



**ORDER NUMBER**  
**G-189-24**

IN THE MATTER OF  
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

the *Insurance Corporation Act*, RSBC 1996, Chapter 228, as amended

and

Insurance Corporation of British Columbia  
2024 Financial Allocation Methodology

**BEFORE:**

B. A. Magnan, Commissioner

on July 12, 2024

**ORDER**

**WHEREAS:**

- A. On January 31, 2024, the Insurance Corporation of British Columbia (ICBC) filed an application for approval with the British Columbia Utilities Commission (BCUC) to update its existing Financial Allocation Methodology (FAM) for allocating revenues and costs among its universal compulsory automobile insurance (Basic insurance), optional insurance (Optional insurance) and non-insurance services (Non-insurance) business segments (Application);
- B. In the Application, ICBC proposes three categories of changes to the existing FAM allocators:
  - Replacement of work effort allocators with data-driven allocators;
  - Changes due to Enhanced Care and other business changes; and
  - Changes to improve cost causality;
- C. The BCUC's jurisdiction with respect to the regulation of ICBC's Basic insurance is set out by the *Insurance Corporation Act* and *Special Direction IC2 to the BCUC, BC Regulation 307/2004 as amended*. The BCUC does not regulate ICBC's Optional insurance business;
- D. On March 1, 2024, ICBC filed an addendum to the Application providing additional information regarding the impact that the proposed FAM changes will have on the allocation of the Unallocated Loss Adjustment Expense;

- E. By Order G-51-24 dated February 27, 2024, and amended by Order G-107-24 dated March 27, 2024, the BCUC established a regulatory timetable for review of the Application which included public notice, intervener registration, one round of BCUC and intervener information requests and final and reply arguments that concluded on May 31, 2024; and
- F. The BCUC has reviewed the Application and evidence filed in the proceeding and makes the following determinations.

**NOW THEREFORE** for the reasons outlined in the decision accompanying this order, the BCUC orders as follows:

1. ICBC's proposed changes to the FAM allocators as set out in in Figures 10, 12 and 13 of the Application are approved.
2. ICBC is directed to file an assessment report for the FAM as set out in Section 3 of the decision accompanying this order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 12<sup>th</sup> day of July 2024.

BY ORDER

*Original signed by:*

B. A. Magnan  
Commissioner

## DECISION

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### 1.0 Introduction

On January 31, 2024, the Insurance Corporation of British Columbia (ICBC) filed its 2024 Financial Allocation Methodology Application (Application) for approval of changes to its existing Financial Allocation Methodology (FAM).<sup>1</sup>

The Application is filed pursuant to sections 59-61 of the *Utilities Commission Act* (UCA) and section 44(1) of the *Insurance Corporation Act* (ICA).<sup>2</sup> ICBC states that the Application is submitted in response to the BCUC's direction in the decision on the ICBC 2021 Revenue Requirements Application (2021 RRA Decision)<sup>3</sup>, for ICBC to review its FAM for total corporate operating expenses allocated to the universal compulsory automobile insurance (Basic insurance) line of business by December 2023.<sup>4</sup> On November 9, 2023, ICBC requested an extension to file its Application by January 31, 2024. This request was approved by the BCUC on the same date.

This decision is the Panel's determination on the proposed FAM changes, in accordance with the legislative and regulatory framework outlined in Subsection 1.2, as well as the Panel's consideration of whether there is a need for continued future review of the FAM and the appropriate timing as set out Section 3.0.

### 1.1 Background

ICBC is a provincial Crown corporation mandated by the ICA, *Insurance (Vehicle) Act* and the *Motor Vehicle Act* to provide Basic insurance to motorists in British Columbia (BC). In addition to Basic insurance, ICBC also provides British Columbians with Optional auto insurance products (Optional insurance) in a market with other insurance companies which is not regulated by the BCUC, as well as non-insurance services (Non-insurance).<sup>5</sup> ICBC operates all three lines of business on an integrated basis so that economies of scale of ICBC's operations can benefit BC motorists.<sup>6</sup>

Revenues and costs are allocated among ICBC's Basic insurance, Optional insurance and Non-insurance business segments in accordance with its FAM, which is a fully allocated costing (or pro-rata) methodology that was initially approved by the BCUC in 2005.<sup>7</sup> Since then, ICBC has submitted a number of FAM-related filings, such as work effort studies on claim centres' operating expenses, as well as other occasional amendments to its FAM.<sup>8</sup>

This Application, however, is the first complete review of ICBC's FAM since 2005 and comes after significant changes to ICBC's business model following the introduction of a care-based insurance system (Enhanced Care)

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<sup>1</sup> Exhibit B-1, p. 1.

