

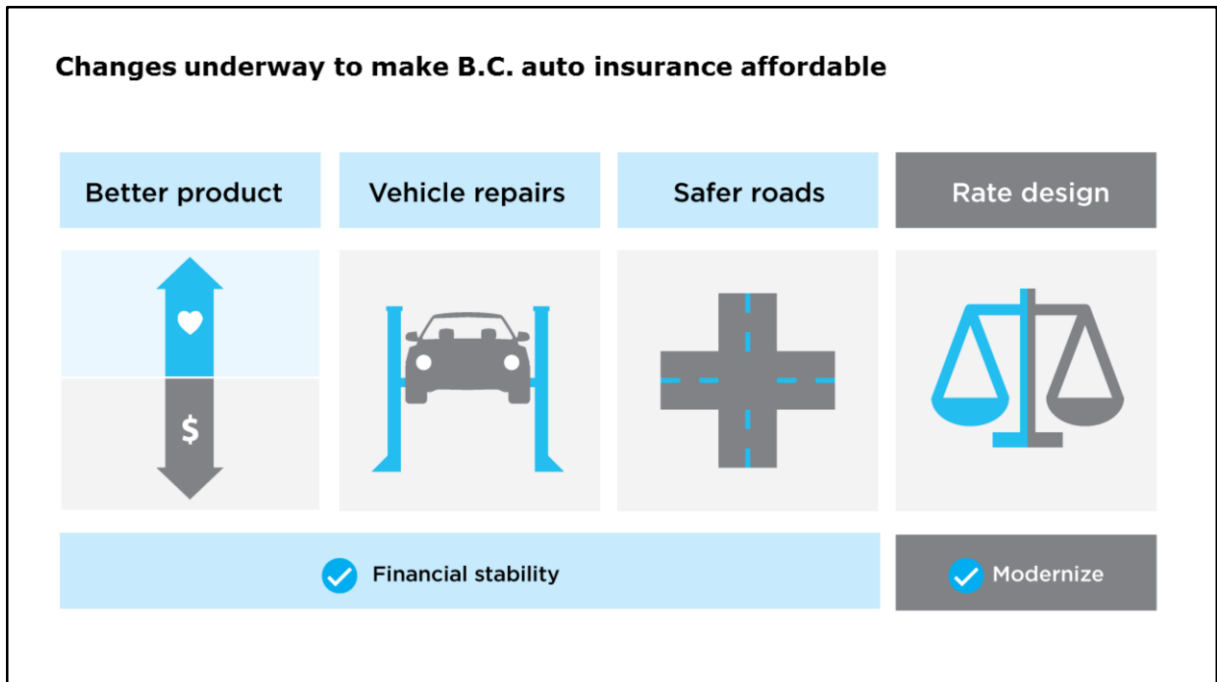


## **Technical briefing**

Changes to how Basic insurance premiums are set

August 9, 2018

## Changes underway to make B.C. auto insurance affordable



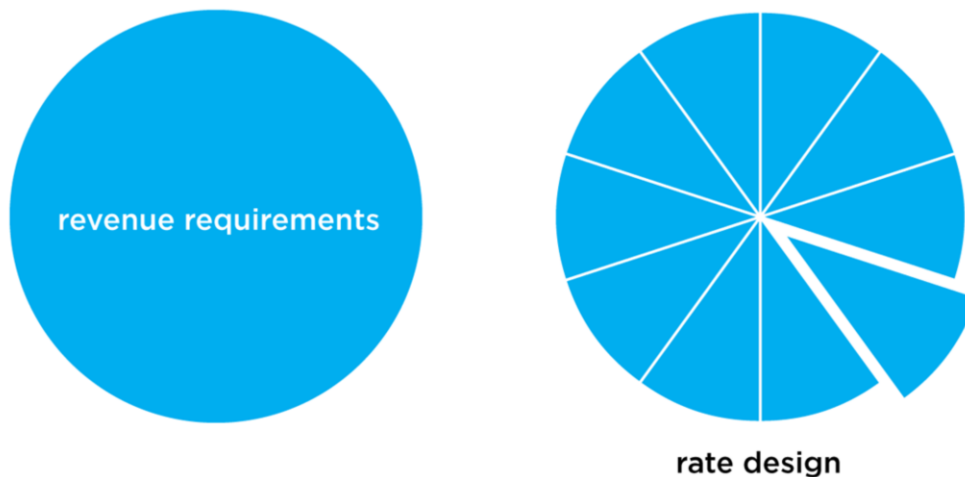
## Changes underway to make B.C. auto insurance affordable

The changes to the entire auto insurance system are designed to create:

- a better product that strikes the balance between increased care for the injured, more affordable rates for all and less spent on legal costs;
- a more effective way of working with suppliers in the vehicle repair industry;
- safer roads to help prevent crashes from happening in the first place; and
- a modern pricing model for Basic premiums, to better differentiate driver risk.

