

Industry Custom Pricing (ICP)

ICP is a voluntary flexible pricing option that allows industries to customize various features of our pricing program in accordance with their risk preferences.

The intent of ICP is to offer flexibility, while strengthening accountability, by more closely reflecting individual claims performance within our collective liability insurance model.

Features from the standard Performance Pricing model that can be customized with ICP include:

- **Maximum discounts and surcharges:** Discounts and surcharges could be increased up to 60%. The discounts and surcharges are dependant on changes made to the other factors of the Experience Rating model.
- **Experience ratio¹:** Currently the experience ratio is capped at 80% better or worse than industry average. With ICP, this could be increased up to 100%.
- **Participation:** The participation factor² could be increased up to 100%, with a participation rate as low as 1%/\$1000 in premiums. This will allow employers to participate more in performance based pricing, with opportunities to earn greater discounts or surcharges.
- **Costs used to measure performance:** Currently, if an employer has a claim where an aggravation of a pre-existing condition exists, this claim is not used when measuring an employers' performance against the industry. Instead a premium rate levy (paid by all employers) is used to cover these claim costs – this is called cost relief. If an industry chose to no longer recognize cost relief for an aggravation of a pre-existing condition, the levy required to fund these costs could be removed. This would result in a decrease to base industry rates and allow for a more accurate assessment of performance within an industry. All other cost relief, cost capping and cost transfers would still be applied in the pricing programs (hearing loss, negligence, maximum per claims cost (MPCC), etc).

Depending on the ICP options the industry selects, employers could see a decrease in the industry base rate and they could see larger discounts and surcharges on individual employer accounts based on their performance.

Employers who are doing well will likely pay less, while employers who are doing poorly may pay more. All employers (including non-experience rated employers) will get a lower base premium rate if they choose to remove the cost relief levy.

The standard Experience Rating (ER) program vs. ICP

To fully understand the flexibility of ICP, you must first understand how the standard ER program works. The basic ER formula (for employers who have been in business for at least five years) is as follows:

$$\text{Discount/Surcharges (40\%)} = \text{Participation Factor (50\%)} * \text{Experience Ratio (80\%)}$$

Using the current maximums in ER, an employer can earn up to a maximum 40% rate adjustment based on a maximum Participation Factor of 50% multiplied by a maximum ER of 80%.

In ICP, industries choose to change either of these two features of ER, and also select a new maximum discount/surcharge. They can also change how cost relief is used to establish the Experience Ratio—this also impacts Partnerships in Injury Reduction refunds.

Participating in ICP

In order for an industry to participate in ICP, the majority of the industry must agree to the changes (over 50% of insurable earnings represented by employers within the industry). With a majority vote, all employers in the industry participate in ICP regardless of how they voted individually.

¹ The Experience Ratio measures how an employer is performing compared to their industry, adjusted for size. An employer's experience ratio is expressed as a percentage lower or higher than the industry average.

² The Participation Factor assigns a participation rate to every employer in the ER program. The larger an employer is (as measured by premiums), the larger their Participation Factor.

Opting out of ICP

Industries have the option of returning to the standard programs, or changing options in their existing ICP program. The same process of voting would be required for opting out of ICP or making changes to ICP as was required to start an ICP program.

If an industry is interested in pursuing ICP, please contact your industry association or WCB-Alberta.

For more information please contact the Underwriting team at 780-498-7936 or email icp@wcb.ab.ca.

