



LETTER NO. L-61-10

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VIA EMAIL

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August 9, 2010

Ms. June Elder
Manager, Regulatory Affairs
Insurance Corporation of British Columbia
Suite 333 - 151 West Esplanade
North Vancouver, BC V7M 3H9

Dear Ms. Elder:

Re: Insurance Corporation of British Columbia
Confidential Filing of Chapter 9 of the 2010 Streamlined Revenue Requirements Application

The Insurance Corporation of British Columbia (ICBC) filed its IT Strategic Plan and Annual IT Capital Expenditure Plan in Chapters 9 A and 9 B, respectively, of the 2010 Streamlined Revenue Requirements Application (Application). ICBC is of the opinion that the Plans contain strategic information and proprietary pricing arrangements which, if disclosed publicly, could result in economic harm to ICBC or its suppliers; therefore, ICBC filed the submissions on a confidential basis. The Commission accepts the confidential nature of the filings.

Chapter 9 A – IT Strategic Plan

Pursuant to the 2007 Revenue Requirements decision the Commission directed ICBC to:

*"...with future revenue requirement filings, to receive updates to the IT Strategic Plan and the plan should be of a more long term view, incorporating anticipated or known changes to business requirements, technology evolution, and opportunities for improvements and efficiencies within the business."*¹

The IT Strategic Plan filed in the Application describes ICBC's enterprise-wide IT plan over a 5-year period. It defines IT priorities and expectations over this timeframe and guides the allocation of IT resources. The IT strategy is driven by ICBC's overall business strategy and priorities, and considers the current state assessment of its information systems and an analysis of IT trends in the North American property and casualty insurance industry and satisfies the Commission's requirements.

The key driver of ICBC's IT Strategic Plan, and capital expenditures, over the next three years are directly related to the Transformation Project (TP) which is required to renew the aging technology infrastructure that supports the provision of ICBC's services and is expected to ensure the future reliability and adaptability of the system. A Government Directive of April 19, 2010 by Order in Council 222/10, April 29, 2010 (Government Directive

¹ Order G-3-08, p. 60

regarding the TP) states that the Government recognizes the importance of ICBC re-investing sufficient capital in its business through the TP to permit ICBC to enhance the quality of service to universal compulsory automobile insurance and optional automobile insurance ratepayers. The Government Directive authorized the TP estimated costs of \$400 million to be funded through Optional Insurance rates, thereby limiting the potential impact of ICBC's TP investment on universal compulsory automobile insurance (Basic Insurance) rates.

The Government Directive states that Optional Insurance funded costs are to be limited to project operational costs and depreciation expense for the TP project up to the annual total Treasury Board approved budget amount for any given year up to a maximum cumulative total of \$400 million over the life of the project. The Directive further specifies that Optional insurance funded costs will not include post-implementation costs, ongoing operating costs associated with the system, future upgrades, or any costs in a given calendar year that exceeds the budget approved by the Treasury Board or the \$400 million cumulative limit.

Given that the TP is expected to be funded by Optional Insurance and will not be recovered in Basic Insurance rates regulated by the Commission, ICBC does not intend to report to the Commission on IT capital expenditures associated with the TP. As a result ICBC did not file a project-specific IT Capital Report relating to the capital investment associated with the TP; however, for information purposes it did provide capital expenditure data at a high level in the IT Capital Plan.

Although the TP is intended to be funded by Optional Insurance, the Commission recognizes that there are potential risks for Basic Insurance ratepayers. In particular, if the TP delivers sub-optimal business solutions or the technology fails, both the Basic Insurance and Optional Insurance lines of business will bear the costs of any consequences. Basic Insurance ratepayers could also be at risk if costs in a given calendar year exceed the budget approved by the Treasury Board or the \$400 million cumulative limit.

The Commission expects that the comprehensive TP governance structure put in place by ICBC, including an external risk oversight component, should be adequate for a project of this magnitude. ICBC should provide the Commission with sufficient detailed information in its annual update to the IT Strategic Plan to allow the Commission to assess whether the TP is advancing according to plan and is likely to be fully funded by Optional Insurance. An actual to forecast budget report, with explanations for any significant variances, and details outlining ICBC's progress towards meeting the six Priorities identified in the IT Strategic Plan would be useful.

Chapter 9 B – Annual IT Capital Expenditure Plan

As required by the Commission², the IT Strategic Capital Expenditure Plan filed in the Application is a 5-year plan divided into two main categories: capital renewal projects and business change projects. The 5-year plan includes two years of actual expenditures (2008 & 2009), a rolling 3-year forecast (2010-2012) and a schedule of individual IT capital projects exceeding the \$1 million reporting threshold.

The Commission has reviewed and issued comment letters on the majority of the projects listed in Figure 9 B.3 of the Application "Renewal Project with IT Capital Expenditure over \$1 million" as all IT projects exceeding the \$1 million IT capital expenditure reporting threshold require ICBC to file individual IT Capital Reports with the Commission after internal approval for the project has been obtained. For all remaining projects over \$1 million the Commission expects that ICBC will continue to file individual IT Capital Reports at the appropriate time.

² Order G-3-08, p. 64

By this letter, the Commission acknowledges receipt of ICBC's IT Capital Plan and Annual IT Capital Expenditure Plan. The Commission has reviewed the filings and has no further comments.

Recognizing the confidential nature of the IT Strategic Plan and the annual filing requirement of the IT Capital Expenditure Plan, the Commission suggests that the submissions be filed separately from future revenue requirements applications at a consistent annual date most convenient to ICBC. Once the annual filing date is determined the Commission should be advised.

Yours truly,

Erica M. Hamilton

CM/dg

cc: 2010 Streamlined RR Interveners
(ICBC-RR- RI)