These changes will protect British Columbians from increases to rates that, without any action, could have been up to 30%. More importantly, they will make ICBC a sustainable organization once again.

## Revenue requirements vs. rate design



### Revenue requirements vs. rate design

**Revenue requirements** is the total amount of premium ICBC needs to collect in any given year.

**Rate design** is the model we use to determine how we calculate an individual's Basic premium. The proposed changes recalculates premiums to be fairer and better reflect the risk each driver represents. These changes don't increase or reduce the overall amount of Basic dollars ICBC needs to collect.

A few things to note:

- The proposed changes pertain to Basic insurance only. ICBC's Optional business operates in a competitive market and both the coverages we sell and the rates we set are quite different than Basic.
- These changes will impact personal and business customers differently. All of the proposed changes will apply to our personal and non-fleet business customers. This is approximately 93% of ICBC's customers.
- Fleet and garage customers will be impacted by only some of the changes. For the most part, their policies will continue to be rated under the current model.

Insurance premiums are based risk. And risk is based on a number of different factors that include behaviours, where you use your vehicle, how you use your vehicle and the vehicle you choose to drive.

## Why we are making Basic insurance rates more fair



## Why we are making Basic insurance rates more fair

The current model was first designed more than 30 years ago. And while we've made a few changes along the way, it has gradually become less effective at distinguishing among customers with different levels of risk.

Challenges with current model:

- Currently, 80% of British Columbians receive the top Basic insurance discount of 43%. Eight out of 10 drivers can't possibly have the exact same risk profile. This system offers little differentiation, which means some people are paying too much and others too little.
- Secondly, too many crashes are forgiven – over 40% of all crashes in a year. The cost of those claims (in the hundreds of millions) is borne by everyone – which includes the people who don't cause crashes. It's completely unfair that today a driver at the highest level in our discount system could have three at-fault crashes in a year and not see an impact to their premium.
- Third, at-fault crashes today affect the vehicle rather than the driver. This allows some to escape the impact and hide their true risk.
- Finally, the data used to determine rate classes and territories hasn't been updated in

more than 10 years, even though the population and infrastructure of most areas has changed significantly in this time.

The proposed changes are focused on ensuring that all drivers pay premiums that better reflect their risk, which will mean that lower risk drivers will bear less of the costs associated with high-risk drivers.

## Action already announced



**Driver Penalty Points (DPP)** traffic offences

**Driver Risk Premium (DRP)** serious convictions

↑ **20%**

FALL 2018

↑ **20%**

FALL 2019

## Action already announced

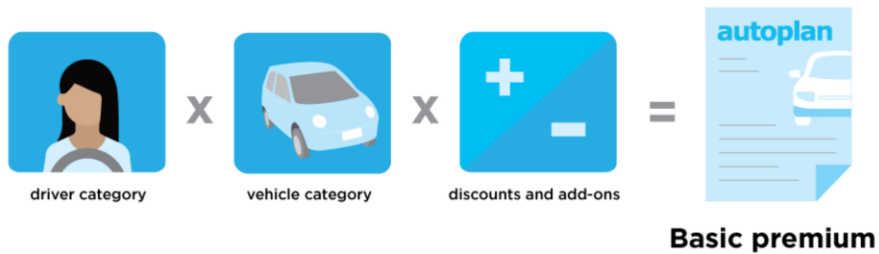
ICBC will seek approval from BCUC to increase the premiums of the Driver Penalty Points (DPP) and Driver Risk Premium (DRP) programs as early as this fall. If approved, the DPP and DRP amounts will increase by 20% this year and 20% next year.

The Driver Penalty Points program applies to drivers who receive four or more penalty points in a one year period. These points are for traffic offences such as disobeying a stop sign or driving without due care.

The DRP program applies to drivers who receive serious convictions such as Criminal Code, roadside suspensions or prohibitions, excessive speeding and distracted driving.

Revenue generated from the DPP and DRP programs helps to offset Basic insurance premiums.

## Proposed changes



## Proposed changes

Generally, a customer's premium will be determined based on three main categories of rating factors:

1. The drivers themselves. It looks at how long you've been driving and how many crashes you've caused.
2. The vehicle. It looks at where you live and how you use the vehicle.
3. Additional insurance considerations that could apply.

