

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-31-09**

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3 CANADA
web site: <http://www.b cuc.com>

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102



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

A Filing by the Insurance Corporation of British Columbia
respecting a Proposal Plan for an Independent Third Party Review
of ICBC's Financial Allocation Methodology

BEFORE: L.F. Kelsey, Commissioner
P.E. Vivian, Commissioner

March 26, 2009

O R D E R

WHEREAS:

- A. By Order G-73-08 dated April 22, 2008, the British Columbia Utilities Commission ("the Commission") approved for the Insurance Corporation of British Columbia ("ICBC") a Negotiated Settlement Agreement dated February 20, 2008 with respect to the Regional Claim Centres Allocation; and
- B. Order G-73-08 and its Reasons for Decision included a direction for ICBC to prepare and file an application for approval of a Proposal Plan for the identification and selection of an independent third party ("ITP") to review, report on and make recommendations with respect to ICBC's financial allocation methodology. The Proposal Plan should address proponent qualification criteria, the detailed scope of work required including a review of the Work Effort Study, and the time frame for the review. The Proposal Plan application was to be filed with the Commission no later than October 31, 2008; and
- C. On October 31, 2008 ICBC filed its Proposal Plan for an Independent Third Party Review ("the Filing"); and

- D. The Filing outlines the objectives and scope of the ITP Review. ICBC suggested a process for finalizing the Terms of Reference by means of a working session with ICBC, Commission staff, and interested intervenors; and
- E. On November 7, 2008 the Insurance Bureau of Canada (“IBC”) submitted a letter of comment to the Commission regarding the Filing; and
- F. On November 19, 2008 the Commission issued Order G-167-08 that established a Regulatory Timetable that included a Workshop on December 9, 2008 and a timeline for Intervenor Submissions and ICBC Reply Submissions; and
- G. In accordance with Commission Order G-167-08 and the Regulatory Timetable set out therein, ICBC conducted a Workshop set for December 9, 2008. Subsequently, ICBC in its letter dated December 11, 2008, explained that at the conclusion of the Workshop, ICBC agreed to make some amendments to the Terms of Reference and re-file it with the Commission. ICBC also requested the Commission’s approval of a revised timetable as agreed to by all Workshop participants; and
- H. By Order L-59-08 the Commission amended the Regulatory Timetable; and
- I. On January 23, 2009 ICBC filed its revised Terms of Reference for an ITP review as a result in the input received from the Workshop (“Revised Filing”); and
- J. The Commission received submissions on the Revised Filing from the IBC, Canadian Direct Insurance (“CDI”), and Family Insurance Solutions Inc. (“Family Insurance”). IBC submits that the drafted Terms of Reference in the Revised Filing are not acceptable. IBC in its Submission explains its position with regards to ICBC’s Objectives and Scope, particularly the Work Effort Study; Review of Allocation Methodology; the materials to be supplied to the ITP; and the independence of the ITP. CDI submits that the Revised Filing is limited and do not fulfill, in its entirety, the direction of the Commission and does not completely address the concerns raised by Mr. Sykes and

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the ICBC over the independence of the Work Effort Study and the validation of the Work Effort Study and the proper allocation of costs between Basic and Optional. Family Insurance submits that the ITP should be required to have Canadian automobile insurance experience; and

K. On February 20, 2009 ICBC filed its Reply Submission addressing the submissions of IBC, CDI, and Family Insurance. The Reply Submission included Appendix A – Revised Terms of Reference dated February 20, 2009 (“Amended Filing”); and

L. The Commission has reviewed the Amended Filing and finds that its approval is warranted.

NOW THEREFORE as set out in the Reasons for Decision attached as Appendix A to this Order, the Commission orders as follows:

1. The Commission approves the Revised Terms of Reference dated February 20, 2009, attached as Appendix B to this Order.
2. ICBC is to issue an Expression of Interest (“EOI”) based on the approved Revised Terms of Reference, as soon as practicable and without delay.
3. If any of the potential suppliers, and in particular the chosen ITP, have identified a need for modifications to the Revised Terms of Reference, ICBC will advise the Commission of these potential modifications.

