other | 67,130 | - | 69,622 | 136,752 | 49.1 | - | 50.9 | 100.0 |
| General Expenses - Insurance Services | 70,185 | - | 53,770 | 123,955 | 56.6 | - | 43.4 | 100.0 |
| General Expenses - Administraton and Other | - | 23,000 | - | 23,000 | - | 100.0 | - | 100.0 |
| General Expenses - Insurance Services | - | 3,435 | - | 3,435 | - | 100.0 | - | 100.0 |
| Administrative - Non-insurance | - | 10,595 | - | 10,595 | - | 100.0 | - | 100.0 |
| Driver Licensing | - | 97,522 | - | 97,522 | - | 100.0 | - | 100.0 |
| **Total Corporate Operating Expenses Excluding TP, RAAP, ACE, and Cost Recoverable Government Initiatives** | **451,788** | **134,551** | **278,197** | **864,535** | **52.3** | **15.6** | **32.2** | **100.0** |

[1] Rounding may affect totals and allocation percentages.