Together, these rating factors determine your personalized Basic insurance premium.



## Proposed changes



### Drivers

How many crashes you've caused and how long you've been driving.



INCREASED ACCOUNTABILITY

### Crash History

Drivers who have caused crashes in the last 10 years pay more.



INCREASED ACCOUNTABILITY

### One-crash forgiveness

Waive one at-fault crash after 20 years of experience and 10 years crash-free.

## Proposed changes

### Driver-Based Model

- Today, you're only required to declare the principal operator when insuring your vehicle. You don't have to list anyone else who might use it regularly.
- Our plan is to move to a driver-based model, one where the crash history of each driver would be taken into consideration when setting premiums. Listing all potential drivers of a vehicle allows for more accurate pricing by better reflecting the true risk and making sure drivers that have at-fault crashes are more accountable for their actions.
- The majority of your premium (at 75%) will be based on the principal driver, with the remaining 25% reflecting the other driver with the highest risk.

### Crash History:

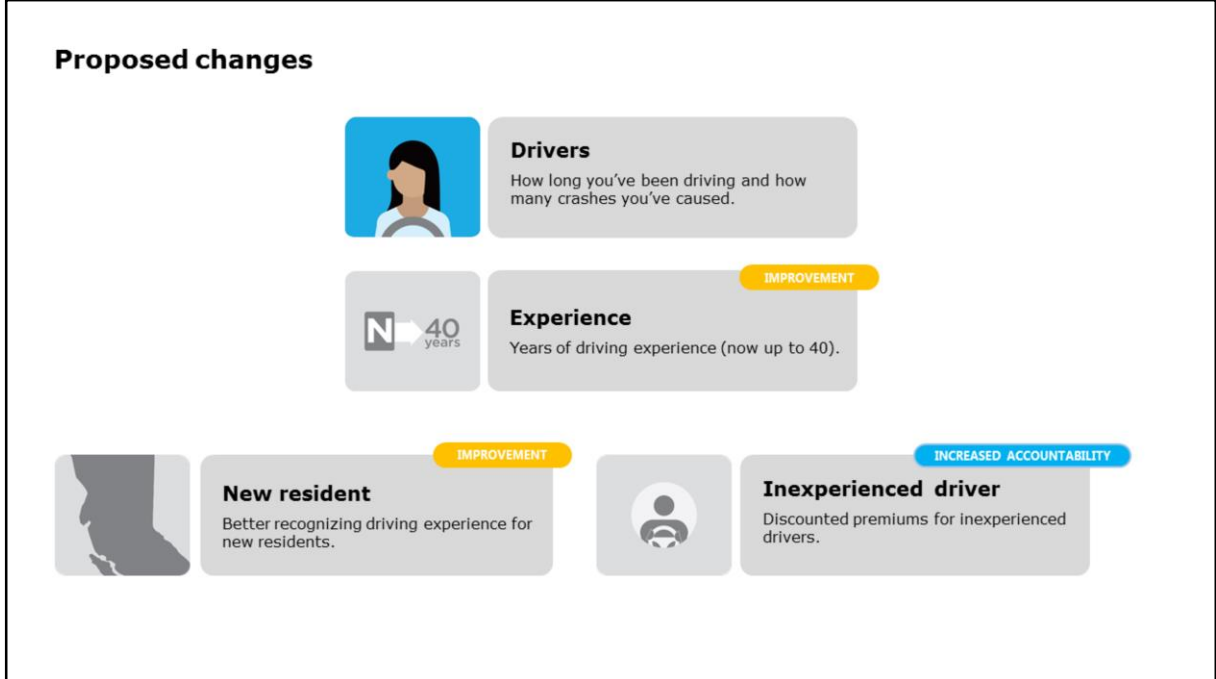
- Under our proposed model, at-fault crashes will follow the driver. This means the owner of a vehicle will not be held accountable like they are today. For example, if your neighbour borrows your vehicle and causes a crash, the claim will now be attached to their driving record, not yours.
- Other proposed changes include how long an at-fault crash impacts your driving record. We're going to look at a customer's at-fault crashes that occurred over the

past 10 years. This is known as the “scan period.”

- To minimize impacts as we move to the new system, we’ll establish a transition period. When we implement in September 2019, we’ll only look back 2 and a half years. Each year thereafter, we’ll extend the scan period by one year. This means that by 2027, we’ll be looking at the full 10-year scan.
- We also plan to update the rules around repaying a claim based on feedback from the recent public engagement. Currently, there are no limits on the ability to repay a claim and that allows some drivers to mask the true risk they represent. Under the proposed model, customers will only be able to repay a claim when the total cost of the claims is less than \$2,000.