DATED at the City of Vancouver, in the Province of British Columbia, this 26th day of March 2009.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

A Filing by Insurance Corporation of British Columbia respecting a
Proposal Plan for an Independent Third Party Review
of ICBC's Financial Allocation Methodology

REASONS FOR DECISION

1.0 BACKGROUND

The Commission in its January 2005 Decision approved for the Insurance Corporation of British Columbia ("ICBC") its current financial allocation methodology. The Commission approved a fully allocated costing, or pro-rata, methodology as the most appropriate methodology for allocating costs among ICBC's three lines of business.

In its January 2005 Decision, the Commission directed ICBC to conduct a workshop within 60 days to review the details of seven allocation functions, including the Regional Claim Centres allocation ("RCCA"). ICBC allocates Regional Claim Centres costs using work effort based on transaction costing. The Commission also directed ICBC to address another seven allocation functions in subsequent revenue requirements applications.

A negotiated settlement process ("NSP") on the initial seven allocation functions including the RCCA was held in April 2005. In its letter approving the May 2005 negotiated settlement agreement ("NSA"), the Commission stated that it was satisfied that the workshop and ensuing settlement process had dealt with the seven allocation functions of particular concern identified in its January 2005 Decision. The Commission also confirmed the agreement to the use of the work effort allocator based on transaction costing for the RCCA. The RCCA represents 25 percent of ICBC's operating costs, or 3.8 percent of total costs. ICBC was directed to file an updated work effort study in 2007, including any revisions that ICBC proposed for the RCCA.

On December 21, 2007 ICBC submitted a filing respecting the Regional Claim Centres Allocation, which included an updated work effort study relating to the Regional Claim Centres Allocator. By Order G-2-08 dated January 7, 2008, the Commission established a Regulatory Timetable that included a Workshop and NSP. A Negotiated Settlement Agreement dated February 20, 2008 ("2008 NSA") was reached between ICBC and many of the participants. The 2008 NSA along with six Letters of Comment were circulated to all participants, Registered Intervenor, and the Commission Panel on March 14, 2008. The Letters of Comment from ICBC, Family Insurance Solutions Inc. ("Family Insurance") and British Columbia Old Age Pensioners' Organization et al. accepted the 2008 NSA. The Insurance Bureau of Canada ("IBC") accepted the 2008 NSA and had three specific concerns regarding the Work Effort Study, recurring issues not addressed, and the focus on individual allocators. Canadian Direct Insurance Inc. ("CDI") acknowledged the negotiated settlement document. The Letter of Comment from Mr. Russell Sykes did not agree to the 2008 NSA.

In the Reasons for Decision attached as Appendix A to Order G-73-08 which approved the 2008 NSA, the Commission directed ICBC as follows:

"The Commission Panel acknowledges the concerns expressed by IBC and Mr. Sykes regarding the independence of the Work Effort Study and the validation of the Work Effort Study and the proper allocation of costs between Basic and Optional Insurance. The Commission Panel determines that these issues are to be addressed by ICBC in the course of preparing for its next application with respect to financial allocation methodology. The Commission Panel considers that the importance of appropriate cost allocation between

Basic and Optional Insurance indicates a need for an independent professional assessment. The Commission Panel determines that, for the purposes of this proceeding, the internal work undertaken by ICBC in support of its application, together with the results of the negotiated settlement process are adequate to support Order No. G-73-08. The Commission received a number of Letters of Comment that accepts the 2008 NSA with one dissent. **The Commission approves for ICBC the February 20, 2008 NSA, attached as Appendix B to this Order.**

The Commission directs ICBC to prepare and file an application for approval of a Proposal Plan for the identification and selection of an independent third party (“ITP”) to review, report on and make recommendations with respect to ICBC’s financial allocation methodology. The Proposal Plan should address proponent qualification criteria, the detailed scope of the work required including a review of the Work Effort Study, and the time frame for the review. The Proposal Plan application is to be filed with the Commission no later than October 31, 2008.

In ordering this independent review of the current cost allocation methodologies employed by ICBC, the Commission Panel is not directing a full cost allocation study. The current allocations will stay in place until amended by the Commission as a result of any second comprehensive cost allocation study. The purpose to be served by the ITP study would be to provide objective third party analysis that would address some of the concerns raised in this proceeding and provide a base for the Commission to evaluate whether or not a second full cost allocation proceeding is required.”