<sup>2</sup> Exhibit B-1, p. 1.

<sup>3</sup> ICBC 2021 RRA, Decision and Order G-307-21 dated October 28, 2021.

<sup>4</sup> Exhibit B-1, p. 1.

<sup>5</sup> Exhibit B-1, p. 7.

<sup>6</sup> Exhibit B-1, p. 7.

<sup>7</sup> Decision and Order G-9-05

<sup>8</sup> Exhibit B-1, p. 1.

in May 2021 and the business transformation initiatives from 2009 to 2016, collectively referred to as the Transformation Program.<sup>9</sup>

## 1.2 Legislative and Regulatory Framework

Part 2 of the ICA and specified sections of the UCA provide the BCUC's jurisdiction to regulate ICBC's Basic insurance business. ICBC must make available Basic insurance in a manner, and in accordance with practices and procedures, that the BCUC considers are in all respects adequate, efficient, just and reasonable.

Further, section 44(1) of the ICA provides that the UCA applies to ICBC as if it were a public utility, excluding specified sections of the UCA. Under the rate setting sections of the UCA, a public utility must not make, demand, or receive "an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service provided by it in British Columbia." However, because ICBC is not a public utility, the reference to "rate" in the UCA is defined as "compensation of the Insurance Corporation of British Columbia, other than any fee or other remuneration to which that corporation is entitled for any activity it undertakes under section 7 (g), (h) or (i) of the Insurance Corporation Act." Sections 7(g), (h), and (i) of the ICA generally refer to ICBC's function related to government programs and highway safety.

## 1.3 Approvals Sought

On January 31, 2024, ICBC filed its Application with the BCUC, seeking the following approvals with respect to its existing FAM:<sup>10</sup>

- Approval to replace work effort allocators with data-driven allocators;
- Approval to change certain allocators to align with insurance product and operations changes due to Enhanced Care and other business changes; and
- Approval to change certain allocators to improve cost causality.

The proposed allocators for each of the above changes are summarized in figures 10, 12 and 13, respectively, of the Application.<sup>11</sup>

Other than the three categories of changes noted above, ICBC proposes to retain all other elements of the existing FAM. In addition, no changes are proposed to the allocation of ICBC revenues and claims costs.<sup>12</sup>

## 1.4 Application Review Process and Participants

By Order G-51-24 dated February 24, 2024, and amended by Order G-107-24 dated March 27, 2024, the BCUC established the regulatory timetable for the review of the Application which included public notice of the Application, intervener registration, one round of BCUC and intervener information requests (IRs) and final and reply arguments.

On March 1, 2024, ICBC filed an addendum to the Application, providing additional clarity on the impact of ICBC's proposed changes on the Unallocated Loss Adjustment Expense.<sup>13</sup>

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<sup>9</sup> Exhibit B-1, p. 2.

<sup>10</sup> Exhibit B-1, p. 3.

<sup>11</sup> Exhibit B-1, pp. 41, 45 and 47.

<sup>12</sup> Exhibit B-1, p. 29.

<sup>13</sup> Unallocated Loss Adjustment Expenses accounts for expenses incurred in the management of claims, which cannot be allocated directly to a particular claim such as internal claims staff salaries.

British Columbia Old Age Pensioners' Organization et al. (BCOAPO) registered as an intervener for this proceeding and submitted IRs and final argument. The Credit Union Insurance Services Association also registered as an intervener but did not submit IRs or file a final argument.

## 2.0 ICBC Financial Allocation Methodology

As noted in Section 1.3 of this decision, ICBC proposes three sets of changes to the allocators to be used for the purpose of ICBC's financial allocation of revenue and costs amongst its three lines of business compared to its existing FAM:<sup>14</sup>

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

ICBC states that one goal 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. With this in mind, ICBC states the proposed changes retain "the overall accuracy and causality of the existing approach, while improving transparency, simplifying with more proportionate administration and offering the potential for greater regulatory efficiency."<sup>15</sup> ICBC estimates that, based on its fiscal year (FY) 2022/23 actual operating expenses, the proposed changes will shift the allocation of operating expenses from Optional insurance to Basic insurance by \$13.7 million, which represents less than 0.5 percent of the \$2.9 billion Basic insurance component of ICBC's FY 2022/23 actual total costs and expenses.<sup>16</sup> Based on FY 2021/22 and FY 2020/21 operating expenses, the estimated shift is \$14.5 million and \$11.0 million, respectively from Optional insurance to Basic insurance.<sup>17</sup> The analysis, rationale, and impacts of each set of the proposed changes are described further below.