**One-crash forgiveness:**

- “One-crash forgiveness” means we wouldn’t increase the premiums of a driver who has one at-fault claim after 20 years of driving experience, provided they’ve been crash-free for 10 years. However, once an at-fault claim has been forgiven, drivers would need another 10 years of crash-free driving before being eligible for one-crash forgiveness.



**Proposed changes - Drivers**

**Experience Factor:**

- Under the proposed changes, customers with more years of driving experience and no at-fault crashes would see greater discounts compared to today.
- The proposed model will offer discounts up to 40 years of crash free experience vs. nine years in today's model.
- Under the Experience Factor, there are two additional changes we're planning for new residents and inexperienced drivers.

**New resident:**

- Currently, when a driver moves to B.C. from another country or province, they can receive a maximum credit for eight years of claims-free driving experience.
- We plan to increase the maximum credit to 15 years while ensuring premiums reflect the additional risk those drivers pose during their first three years driving in B.C.

**Inexperienced drivers (those with less than 15 years of experience):**

- Under the current model, inexperienced drivers pay less than the risk they represent – this means their Basic insurance premiums are significantly discounted.
- In the new model, we'll continue to offer these drivers discounts, but they'll be

reduced somewhat to better reflect the actual risk they represent. They will have to earn better discounts each year by making sure they're crash-free.

- We're adding more accountability to the model. If inexperienced drivers have an at-fault crash in the scan period, we'll reduce that discount. If they crash again, that discount will be eliminated entirely. They'll have to earn it back year by year by staying crash-free.

## Proposed changes



### Vehicle

Where you live and how you use your vehicle (e.g., pleasure, commuting, business and delivery).



### Territory

Premium is affected by where in B.C. the vehicle is insured.

UPDATED



### Rate class

Premium is affected based on how the vehicle is used (e.g., pleasure, commuting, business and delivery).

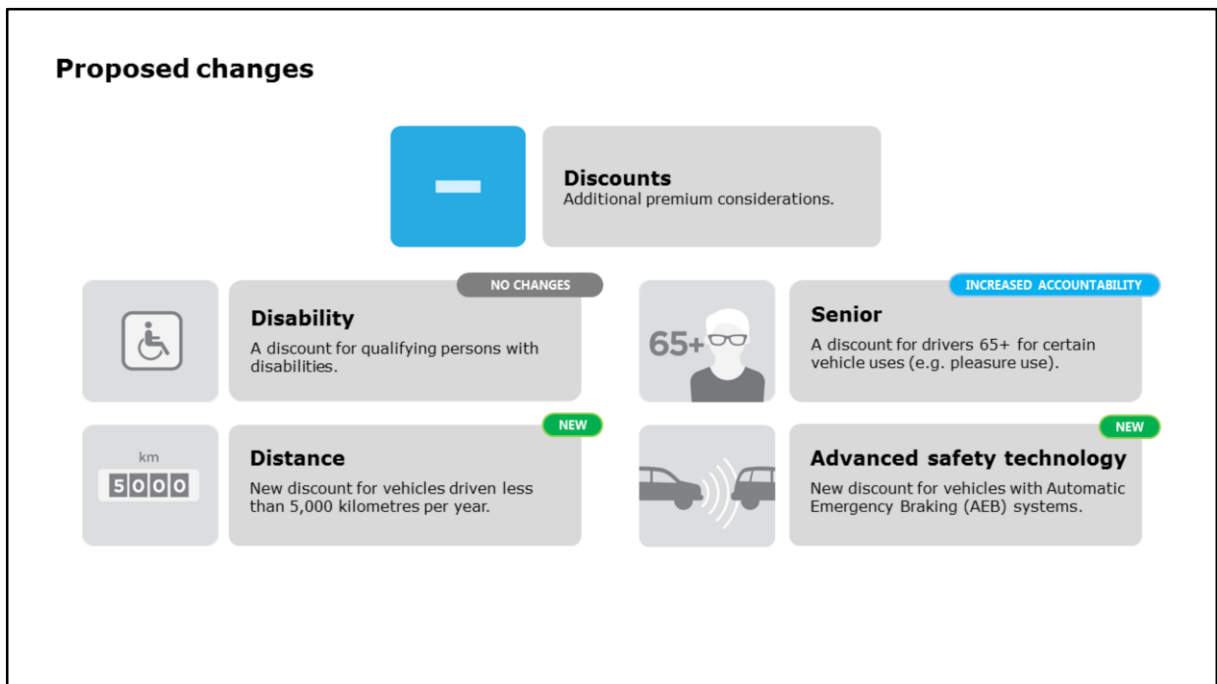
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## Proposed changes – Vehicle

Today's Territory and Rate Class factors are based on data from 2007, and a lot has changed since then. Crash rates have increased due to traffic density, higher population growth and changes in the urban infrastructure.