ICBC filed its Proposal Plan on October 31, 2008 that included the Terms of Reference for an ITP Review (“the Filing”). With regards to the Filing, the Commission by Order G-167-08 established a Workshop on December 9, 2008 and a regulatory process. Subsequently, ICBC in its letter dated December 11, 2008 to the Commission it explained that at the conclusion of the Workshop, ICBC agreed to make some amendments to the Terms of Reference and re-file it with the Commission. ICBC requested the Commission’s approval of a revised timetable as agreed to by all Workshop participants. Consequently, the Commission issued Letter L-59-08 which allowed time for ICBC to amend its proposal and for Submissions by participants and Reply Submission by ICBC.

On January 23, 2009 ICBC filed its revised Terms of Reference for an ITP review as a result in the input received from the Workshop (“Revised Filing”). Submissions were received from IBC, CDI and Family Insurance in which they outlined their concerns with the Revised Filing.

On February 20, 2009 ICBC filed its Reply Submission addressing the submissions of IBC, CDI, and Family Insurance. The Reply Submission included Appendix A – Revised Terms of Reference dated February 20, 2009 (“Amended Filing”). The proposed February 20, 2009 Revised Terms of Reference reflected further changes in response to the Submissions from Intervenors. The changes include providing the ITP with all ICBC application materials and decisions of the Commission related to its financial allocation methodology, confirmation by the ITP that it had access to the materials and persons necessary to complete the report, confirmation by the ITP that it has no concerns regarding its independence, and preference with experience with the Canadian automobile insurance business.

2.0 ISSUES

Although ICBC has accommodated most of the concerns of Family Insurance and some of the requests of IBC, there is a fundamental difference of interpretation of the Commission's direction in Order G-73-08 and its Reasons for Decision in respect of the scope of the proposed ITP review. These issues are discussed in the following subsections.

2.1 Objectives and Scope of ITP Review

ICBC interprets the Decision to direct an ITP review of the RCCA work effort study to provide independent validation whether the approach used by ICBC resulted in a fair and equitable allocation of costs, and to provide advice on specific issues.

IBC believes the prime objective is to have the ITP review, report on and make recommendations with respect to ICBC's financial allocation methodology, including a review of specific allocators identified by the ITP. The ITP would also review ICBC's work effort study that underlies certain of the ICBC allocators, particularly those that underlie the RCCA.

The ICBC scoping results in a limited review of the RCCA work effort study to validate the allocations made by ICBC's work effort study group prior to the last hearing. IBC would like to have the ITP review the full cost allocation process, including a review of all evidence and filings in previous proceedings.

IBC proposes that the objectives be stated as follows:

- Review, report on and make recommendations with respect to ICBC's financial methodology, including a review of specific allocators identified by the ITP;
- Review ICBC's work effort study that underlies certain of the ICBC allocators, particularly those that underlie the Regional Claims Centre Allocation, so as to address specific concerns raised by intervenors.

CDI in its Submission states:

"CDI submits that ICBC's Objectives and Scope, within their Proposal, are limited and do not fulfill, in its entirety, the direction of the Commission. As well, the Proposal does not completely address the concerns raised by Mr. Sykes and the IBC over the "independence of the Work Effort Study and the validation of the Work Effort Study and the proper allocation of costs between Basic and Optional." as referenced by the Commission in this 2008 Order."

ICBC's Reply submission argues that IBC's proposed objectives are too broad to be instructive, and amount to a request that the ITP conduct a full cost allocation study. IBC's objectives would have the ITP duplicate work already undertaken in the regulatory proceedings regarding allocation over the past five years. Since the Commission has already approved ICBC's pro-rata methodology based on cost causality and reviewed and approved the allocation functions associated with the majority of ICBC's operating costs, ICBC believes that duplication of work already done in Commission processes would not be cost effective or add value to the cost allocation process, and would not be in the best interests of Basic insurance policyholders.

Based on IBC's broad interpretation of the Study Objectives, IBC proposed a number of modifications to the Scope of the ITP review. ICBC Replied to the IBC concerns.

Commission Determination

A number of proceedings have established and refined a cost allocation methodology and specific allocators for all cost categories applicable to Basic Insurance. The last review of the RCCA allocators focused on joint costs that were difficult to allocate between Basic and Optional Insurance. The approach taken by ICBC was to convene a group of knowledgeable ICBC employees to estimate the time spent on Basic and Optional tasks. Joint costs in an integrated business are by their nature difficult to allocate and there was a concern by some intervenors that the use of ICBC staff could result in a bias to allocate more costs to Basic Insurance to make ICBC more competitive in its Optional business.

