



Insurance Corporation of British Columbia

Service Plan

2009 – 2011

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Insurance Corporation of British Columbia

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Introduction

Purpose

The Insurance Corporation of British Columbia's (ICBC) 2009 – 2011 Service Plan presents an overview of our three-year plan to fulfill responsibilities for providing vehicle insurance, driver licensing, and vehicle registration and licensing services. In this Service Plan, we set out our performance accountability to the public by describing:

- where we envision ourselves in three years;
- what goals we need to achieve to realize this vision; and
- how we define and measure progress on achieving these goals.

In 2010, we will publish our 2009 Annual Report detailing the extent to which we have achieved the goals set out in this Service Plan. The Service Plan and Annual Report are companion documents and central to the broader accountability framework for Crown corporations. In developing the Service Plan, we have relied on guidance from various sources including the following:

- the Shareholder's Letter of Expectations between ICBC and government, which can be found on www.icbc.com.
- the Crown Agencies Secretariat's *Crown Corporation Service Plan Guidelines*, July 2008, which can be found on www.gov.bc.ca/cas/.
- the Legislative Assembly of B.C.'s Select Standing Committee on Crown Corporations (SSCCC) in *A Guide to Operations*, April 2003, which can be found on www.leg.bc.ca/.

Balancing Accountability and Commercial Sensitivity

We are committed to providing customers and the public with information needed to understand our plans and to evaluate our performance against those plans. This is fundamental to the governance of any Crown corporation.

We compete with other insurance companies in the sale of optional vehicle insurance products in B.C. Due to commercial concerns, this Service Plan does not provide specific competitive information pertaining to our Optional insurance business.

Letter from the Chair of the Board

The Honourable John van Dongen
Minister of Public Safety and Solicitor General
Government of British Columbia

Dear Minister,

On behalf of ICBC's Board of Directors and employees, I am pleased to present our 2009 – 2011 Service Plan.

We remain committed to our vision of being British Columbians' preferred auto insurer, providing protection and peace of mind, delivering quality auto insurance products and services at competitive prices through a knowledgeable team who are committed to our customers.

Our corporate strategy continues to focus on meeting customers' needs; being financially responsible; having high performing, engaged and capable employees; and delivering operational excellence. The strategies presented in this Service Plan help achieve these goals, while addressing risks and opportunities.

We have had some major successes over the past year. In particular, is our commitment to continue to deliver value to our policyholders in the form of low and stable rates. In 2008, there was no increase in Basic insurance rates while Optional insurance rates were, on average, reduced by three per cent.

In addition, we provided customers purchasing new vehicles with an additional choice in coverage through the launch of New Vehicle Replacement Plus. Customer service and education were enhanced by the establishment of an online vehicle status search to help customers buy used vehicles with even greater confidence and by the launch of a new campaign to help drivers understand how good driving practices can reduce fuel costs, lower carbon emissions and improve road safety.

ICBC is dedicated to continually improving the customer experience at all touch points. In November 2008, our Claims Contact Centre, which handles a large volume of customer calls, was recognized with a number of awards of excellence, including the 2008 B.C. Contact Centre of the Year award, as presented by the B.C. Contact Centre Association. For customers who have suffered serious injuries, ICBC's Rehabilitation department is also committed to helping them recover to the best of their abilities. This also helps us manage claims costs for the benefit of all of our customers. Our rehabilitation support over the years has even contributed to helping two of our customers become Paralympians.

We also strengthened relationships with our partners. The Collision Repair Industry Agreement (CRIA), a performance-based program, which rewards collision repair shops for financial efficiency while also ensuring safe, quality, guaranteed repairs for customers, was renewed for the third time in September 2008.

Looking ahead, there are both opportunities and risks on the horizon.

As for opportunities, we will continue to work with brokers and other business partners to bring forth innovative services and products, which will efficiently and effectively meet the needs of our customers. We will continue to improve operational excellence by looking at renewing our aging systems, while considering the expected shrinking labour market, higher customer experience expectations, and our commitment to reducing our environmental footprint. We will also continue to support government's commitment to addressing climate change and we are taking measures to meet the goal of carbon neutrality by 2010.

In Driver Licensing, we will continue to work on an enhanced driver's licence as an alternative form of identification for cross-border travel between Canada and the United States. We are also working on enhancing the overall security of the B.C. driver's licence through improved technology and harmonizing driver licensing standards with other jurisdictions nationally.

On another front, growing injury costs continue to be a focus for us, as well as for the property and casualty insurance industry as a whole. While there has been some moderation in the frequency of bodily injury claims, we remain committed to effectively managing increasing severity of these claims as this ultimately impacts future insurance rates. We are continuing to address this issue through new claims initiatives and road safety programs, which help reduce the number and severity of crashes that take place. Through underwriting and pricing improvements we are also continuing to move in the direction of driver-based pricing where premium rates are more reflective of driver risk. Drivers who take more risks, and overall, bring more costs to the system will pay higher premiums, which will benefit low risk drivers. This will allow us to continue to provide value to our customers and makes rates more reflective of risk.