Under this proposal, we plan to adjust those factors to recognize the changes in communities and vehicle use across B.C. As a result, some customers will see the portion of their premium from Territory and Rate Class either increase or decrease. These changes will be rolled out gradually over the next 10 years. Going forward, we plan to update both territory and rate class information on a regular basis.

Where you live is only one factor used to calculate a customer's Basic premium. So even if it increases, you could still see an overall decrease based on how the other rating variables play out.



## Proposed changes – Discounts

### Disability

- We’re proposing to keep the existing discount for qualifying persons with disabilities.

### Eligible Seniors

- We are also proposing to continue to offer a discount for eligible seniors.
- As an added benefit, seniors, like other drivers, will be eligible for added safe driving discounts because we’re increasing the number of years of driving history – up to 40 years from the current nine. That said, to ensure accountability exists for all, the seniors discount will be reduced, and potentially eliminated, if the senior driver has at-fault crashes within the 10-year scan period.
- Overall, a senior with a crash-free driving record would be better off under the proposed changes than they are today.

### Distance

- We’re proposing to introduce a new 10% discount for vehicles that are driven less than 5,000 km in a year.

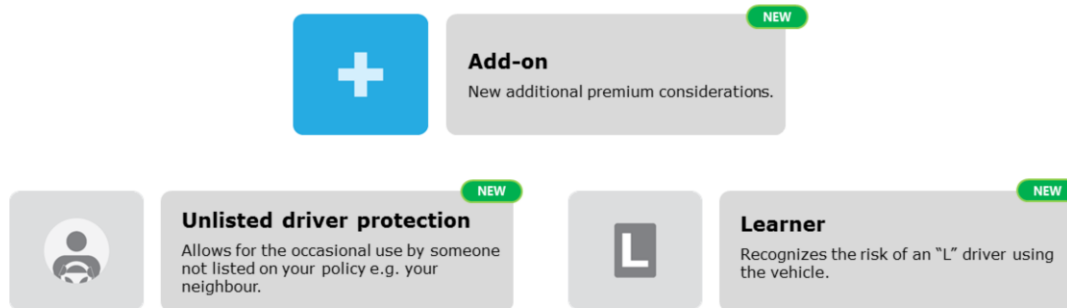
### Advanced Safety Technology

- 10% discount for vehicles that have original manufacturer-installed automatic emergency braking technology.

ICBC may introduce other discounts in the future.

Fleet and garage customers will be eligible for these two new discounts. Taxi fleets will only be eligible for the advanced safety technology discount.

## Proposed changes



### Proposed changes – Add-ons

#### Unlisted Driver Protection

- Customers will be able to purchase 'unlisted driver protection' for when you need to lend your vehicle to someone who is not listed. It's entirely optional and would be available starting at \$50.
- If your vehicle is involved in a crash caused by an unlisted driver and you didn't have the unlisted driver protection, there will be financial consequences.
- We recognize that extraordinary events can occur - such as an unlisted driver using the vehicle for a medical emergency - and there would be exemptions to recognize these situations.