The Commission finds that Order G-73-08 was specifying that the ITP review would be focused on validating, or not, the RCCA allocations of the ICBC study group. The ITP would not review the broad allocation methodology or all evidence and filings since 2005.

Based on this more limited scope for the ITP review, the Commission believes that the February 20 2009 revised ICBC Terms of Reference for an Independent Third Party Review of Regional Claim Centres Allocation and Specified Allocation Functions are a focused and cost effective method to consider the validity of the allocations done by the ICBC study group. With all the work done over the past five years, it does not seem productive to initiate a broad ranging ITP review of the cost allocation methodology and decisions rendered to this time. Full utility Rate Designs are normally requested only every 5-8 years, or when a fundamental change in circumstances has occurred. The Commission's review of the ITP Report will assist it in determining if a comprehensive review is required.

The Commission accepts that the use of the word "validation" in the Terms of Reference is not to imply any tacit approval or agreement with the existing study results. In response to IBC's concern that the ITP must be given sufficient authority to comment on the methodology of the four selected allocation functions, the Commission expects that the ITP will provide advice it deems reasonable and that information will be considered in future rate design filings.

2.2 Materials to be Provided to the ITP

Based on its expanded view of the ITP Review, IBC identified additional information materials it believes would provide sufficient information for the ITP to understand the issues that have been raised by each of ICBC, the Commission and the Intervenors. ICBC disagrees with IBC and CDI that the materials to be given to the ITP should include the detailed record of prior Commission proceedings related to cost allocation, and that all of the evidence relating to cost allocation (or at least the evidence filed by intervenors) be comprehensively listed in the Terms of Reference. However, ICBC has amended the Terms of Reference to specify that it will provide the ITP with "all ICBC application materials and Decisions of the Commission related to its financial allocation methodology".

Commission Determination

Given the Commission Determination above on Objectives and Scope of the ITP review, some of the requests of IBC for broad ranging historic information on all rate design filings and evidentiary records are excessive and would be unduly costly for the approved Objectives and Scope of the ITP Review. **The Commission considers ICBC's Revised Terms of Reference dated February 20, 2009 to provide the basis for an appropriate and cost effective review of the RCCA work effort allocators in question.**

2.3 Independence of the ITP

IBC requests that the ITP confirm it has had access to the materials and persons necessary to complete the report and to confirm that there are no concerns regarding independence. ICBC made changes to the Terms of Reference to state that the ITP, as it deems necessary to gain a better understanding of ICBC's overall business and operations, may meet with appropriate staff, and ICBC will provide the ITP with information as it requires. ICBC agrees that the ITP is to be procured through an objective process and will remain independent throughout its review.

Commission Determination

The Commission accepts that the Independent Third Party reviewer is to remain "independent" and expects the ITP will attest to that in its Report.

2.4 Canadian Reviewer

Family Insurance suggests that the matters under review are uniquely Canadian and the ITP should have Canadian automobile experience. ICBC replied that participants at the December meeting agreed to delete this requirement because this experience was not necessary and, given the specialized knowledge required, the search parameters should not be further limited. In the February 20, 2009 Terms of Reference ICBC in the Qualifications section added the words: "Experience with Canadian automobile insurance business is preferred."

Commission Determination

The Commission accepts that Canadian automobile insurance experience need not be mandated.

2.5 Other Issues

Several additional minor issues were raised by IBC. ICBC considers that they need not be addressed individually by the Commission.

Commission Determination

The Commission has reviewed the remaining issues and finds that no further changes to the revised Terms of Reference are necessary. **Therefore, the Commission approves the Revised Terms of Reference dated February 20, 2009, attached as Appendix B to Order G-31-09.**



Terms of Reference for an Independent Third Party Review of Regional Claim Centres Allocation and Specified Allocation Functions

BACKGROUND

The Insurance Corporation of British Columbia (ICBC) operates three lines of business: Basic insurance, Optional insurance, and Non-insurance. ICBC's Basic insurance line of business is regulated by the British Columbia Utilities Commission (the Commission) pursuant to section 49 and Division 2 of the *Insurance Corporation Act* (the *ICA*).

To maintain economies of scale, ICBC operates as an integrated business. One purpose of ICBC's financial allocation methodology is to identify the operating costs associated with each line of business so that the required Basic insurance premium rates can be determined and the Commission can ensure that premiums from Basic insurance cover only those costs attributable to Basic insurance.

