



Chargeback System Manual

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The current version of this manual is available electronically at
<http://www.gisa-asag.ca>

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Chargeback System - Overview

Background

The General Insurance Statistical Agency (“GISA”) was established to carry out the activities of a statistical agent on behalf of Alberta, New Brunswick, Newfoundland & Labrador, Nova Scotia, Ontario, Prince Edward Island, Yukon, and the Northwest Territories. GISA is a federally incorporated, not-for-profit corporation governed by a Board of Directors, with representation from the eight participating insurance regulatory authorities, the property and casualty insurance industry and the public.

On April 1, 2006, GISA was appointed as a statistical agent by the participating insurance regulatory authorities to provide governance, accountability and oversight of the mandated statistical plans.

As the statistical agent, GISA:

- promotes the timeliness of statistical data collection, analysis and reporting mechanisms;
- acts on behalf of the participating insurance regulators to coordinate and harmonize the statistical data filing requirements for insurers regarding the experience of their business in such jurisdictions; and promotes the quality and value of statistical data generated by licensed insurers.

GISA has entered into a service agreement with Insurance Bureau of Canada (the “Service Provider”) that calls upon the latter to provide statistical plan services under specified terms and conditions including data collection, quality assurance, compilation and reporting services.

Further information regarding GISA is available through its website at <http://www.gisa-asag.ca>

The Chargeback System refers to the procedure whereby the costs of all statistical services as well as deficiency fee billings are recovered from the participating insurance companies. 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.

Prior to April 2006, a chargeback system was in place. When GISA became the statistical agent, it was necessary to establish a Chargeback System based on the GISA / IBC agreement.

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 pay 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 Fees User Manual.

Special Services

GISA occasionally requests IBC 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, in conjunction with the jurisdictions, 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 2006/07

<u>Type of Cost/Service Rendered</u> [†]	<u>Method</u>	<u>% Allocation</u> *
<i>Information Systems</i>		
• Infrastructure Overhead	FTE	19%
• Maintenance & Support	Time Record	51%
• Enterprise Infrastructure	Transaction Count	63%
	<i>Average</i>	47%
<i>Data Management</i>	FTE	88%
<i>Actuarial Research & Analysis</i>	Time Record	77%
<i>Insurance Services</i>	Time Record	52%
<i>Member Services</i>	FTE	40%
<i>Human Resources</i>	FTE	36%
<i>Finance</i>	Time Allocation & % Total Finance Budget	26%
<i>Administration</i>	Time Allocation & % Total Administration. Budget	46%
<i>Management Overhead</i>	Time Allocation & % Total Information Division Budget	4%

[†] See the Appendix for an explanation of the roles of IBC's departments.

* 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 or territory 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 the insurer's 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