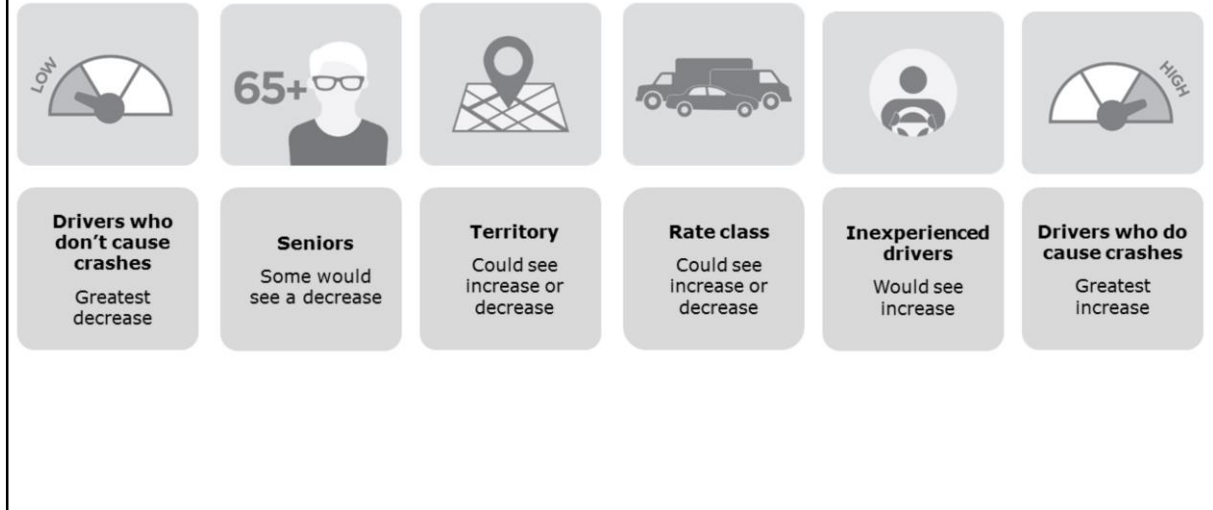
#### Learner

- We plan to apply a premium when a Learner is driving the vehicle to recognize the risk they represent – the premium will range between \$130-\$230, depending on where you live.
- Under the proposed changes, we will not be counting a Learner's crashes against them, and the Learner stage will not count towards their driver experience. This is a change from today. Today, a Learners' at-fault crashes are reflected in the premiums of the vehicle owner. We also count some Learner experience.



- This change recognizes they are just learning to drive and we don't want to penalize Learners for 10 years for the crashes they caused. The Learner premium will help cover the cost of potential crashes.

## Impacts of proposed changes for British Columbians



## Impacts of proposed changes for British Columbians

A number of the changes will influence the increases and decreases in premiums:

- Customers who would see larger **decreases** are those who've held a driver's licence for a long time and have not caused crashes.
- Some **seniors** will be better off than they are today – that said, seniors who cause at-fault crashes would see an increase.
- **Where you live** will determine what impact that factor has on your overall rate – some parts of BC will see relative increases, and others decreases.
- Your premium could also be impacted depending on how you **use your vehicle**.
- **Inexperienced drivers** would see a modest increase in their premiums to bring them more in line with the risk they represent on our roads.
- Drivers who **cause crashes** would also see an increase, to better align premiums with risk.

Given the number of variables that make up an individual's premium, there are many different possible scenarios when it comes to comparing the current vs the new model.

These changes are intended to make rates fairer so lower risk drivers aren't bearing as

much of the cost associated with higher-risk drivers.

### Year One Financial impact (based on today's rates)

For personal and business (non-fleet) customers if implemented today



67% of customers  
will be **better off**



33% of customers  
will **pay more** of  
their fair share

### Year One Financial impact (based on today's rates)

The proposed changes are a fundamental shift for British Columbians as drivers would now be held more accountable and the system made more fair.

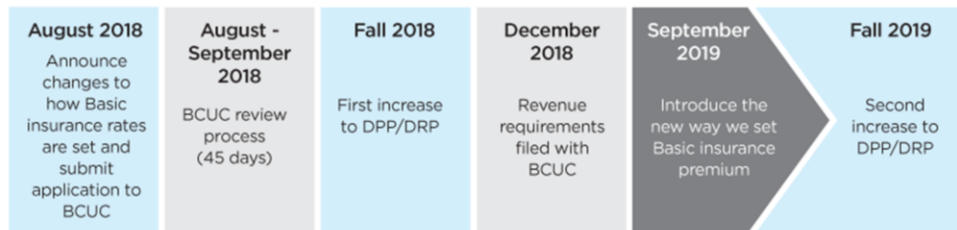
To understand how to assess the impacts, you need to remember that this is a model intended to be overlaid against our overall rate need.

We estimate that 2/3 of customers would be better off relative to our higher risk drivers, regardless of whatever a future rate change might be.

The exact impact on an individual's 2019 premium will be clearer once we file our revenue requirement application in December of this year.

We estimate it will take three years for most customers to transition to their new premium under the proposed changes.