### ICBC Analysis

ICBC states that it engaged KPMG LLP (KPMG) in March 2023 to conduct an independent review of its existing BCUC-approved FAM. KPMG was tasked with assessing the continued appropriateness of the FAM considering the changes to ICBC's business model that resulted from the introduction of Enhanced Care in May 2021 and other business changes from 2009 to 2016.<sup>18</sup> KPMG's review included interviews and workshops with cost centre business owners and subject matter experts to evaluate the appropriateness and reasonability of the existing allocator types and allocation percentages.<sup>19</sup> KPMG concluded that ICBC's existing 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.<sup>20</sup> Notwithstanding, KPMG identified certain non-material opportunities for ICBC to optimize its implementation and administration of the existing FAM.<sup>21</sup>

ICBC reviewed the opportunities that KPMG identified and proposes to adopt the recommendations KPMG made related to its Claims Services operating expenses as described below. However, ICBC opted to retain its

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<sup>14</sup> Exhibit B-1, p. 3.

<sup>15</sup> Exhibit B-1, p. 4.

<sup>16</sup> Exhibit B-5, BCUC IR 6.1.

<sup>17</sup> Exhibit B-5, BCUC IR 6.1.

<sup>18</sup> Exhibit B-1, p. 23.

<sup>19</sup> Exhibit B-1, Attachment A, p. 20.

<sup>20</sup> Exhibit B-1, p. 2.

<sup>21</sup> Exhibit B-1, Appendix A, p. 4.

existing allocation methodology (proposing no change) as it relates to the calculation of the investment income ratio allocator, with supporting rationale.<sup>22</sup>

**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 or weighted average allocators.<sup>23</sup> Specifically, the proposed replacement allocators including the estimate financial impact are outlined in Figure 10 of the Application and reproduced in Table 1 below:<sup>24</sup>

**Table 1: Proposed FAM Changes 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	
<b>Total**</b>													<b>4.9</b>	

The changes arise most significantly from ICBC’s proposed discontinuation of the existing Customer and Injury Services Operations (CISO) detailed Work Effort Study (WES) that is used as the basis for allocating operating costs (primarily compensation) of staff working in claim field offices. In addition, with ICBC’s proposal the 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 will no longer be required.<sup>25</sup> ICBC explains that the work effort allocators, in particular the CISO detailed WES, were identified by KPMG as areas of opportunity that ICBC could make more efficient and objective through the use of data-driven allocators that reflect cost causality.<sup>26</sup> The use of data-driven allocators simplifies the overall allocation by removing layers of calculations and combinations of work effort approaches to arrive at the allocation result.<sup>27</sup> The proposed allocators also maintain a similar level of cost and

<sup>22</sup> Exhibit B-1, p. 23; Exhibit B-5, BCOAPO IR 1.3.

<sup>23</sup> Exhibit B-1, p. 31.

<sup>24</sup> Exhibit B-1, p. 41, Figure 10.

<sup>25</sup> Exhibit B-1, p. 31.

<sup>26</sup> Exhibit B-1, p. 25.

<sup>27</sup> Exhibit B-5, BCUC IR 3.1.

allocation detail and precision that is provided by the existing BCUC-approved FAM for each line of business, thereby, maintaining the transparency and accuracy of the FAM.<sup>28</sup>

ICBC states that replacing the CISO detailed WES with data-driven allocators will reduce costs by approximately \$299,000 to \$334,000 as an result of avoided independent consultant fees and time savings for the Claims, Finance, and Regulatory Affairs staff that are involved with the CISO detailed WES process and analysis of the results.<sup>29</sup> The replacement of work effort with claims data also improves the timeliness of the allocation process, making it more responsive to changes in the underlying business.<sup>30</sup> This is because the existing CISO detailed WES methodology is based on management estimates that are not refreshed annually, which necessitates using a historic year allocation as the basis for allocating costs for future reporting years.<sup>31</sup>

Based on FY 2022/23 actual financial results, the total estimated net impact of replacing work effort allocators with data-driven allocators is an allocation shift of \$4.9 million in operating expenses from Optional insurance to Basic insurance and Non-insurance lines of business.<sup>32</sup>

**Changes due to Enhanced Care and other business changes**

ICBC states the changes sought in the Application are also warranted in light of significant changes to ICBC’s business model in recent years, including the introduction of Enhanced Care in May 2021, and the Transformation Program.<sup>33</sup> The proposed allocator changes including the estimated financial impact are outlined in Figure 12 of the Application, as amended in response to BCUC IR 6.1,<sup>34</sup> and reproduced in Table 2 below:<sup>35</sup>

**Table 2: Proposed FAM Changes due to Enhanced Care and Other 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 G1 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
<b>Total *</b>													<b>8.1</b>

ICBC states that the proposed changes are from identifying several business areas within the Claims Services line of business (LOB) where existing allocators do not reflect the changes in claims handling and business processes resulting from Enhanced Care and other business changes.<sup>36</sup> These are in the Claims Administrative Services, Claims Contact Centre business areas, as well as in senior claims management roles.

