



Chargeback System Manual

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Chargeback System - Overview

Background

The Chargeback System is an integral part of IBC's operations. The scope of chargeback covers all statistical services as well as deficiency fee billings. The deficiency fee billings system is detailed in a separate manual.

The system was designed and operates based upon the following principles:

- Costs related to the delivery of a service are charged back to the users of the service on a full cost recovery basis.
- Users pay only their fair and equitable share of the costs of a service.
- Deficiency fees are structured to encourage timely and accurate reporting of data.

In April 2006, the General Insurance Statistical Agency (GISA) became the statistical agent for participating insurance regulators in jurisdictions across Canada. At the same time, IBC entered into an agreement with GISA to collect, process and compile industry data in a manner that enables GISA to comply with its statutory obligations and exercise its statutory authority as designated by the participating insurance regulators.

With the incorporation of GISA and the transfer of responsibility it became necessary to update the Chargeback System to comply with the terms and conditions of the GISA/IBC agreement.

Even though the cost allocation method previously employed was accurate and equitable, it required changes to meet GISA's needs. These changes included:

- The determination of which and how much of IBC's costs are associated with each statistical plan and are, therefore, to be passed on to GISA.
- The allocation of those costs passed on to GISA to each participating provincial jurisdiction.
- The allocation of costs for each jurisdiction to participating insurers within that jurisdiction.

These changes have been incorporated in the annual budget process and the methodology is outlined in the GISA/IBC Cost Allocation table on page 4 of this manual.

It should be noted that the fundamental guiding principles of the Chargeback System, which have served all parties well over the past twelve years, remain unchanged. It is only the cost allocation formulas and the distribution of costs by jurisdiction that have changed.

Standard Services

Standard Services (including both System Services and Production Services) cover the collection, processing and analysis of industry data for mandated statistical plans.

All activities related to each statistical service are identified and segregated into autonomous and separate cost centres. Individual cost components are shared among all applicable statistical services. IBC's own costs are segregated from costs to be passed on to GISA based upon the most appropriate cost allocation method. These cost allocation methods can include:

- Full-time Equivalent (FTE)
- Time Record
- Transaction Count
- Work Allocation
- Actual Direct Costs

For example, the costs of operating the front-end data collection systems are shared among all statistical plans based upon transaction count.

Cost allocations are dependent on the service provided to GISA. They are based on an analysis of the actual costs to maintain the mandated statistical plans during the prior fiscal year. Details of the services and allocation methods are listed below on page 4 of this manual.

All of IBC's costs that do not relate to the collection and publication of statistical data, such as those related to memberships, investigative services, industry coalitions, etc., are budgeted and billed to IBC members separately by IBC.

Deficiency Fees Deficiency fees were designed to act as an incentive for companies to provide quality statistical data. Companies with high standards of data quality are rewarded with the lowest (or no) deficiency fees. Deficiency fees are billed monthly, based upon the previous month's experience and do not contain a provincial breakdown. This is because a key component of deficiency fees relates to missing or late data, which would be impossible and/or impractical to monitor on a monthly basis by jurisdiction. Full details of the deficiency fee system can be found in the Deficiency Fee User Manual.

Special Services IBC occasionally receives requests from GISA to take on a special initiative, such as a statistical plan change. In this case, IBC presents the cost of the initiative, allocated to the applicable jurisdictions, to GISA. Once GISA approves the cost as presented, IBC will bill insurers for this amount, based on their DWP within the affected jurisdictions.

For example, only Alberta automobile insurers would be billed for the costs to modify IBC's systems to accommodate automobile statistical plan changes requested by the Alberta regulator.

GISA/IBC Cost Allocation for GISA Fiscal Year 2011/12

<u>Type of Cost/Service Rendered</u>	<u>Method</u>	<u>% Allocation*</u>
<i>Information Systems</i>		
• Infrastructure Overhead	FTE	17%
• Maintenance & Support	Time Record	57%
• Enterprise Infrastructure	Transaction Count	
	Legacy System	66%
	New System	66%
	<i>Average</i>	55%
<i>Data Management</i>	FTE	80%
<i>Actuarial Research & Analysis</i>	Time Record	65%
<i>Insurance Services</i>	Time Record	43%
<i>Member Services</i>	FTE	17%
<i>Human Resources</i>	FTE	32%
<i>Finance</i>	Time Allocation & % Total Finance Budget	21%
<i>Administration</i>	Time Allocation & % Total Atria Administration Budget	53%
<i>Management Overhead</i>	Time Allocation & % Total IID Budget	2%

- Rounded to the nearest percentage point.
- Allocations are based on actual costs to maintain the mandated statistical plans during the prior fiscal year.

Billing Method

Once the overall cost is determined for each statistical plan, the total applicable (national) direct written premium (DWP) for that plan from the industry's previous year's P&C 1 and 2 schedules is determined. A national assessment rate is then developed by dividing the annual cost of the plan by the national DWP. This rate is then applied to the national DWP of each insurer to calculate the insurer's assessment for the fiscal year.

The participating jurisdiction portion of the cost for each statistical plan is calculated based on that jurisdiction's portion of the overall applicable industry DWP for that plan. For example, if one province represents 20% of the DWP for that statistical plan, then it would be allocated 20% of the costs of operating the plan.

Subsequently, each participating insurer within each jurisdiction is charged for their portion of the costs based upon their DWP in that jurisdiction.

Costs associated with special initiatives, such as statistical plan changes, are allocated in a similar manner.

The industry is assessed (billed) each quarter in advance for the expenses associated with operating each statistical plan, as outlined in the GISA-approved annual operating budget. Upon approval of the budget by the GISA Board, IBC assesses the industry on GISA's behalf in its role as GISA's service provider.

Chargeback Process