## Timeline



## Timeline

1. August 2018 – Announce proposed changes to how Basic insurance rates are set and submit application to BCUC by August 15, 2018.
2. August – September 2018 - The BCUC review process will take 45 days and will be completed by the end of September.
3. Fall 2018 - At the same time, we'll be asking the BCUC to review the changes to the Driver Penalty Program and Driver Risk Premium Program, with the goal to implement those increases as early as this fall.
4. December 2018 - ICBC will file its annual revenue requirements with the BCUC. This is where we will be applying for a Basic rate change.
5. September 2019 - Once approved by BCUC, changes to how insurance rates are set will come into effect in September 2019.
6. Fall 2019 - Second increase to DPP/DRP will go into effect in Fall 2019.

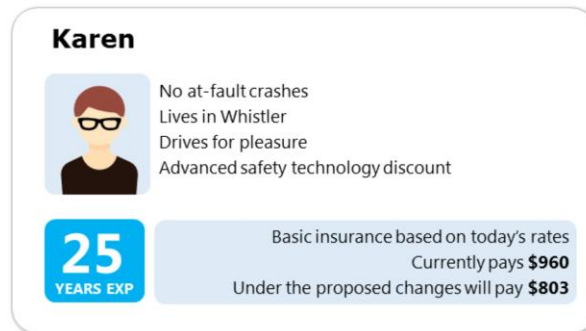


## **Customer Examples**

How Basic insurance premiums will change

August 9, 2018

## Experienced driver with no at-fault crashes



**Karen**

No at-fault crashes  
Lives in Whistler  
Drives for pleasure  
Advanced safety technology discount

**25**  
YEARS EXP

Basic insurance based on today's rates  
Currently pays **\$960**  
Under the proposed changes will pay **\$803**

Example based on today's rates

## Experienced driver with no at-fault crashes

### Customer Scenario #1 – Karen


- Experienced driver with no at-fault crashes
- Lives in Whistler
- Uses vehicle for 'pleasure use' only
- Vehicle is equipped with original manufacturer-installed automatic emergency braking technology, so she is eligible for our new advanced safety technology discount

#### Premium based on today's rates

- Under the current system she pays \$960
- Under the proposed changes she would pay \$803
- This is a decrease of \$157 in the first year of the proposed changes

## Experienced driver with no at-fault crashes

**Joanne**



No at-fault crashes  
Lives in Williams Lake  
Drives to and from work over 15 km  
No eligible discounts or add-ons

**40**  
YEARS EXP

Basic insurance based on today's rates  
Currently pays **\$902**  
Under the proposed changes would pay **\$815**

Example based on today's rates

## Experienced driver with no at-fault crashes

### Customer Scenario #2 - Joanne

- Experienced driver with 40 years driving experience
- Lives in Williams Lake
- Uses her vehicle to drive to and from work 15 km


Premium based on today's rates

- Under the current system, she pays \$902
- Under the proposed changes, she would pay \$815
- This is a savings of \$87



## Inexperienced driver with no at-fault crashes

**William**



No at-fault crashes  
Lives in Richmond  
Drives for pleasure  
No eligible discount or add-ons

**3**  
YEARS EXP

Basic insurance based on today's rates  
Currently pays **\$1,608**  
Under the proposed changes would pay **\$1,706**

Example based on today's rates

### Inexperienced driver with no at-fault crashes Customer Scenario #3 - William


- Inexperienced driver with only 3 years of driving experience
- Lives in Richmond
- Uses vehicle for pleasure use only
- Not eligible for any discounts or add-ons

Premium based on today's rates

- Under the current system, he would pay \$1,608
- Under the proposed changes he would pay \$1,706
- This is an increase of \$98

## Senior driver with one waived at-fault crash

**Bob**



One at-fault crash – waived with one-crash forgiveness  
Lives in Campbell River  
Drives for pleasure  
Senior discounts applied

**50**  
YEARS EXP

Basic insurance based on today's rates  
Currently pays **\$617**  
Under the proposed changes will pay **\$585**

Example based on today's rates

## Senior driver with one waived at-fault crash

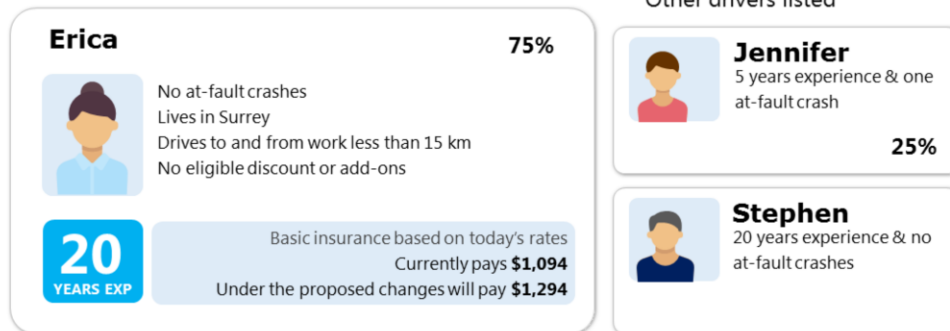
### Customer Scenario #4 – Bob

- 50 years of driving experience
- Lives in Campbell River
- Drives for pleasure
- Eligible for the senior discount
- One at-fault crash, waived with 'one-free crash forgiveness' program