<sup>28</sup> Exhibit B-5, BCUC IR 3.1.

<sup>29</sup> Exhibit B-3, BCUC IR 4.3.

<sup>30</sup> Exhibit B-1, p. 30.

<sup>31</sup> Exhibit B-1, p. 31.

<sup>32</sup> Exhibit B-1, p. 40.

<sup>33</sup> Exhibit B-1, p. 42

<sup>34</sup> ICBC’s response to BCUC IR 6.1 reduced the estimated impact (shift from Optional insurance to Basic insurance) of the proposed Claims Contact Centre allocator from \$3.4 million to \$2.0 million.

<sup>35</sup> ICBC Final Argument, p. 10, Figure 12 (updated).

<sup>36</sup> Exhibit B-1, p. 42.

Based on FY 2022/23 actual financial results, the estimated impact of the proposed changes to align with Enhanced Care/Business Changes is a total shift of \$6.8 million in operating expenses from Optional insurance to Basic insurance.<sup>37</sup>

**Changes to improve cost causality**

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.<sup>38</sup> The proposed allocator changes including the estimated financial impact are outlined in Figure 13 of the Application and reproduced in Table 3 below.<sup>39</sup>

**Table 3: Proposed FAM 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
<b>Total *</b>		<b>10.7</b>									<b>2.0</b>	<b>-</b>	<b>2.0</b>

ICBC states that the use of alternate existing BCUC-approved allocators in these cost centres, such as division averages or premiums written, better reflect the causality and cost drivers of the cost centres.<sup>40</sup>

Based on FY 2022/23 actual financial results, the total estimated shift of operating expenses allocated from Optional insurance to Basic insurance from the above proposals is \$2.0 million.<sup>41</sup>

*Positions of the Parties*

BCOAPO supports ICBC in seeking to simplify the FAM where possible.<sup>42</sup> Specifically, BCOAPO supports ICBC’s proposed movement to a simplified and data-driven approach where costs incurred can generally be viewed on a spectrum between “costs clearly caused by a particular department or service” and “costs incurred for the broader benefit of the organization as a whole.”<sup>43</sup> In addition, BCOAPO submits that it is not unreasonable that changes under Enhanced Care designed to improve benefits under Basic insurance would conceivably result in an increased allocation of operating costs to Basic insurance and the estimated financial impact of the FAM changes proposed in the Application.<sup>44</sup> From BCOAPO’s perspective, the results of the proposed changes flowing from the alignment with business model changes and improving cost causality are, from a high level, directionally reasonable.<sup>45</sup> Notwithstanding the above support for ICBC’s proposals, BCOAPO notes that “few or

<sup>37</sup> Exhibit B-1, p. 44.

<sup>38</sup> Exhibit B-1, p. 46.

<sup>39</sup>Exhibit B-1, p. 47, Figure 13.

<sup>40</sup> Exhibit B-1, p. 46.

<sup>41</sup> Exhibit B-1, p. 46.

<sup>42</sup> BCOAPO Final Argument, p. 12.

<sup>43</sup> BCOAPO Final Argument, p. 4.

<sup>44</sup> BCOAPO Final Argument, p. 6.

<sup>45</sup> BCOAPO Final Argument, p. 12.



no viable alternative allocators” were provided by ICBC as part of the Application, and requests that the BCUC order ICBC to provide such information as part of its future FAM applications.<sup>46</sup>

### *Panel Determination*

**The Panel approves the proposed allocator changes to ICBC’s FAM as set out in figures 10, 12 and 13 of the Application.** The Panel is satisfied that there is reasonable justification for each of the proposed changes, including an analysis of the applicable alternatives to support the revised allocators. ICBC engaged a third-party consultant, KPMG, to conduct an independent review of the ICBC FAM. The proposed allocator changes are supported by that review where ICBC has agreed with KPMG’s assessment and recommendations, and there are no changes proposed where ICBC does not agree with KPMG that there is sufficient business support for a change (i.e. calculation of the investment income ratio allocator). Based on the evidence, the Panel is persuaded that the proposed replacement of work effort allocators with data-driven allocators is reasonable, on the basis that it is simpler to implement with no apparent loss to the transparency or overall accuracy of the FAM. The allocator adjustments within the Claims Services LOB and the six cost centres within the Administrative LOB align with ICBC operational changes and improve overall cost causality, respectively. In the Panel’s view, the three sets of proposed changes to ICBC’s FAM improve the objectivity, transparency, and efficiency of the existing FAM, and do not result in unjust, unreasonable, unduly discriminatory or unduly preferential rates for Basic insurance.