ICBC's current financial allocation methodology was approved by the Commission in its January 2005 Decision.¹ The Commission approved a fully allocated costing, or pro-rata, methodology as the most appropriate methodology for allocating costs among ICBC's three lines of business. The pro-rata method incorporates the principles of cost causality. Eighty-five percent of ICBC's total costs are claims incurred, premium taxes, and commissions, which are primarily directly attributed to one of ICBC's three lines of business. The remaining 15% are operating costs. Of these operating costs, 21% are direct costs. For indirect costs, which make up the remaining 79% of ICBC's operating costs, ICBC uses the principles of cost causality to determine the appropriate basis of allocation so that these costs are allocated in a fair and equitable manner.

In its January 2005 Decision, the Commission directed ICBC to conduct a workshop within 60 days to review the details of seven allocation functions, including the Regional Claim Centres allocation (the RCCA). ICBC allocates Regional Claim Centres costs using work effort based on transaction costing. The Commission also directed ICBC to address another seven allocation functions in subsequent revenue requirements applications. In regard to the allocation of ICBC's administrative operating costs, the Commission concluded that the fairest allocation method is to allocate the costs equally between Basic insurance and Optional insurance, after deducting the costs allocated to Non-insurance. This was on the basis that these cost categories are required by both Basic and Optional insurance and are truly joint costs of ICBC's business.² Administrative operating costs represent 18% of ICBC's operating costs (2.7% of ICBC's total costs).

A negotiated settlement process (NSP) on the initial seven allocation functions including the RCCA was held in April 2005. In its letter approving the May 2005 negotiated settlement agreement (NSA), the Commission stated that it was satisfied that the workshop and ensuing settlement process had correctly and comprehensively dealt with the seven allocation functions of particular concern identified in its January 2005 Decision.³ The Commission also confirmed ICBC and the intervenors' agreement to the use of the work effort allocator based on transaction costing for the RCCA. The RCCA represents 25% of ICBC's operating costs, or 3.8% of total costs. ICBC was directed to file an updated work effort study in 2007, including any revisions that ICBC proposed for the RCCA.

¹ January 2005 Decision, page 25.

² *Ibid.*, pages 42-43.

³ Commission letter dated May 18, 2005, Order No. G-46-05.



Terms of Reference for an Independent Third Party Review of Regional Claim Centres Allocation and Specified Allocation Functions

ICBC filed information regarding seven additional allocation functions, as directed in the January 2005 Decision,⁴ in its 2006 Revenue Requirements Application. The Commission approved the allocators for these allocation functions and addressed other allocation matters in its July 2006 Decision.⁵ Additional allocation matters including two more allocation functions, the use of the premiums written allocator, and reorganizations were addressed in the 2007 Revenue Requirements proceeding.⁶ In total, the matters specifically addressed by the Commission, including administrative operating costs and the RCCA, represent 62% of ICBC's operating costs.

As required by the Commission, ICBC submitted a filing on the RCCA including an updated work effort study in December 2007. ICBC and intervenors participated in an NSP and in the NSA reached in February 2008 parties agreed on the allocation of Regional Claim Centres compensation and other operating costs on the basis of overall work effort percentage.⁷

Following the RCCA NSP, some intervenors submitted comments to the Commission expressing concern with the lack of independent validation of the work effort study.⁸

In its April 22, 2008 Decision, the Commission directed ICBC as follows:

The Commission Panel acknowledges the concerns expressed by IBC and Mr. Sykes regarding the independence of the Work Effort Study and the validation of the Work Effort Study and the proper allocation of costs between Basic and Optional Insurance. The Commission Panel determines that these issues are to be addressed by ICBC in the course of preparing for its next application with respect to financial allocation methodology. The Commission Panel considers that the importance of appropriate cost allocation between Basic and Optional Insurance indicates a need for an independent professional assessment. The Commission Panel determines that, for the purposes of this proceeding, the internal work undertaken by ICBC in support of its application, together with the results of the negotiated settlement process are adequate to support Order No. G-73-08. The Commission received a number of Letters of Comment that accepts the 2008 NSA with one dissent. **The Commission approves for ICBC the February 20, 2008 NSA, attached as Appendix B to this Order.**

The Commission directs ICBC to prepare and file an application for approval of a Proposal Plan for the identification and selection of an independent third party ("ITP") to review, report on and make recommendations with respect to ICBC's financial allocation methodology. The Proposal Plan should address proponent qualification criteria, the detailed scope of the work required including a review of the Work Effort Study, and the time frame for

⁴ January 2005 Decision, pages 38-39, 41.