Premium based on today's rates

- Currently pays \$617
- Under the proposed changes will pay \$585
- Savings of \$32

## Family or small business (non-fleet)



Example based on today's rates

### Family or small business (non-fleet)

#### Customer Scenario #5a – Erica


- Erica is the principal operator and registered owner
- 20 years experience
- No at-fault crashes
- Lives in Surrey
- Drives to and from work less than 15 km
- Today, both Jennifer and Stephen use Erica's vehicle but their experience and crash history are not factored in to the basic premium.
- Under the proposed changes, you'll be asked to list all drivers using the vehicle. The premium will be calculated looking at the principal driver (Erica) and other driver with the highest risk (Jennifer). Stephen needs to be listed if he is using the vehicle, but only the additional driver with the highest risk is factored into the premium.
- 75 percent of the premium will be based the principal driver (Erica in this case) and the remaining 25 percent will be based on the other driver with the highest risk (Jennifer).

#### Premium based on today's rates

- Erica currently pays \$1,094
- Under the proposed changes she would pay \$1,294
- This is an increase of \$200
- The changes are about increasing fairness, so if Jennifer is driving Erica's vehicle, the premium needs to reflect that higher risk

## Inexperienced driver with one at-fault crash

**Jennifer**



One at-fault crash  
Lives in Surrey  
Drives to and from work less than 15 km  
No eligible discounts or add-ons

5

YEARS EXP

Basic insurance based on today's rates  
Currently pays **\$1,439**  
Under the proposed changes would pay **\$1,755**

Example based on today's rates

## Inexperienced driver with one at-fault crash

### Customer Scenario #5b – Jennifer


#### Own coverage

Premium based on today's rates

- Cost difference if Jennifer had her own policy versus using Erica's vehicle
- Today she pays \$1,439
- Under the proposed changes, she would pay \$1,755
- Since in this case Jennifer is only driver, her experience and crash history account for 100% of those rating factors. Her premium is higher than when she only contributed 25%.

## Experienced driver with one at-fault crash

**Jasmine**



Two at-fault crashes – one waived with one-crash forgiveness  
Lives in Fort St. John  
Drives for pleasure use  
No eligible discount or add-ons

30

YEARS EXP

Basic insurance based on today's rates  
Currently pays **\$704**  
Premium on renewal with crashes **\$704**

Under the proposed changes with crashes **\$811**

Example based on today's rates

## Experienced driver with one at-fault crash

### Customer Scenario #6 – Jasmine

#### Impact of at-fault crashes


- Experienced driver with 30 years' of driving
- Lives in Fort St. John
- Pleasure use only

#### Premium based on today's rates

- Today she pays \$704
- In today's system, if she has two at-fault crashes there would be no change to her premium because she receives our top discount of 43%. One of the challenges of the current system is Jasmine can have an at-fault crash every four years and never see an impact to her premium.
- Under the proposed changes, one of her at-fault crashes would be waived since she has 20 year's driving experience and hadn't had a crash in 10 years, however the second at-fault crash would impact her premium and she would pay \$811. This is an increase of \$107 in the first year.

## Inexperienced driver with two at-fault crashes

**Mike**



Two at-fault crashes  
Lives in Kelowna  
Drives to and from work less than 15km  
No eligible discount or add-ons

**15**

YEARS EXP

Basic insurance based on today's rates  
Currently pays **\$799**  
Premium on renewal with crashes **\$841**  
Under the proposed changes with crashes **\$947**

Example based on today's rates

## Inexperienced driver with two at-fault crashes

### Customer Scenario #7 – Mike

#### Transition Period

- Still considered an inexperienced driver, as he is right on the cusp at 15 years.
- Two at-fault crashes
- Lives in Kelowna
- Uses his vehicle for 'to and from work less than 15km'

#### Premium based on today's rates

- Today, prior to his crashes he pays \$799.
- In today's system, after two-fault crashes he would pay \$841.
- Under the proposed changes, he would pay \$947. This is an increase of \$148 in the first year. It will take most customers three years to transition to their new basic premium under the proposed changes.