With respect to BCOAPO’s recommendation, the Panel finds that such a directive is not needed as the alternatives considered by ICBC, but which were not ultimately selected, were adequately explored in this proceeding.

### **3.0 Future assessment of financial allocation methodology**

BCOAPO states in its final argument that it has reservations about “the prospect of the Insurer operating longer than the immediate future based on a methodology supported by evidence garnered during a transition period.”<sup>47</sup> BCOAPO submits that there is a material risk of harm to ICBC or its policy holders if “it is left to operate overlong based on the outcome of this process.”<sup>48</sup> As such, BCOAPO requests that the BCUC direct ICBC to file its next FAM for review in the next three to five years, and no later than 2029, to avoid incurring undue risk of having the approved allocation methodology diverge too widely from ICBC’s actual cost drivers.<sup>49</sup> BCOAPO also recommends that the legal based bodily injury non head office claims (BI non-HOC), Claims Administrative, Claims Contact Center and Regulatory Cost allocators be reviewed as part of ICBC’s next RRA.<sup>50</sup>

In reply, ICBC argues that the FAM review as recommend by BCOAPO is unnecessary unless ICBC experiences a significant business change of a similar magnitude to the Transformation Program or the adoption of Enhanced Care.<sup>51</sup> In ICBC’s view, BCOAPO overstates the degree of expected business change over the next five years. ICBC considers that, for financial allocation purposes, it is already in a steady state and the impact the continued wind-down of legal-based claims will be limited.<sup>52</sup>

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<sup>46</sup> BCOAPO Final Argument, p. 12.

<sup>47</sup> BCOAPO Final Argument, p. 4.

<sup>48</sup> BCOAPO Final Argument, p. 4.

<sup>49</sup> BCOAPO Final Argument, p. 4.

<sup>50</sup> BCOAPO Final Argument, p. 12.

<sup>51</sup> ICBC Reply Argument, p. 1.

<sup>52</sup> ICBC Reply Argument, p. 2.

Further, ICBC submits that the BCUC will have appropriate oversight regarding its FAM without completing another proceeding designed for such a review.<sup>53</sup> ICBC has indicated that in its next RRA, ICBC will include an evaluation of the changes sought in this Application, using FY 2022/23 as a baseline.<sup>54</sup> That is, ICBC will compare the results of the existing model and previous model for financial allocation, using updated information and identify for the BCUC any results that appear counter-intuitive based on its understanding of the underlying business drivers.<sup>55</sup> ICBC submits that if, however, the BCUC were to direct a date for a future FAM application, the next filing deadline should be no less than five years from now.<sup>56</sup> This timing would better recognize the significant improvements to the FAM already made in this Application and reflects a better balance of oversight and administrative efficiency<sup>57</sup>

### *Panel Determination*

**The Panel directs ICBC to file an assessment report for its FAM as part of a general rate change application by no later than December 31, 2030. This assessment report should include whether there is a need to update the FAM and discuss any other matters that ICBC considers relevant to assessing the FAM.** The Panel considers that a duration of approximately five-years will offer ICBC adequate time to thoroughly evaluate the impacts of its FAM as approved in this decision. This period will allow for the provision of updated information and the identification of any resulting impacts on costs or operations and/or adverse outcomes to be incorporated into ICBC's assessment.

The Panel acknowledges ICBC's commitment to include an evaluation of the changes sought in this Application using FY 2023/23 as a baseline, in its next RRA.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 12<sup>th</sup> day of July 2024.

*Original signed by:*

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B. A. Magnan  
Commissioner

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<sup>53</sup> ICBC Reply Argument, p. 3.

<sup>54</sup> ICBC Reply Argument, p. 3

<sup>55</sup> ICBC Reply Argument, p. 4.

<sup>56</sup> ICBC Reply Argument, p. 1.

<sup>57</sup> ICBC Reply Argument, pp. 1, 4.