⁵ July 2006 Decision, pages 57, 60, and 61.

⁶ January 2008 Revenue Requirements Decision, pages 20-24.

⁷ Facilities costs related to the "tubes" in claim centres are allocated on the same basis as the collision/property damage transaction type rather than the overall work effort percentage.

⁸ Letters of comment expressing concern with the lack of independent validation of the work effort study were submitted by intervenors Russell Sykes and the Insurance Bureau of Canada (IBC). IBC also submitted another letter on March 27, 2008 directly to the Commission, after the time for comment had ended, which is referenced in the Commission's April 2008 Decision.



Terms of Reference for an Independent Third Party Review of Regional Claim Centres Allocation and Specified Allocation Functions

the review. The Proposal Plan application is to be filed with the Commission no later than October 31, 2008.

In ordering this independent review of the current cost allocation methodologies employed by ICBC, the Commission Panel is not directing a full cost allocation study. The current allocations will stay in place until amended by the Commission as a result of any second comprehensive cost allocation study. The purpose to be served by the ITP study would be to provide objective third party analysis that would address some of the concerns raised in this proceeding and provide a base for the Commission to evaluate whether or not a second full cost allocation proceeding is required.⁹

This Terms of Reference is the Proposal Plan directed by the Commission.

OBJECTIVES

- The primary objective of the ITP review, arising in response to specific concerns raised by intervenors about the RCCA work effort study, is to have an ITP provide independent validation whether that the approach used by ICBC resulted in a fair and equitable allocation of costs, and to provide advice on the specific issues identified below.
- A secondary objective is to have an ITP review and comment on ICBC's selection and application of the allocators used for the specified allocation functions identified below.

REQUIREMENTS

- ICBC will provide the ITP with the following materials:
 - Materials describing the current RCCA work effort methodology including materials filed with the Commission from ICBC's 2002 Transaction Costing Study up to and including the 2007 update to the work effort study.
 - All ICBC application materials and decisions of the Commission related to its financial allocation methodology. ~~Materials describing the current allocators used for the specified allocation functions.~~
 - PricewaterhouseCoopers' annual audit report (described below) regarding ICBC's compliance with the criteria in the ICA for allocating costs and revenues to the Basic insurance, Optional insurance, and Non-insurance lines of business, dated March 3, 2008.
 - The following Commission decisions and orders:
 - January 19, 2005 Decision approving the principles of ICBC's financial allocation methodology.
 - Commission letter dated May 18, 2005, Order No. G-46-05, approving the April 2005 NSA.
 - Excerpts of the July 13, 2006 Decision relating to allocation.
 - Excerpts of the January 2008 Revenue Requirements Decision relating to allocation.
 - April 22, 2008 Decision approving the February 2008 RCCA NSA (including appendices), the letters of comment filed by intervenors following the NSP,

⁹ April 2008 Decision, pages 4-5.



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and the letter filed by the Insurance Bureau of Canada directly with the Commission, after the comment period had ended, which is referenced in the Commission's April 2008 Decision.

- Relevant legislation defining the Commission's jurisdiction and ICBC's responsibilities with respect to financial allocation.
- The ITP will review the materials provided, obtain any further information necessary for its review, as required, from ICBC, and prepare a written report addressed to ICBC and the Commission. The report will address the two objectives outlined above and provide appropriate analysis and explanation for any recommendations.
- In making any recommendations, the ITP will consider the legal requirement to keep sensitive Optional insurance data confidential.¹⁰
- The review will be completed in approximately two weeks over a two month period after the ITP agrees to the Terms of Reference and has been provided with the above information from ICBC to begin its assessment. The report will be due one month after the ITP's completion of the assessment.
- The ITP will address questions on the contents of the report from the Commission and intervenors in writing or in person as required by the Commission.
- The ITP will complete the work in a cost-efficient manner.
- The ITP will confirm that it had access to the materials and persons necessary to complete the report.
- The ITP will confirm that it has no concerns regarding its independence.

