



March 28, 2018

Richard McCandless  
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Dear Mr. McCandless

Thank you for your response of March 19, 2018 in respect of various matters concerning the financial reporting of ICBC. I appreciate your continued public support of ICBC as we work to address the long-term financial stability of the corporation for all British Columbians.

I acknowledge in your response your views around financial reporting, specifically the Service Plan and the Annual Service Plan Report. As I am sure you know, both of these documents have a prescribed and standardized format across government organizations and are designed to balance providing sufficient information for the users of these documents with an ease of understanding and following such information. I note that a significant portion of the Annual Service Plan Report is represented by ICBC's annual audited consolidated financial statements which are prepared in conformity with the requirements of International Financial Reporting Standards. Notes to the annual consolidated financial statements present select financial information for current year and comparative year allocated between Basic and Optional lines of business. Additionally, the financial report section of the Annual Service Plan Report provides information on Autoplan policies earned, as well as an extensive disclosure of the claims costs incurred over the last five years.

As you note, ICBC is not regulated by Office of the Superintendent of Financial Institutions (OSFI), however the requirement to use OSFI's Minimum Capital Test (MCT) formula is prescribed in *Special Direction IC2* for Basic insurance and the *Insurance Corporation Act (ICA)* for Optional insurance. Optional MCT target is not legislated nor is it set by BC Utilities Commission (BCUC), as the Optional line of business is not regulated by BCUC. The ICA requires that management set a target for Optional MCT and prescribes a methodology to set such a target. Management target for Optional MCT is approved annually by the ICBC's Board of Directors. In accordance with the ICA, it reflects a supervisory target set out by OSFI, as well as a margin determined by actuaries to reflect the risk profile with respect to the Optional line of business, and ICBC's ability to respond to adverse events that arise from these risks.

As you observe, although the proposed product changes will result in a lower future severity increase for minor bodily injury claims, ICBC's claims costs will continue to face upward pressure from crash and claim frequency increases and material damage severity increases, as well as inflationary pressure on treatment costs, non-minor injury awards, and annual increases to the minor injury cap level.

As we move ahead to our next Revenue Requirements Application with the BCUC, I look forward to a continued discussion in that forum, where questions about product reform efforts and claims and rate forecasting will be outlined in more detail.

Again, thank you for your response and your continued advocacy on behalf of public auto insurance.

Sincerely,

Nicolas Jimenez  
Interim President and Chief Executive Officer