QUALIFICATIONS

ICBC is seeking the services of a firm with one or more individuals with the following qualifications:

- Significant and related experience with cost allocation methodologies in a regulatory environment.
- Significant experience working for organizations (but not intervenors) operating in a regulatory environment.
- Significant experience with the automobile insurance business in the tort environment, in particular experience with claims servicing roles and processes. Experience with Canadian automobile insurance business is preferred.
- Capable of completing the review and issuing a final report within the time frames.
- Ability to abide by ICBC's and the B.C. government's terms and conditions regarding confidentiality of information obtained as a result of the engagement.
- Not in a conflict of interest position due to recent work for ICBC, the Commission, an intervenor, or a competitor of ICBC.

A firm may partner with one or more other firms to provide the services in the Terms of Reference. In such a case, one firm will be the lead to provide overall accountability for the services provided.

¹⁰ Per section 4(2) of *Special Direction IC2 to the BC Utilities Commission, BC Regulation 307/2004* in determining, under section 12 of the *Utilities Commission Act*, whether disclosure of information with respect to ICBC's Optional insurance business is necessary for the administration of the *Utilities Commission Act* as it applies to ICBC, the Commission must consider the effect of disclosure of the information on ICBC's ability to compete in the Optional insurance market on a basis similar to its competitors and the harm to ICBC's competitive position that may result from the disclosure of the information.



Terms of Reference for an Independent Third Party Review of Regional Claim Centres Allocation and Specified Allocation Functions

SCOPE

The scope of the ITP review will consist primarily of an examination of the RCCA work effort study, but will also include a limited review of the allocators used for specified allocation functions, as set out below.

1) Examination of the RCCA work effort study: The ITP will provide independent validation whether the approach used by ICBC for the RCCA, which is based on transaction costing, resulted in a fair and equitable allocation of costs. The transaction costing process involves having a team of experienced ICBC Claims and Finance personnel (the work effort study group) meet to determine the percentage of work effort of employees at a regional level, by identified job categories, with respect to the specific types of transactions undertaken. The team determines work effort percentages on the basis of data provided to the group in advance of the session and the team's experience and knowledge of ICBC's claims handling processes and the work being performed in each region.

- The ITP will meet with the work effort study group to understand the work effort study process and evaluate that process in meeting the objectives of a fair and equitable allocation of costs. If it deems necessary, to gain a better understanding of ICBC's overall business and operations, the ITP may meet with appropriate ICBC Claims Division and Finance Division staff outside of the work effort study group.
- The ITP will also provide advice on the following issues:
 - The reasonableness of the composition of the work effort study group.
 - Whether the conclusions reached by the work effort study group were reasonable based on the data provided, and whether the data was reasonable and the same type typically used in transaction costing exercises.
 - Where proxies for work effort are used to allocate the costs between lines of business, whether the proxies selected reasonably reflect work effort.
 - For the bodily-injury-represented and bodily-injury-litigated transaction types, whether there is a requirement to allocate a portion of the work effort to Optional insurance for claims settling under \$200,000.
 - For the Material Damage-collision/property damage and Material Damage-customer care transaction types, whether file count is an appropriate proxy and reasonably reflective of relative work effort for the purpose of allocating costs among the lines of business.

2) Review of specified allocation functions:

- ICBC uses four types of allocators for indirect costs: averages, claims, premiums, and work effort. The ITP will review one pre-selected allocation function from each of these categories, as follows:
 - Averages: Fraud Management (Weighted average – cost centres)
 - Claims: Call Centre Department (Newly opened exposures – TCD)
 - Premiums: Chief Underwriter (Premiums written with exception)
 - Work effort: Field Broker Support
- For each of the specified allocation functions, the ITP will review and comment on ICBC's selection and application of the allocator.



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of Regional Claim Centres Allocation and Specified Allocation Functions**

PricewaterhouseCoopers (PWC) conducts an annual audit of ICBC's compliance with the criteria established by sections 23(1)(c)(ii) and 49 of the *ICA* for attributing revenue and costs to ICBC's Basic, Optional, and Non-insurance lines of business (the PWC Audit). The last PWC Audit report was rendered on March 3, 2008.

TIME FRAME

Based on the ITP being finally retained on or before early July 2009, the ITP's review will begin in September 2009 and conclude no later than October 31, 2009. ICBC expects that the review will take approximately two weeks of actual work time over a two month period, depending on the availability of ICBC personnel and the ITP.

The ITP will report its findings and any recommendations to the Commission and ICBC by November 30, 2009.