There is also the influence of unpredictable and volatile factors in the changing global economic market. The turmoil in the financial markets illustrates the importance of having a strong capital base, which we have built from earnings over the past several years. This level of capital acts as a contingency fund to help protect our customers. It provides them with the confidence that their claims will be paid, and enables us to avoid some of the insurance rate volatility that other provinces have experienced in recent years. We continue to work to keep rates low and stable over the long term.

As we look forward, the volatility in the equity markets and changing economic trends means we cannot rely on investment income to the same extent we have in the past. Fiscal prudence in managing our capital base and ongoing commitment to financial responsibility will be critical in protecting customers through this downturn and period of recovery.

The 2009 – 2011 period promises both opportunities and challenges. Overall, although we are in this period of global economic instability, our future outlook remains optimistic. We continue to have a conservative investment philosophy, our business ratios are strong, and we expect to continue managing our insurance business prudently, which allows us to continue focusing our efforts on achieving our goals. With our great team of partners and employees who are committed to our customers, we believe we are well-positioned for the opportunities and challenges ahead. As the changing economic trends are expected to continue in 2009, we will continue to monitor the changing environment and adjust our strategies as required.

Statement of Accountability

ICBC's 2009 – 2011 Service Plan was prepared under the direction of the Board of Directors in accordance with the Budget Transparency and Accountability Act and the B.C. Reporting Principles. This plan is consistent with government's strategic priorities and Fiscal Plan.

The Board is accountable for the contents of the plan, including the selection of performance measures and targets and the basis on which the plan has been prepared. The targets in this plan have been determined based on an assessment of ICBC's operating environment, forecast conditions, risk assessment and past performance. Achievement of results may be influenced by factors that are beyond the company's control. All significant assumptions, policy decisions and identified risks as of January 22, 2009, have been considered in preparing the plan. The Board is accountable for ensuring ICBC achieves its specific objectives and measures identified in the plan and for measuring and reporting actual performance.



T. Richard Turner

Chair, Board of Directors

Overview of ICBC

Vision

ICBC will be B.C.'s preferred auto insurer, providing protection and peace of mind.

Mission

We deliver quality auto insurance products and services at competitive prices through a knowledgeable team committed to our customers.

Values

Integrity

- Our business is based on trust. We are honest, ethical, straightforward and fair.

Dedication to Customers

- We exist to serve our customers. We listen actively and are responsive to their needs.

Accountability

- We hold ourselves, and each other, accountable for our actions and the success of our business.

Caring

- We care about our customers' well-being and ensure they feel supported by treating them with dignity and respect.
- We care about each other's well-being and create an environment that promotes personal growth.
- We care about our communities by supporting road safety programs and being environmentally responsible.

Insurance Services

ICBC is a provincial Crown corporation established in 1973 to provide vehicle insurance to British Columbia's motorists. We are the sole provider of universal compulsory coverage (Basic insurance) in the province and compete with other insurance companies in the sale of Optional vehicle insurance coverages.

Under Basic insurance, private passenger and commercial vehicle owners are provided with \$200,000 in third-party liability protection, \$150,000 in no-fault accident benefits and \$1 million of underinsured motorist protection; buses, taxis, limousines, and extra-provincial trucking and transport vehicles have higher mandatory levels.

Auto insurance in B.C. is based on a full tort system, which means that an injured party is entitled to take the at-fault party to court for the full amount of damages. In addition, the insured injured party has access to accident benefits, including medical and rehabilitation expenses and up to \$300 per week for wage loss, through ICBC Basic insurance, regardless of fault. In contrast, in some other provinces in Canada, auto insurance is based on some variant of no-fault or mixed no-fault and tort systems. This means compensation can be based on predetermined benefit schedules, threshold schemes, and/or caps or deductibles on pain and suffering awards regardless of who is at fault, and there may be limited or no ability to sue for additional damages.

ICBC operates as an integrated company, which provides significant benefits to customers in terms of costs and convenience. With annual earned premiums of approximately \$3.7 billion, approximately \$12 billion in assets, and employing approximately 5,000 people, we are one of the largest property and casualty insurers in Canada.¹ For more information on ICBC and our products and the auto insurance system in British Columbia, please visit www.icbc.com.

¹ Please refer to the 2009 forecast numbers contained in the Summary Financial Outlook table on page 27

Loss Management Programs

ICBC invests in fraud prevention and road safety initiatives that provide a direct benefit to customers through reduced claims costs. This ultimately assists in keeping premiums low and stable. We work with a network of partners across the province to deliver these programs, including the Ministry of Public Safety and Solicitor General, the enforcement community, Ministry of the Attorney General, Ministry of Transportation and Infrastructure, municipalities, community groups and volunteers. For more information, please visit www.icbc.com under Road Safety.

Non-Insurance Services

In addition to our Basic insurance and Optional insurance lines of business, we provide driver licensing services, vehicle registration and licensing services and fine collection on behalf of the provincial government. We refer to the provision of these services as our non-insurance line of business. These non-insurance services are outlined in the Service Agreement between ICBC and the province, and their costs are funded through Basic insurance premiums.

Key Business Partners and Stakeholders

ICBC delivers its services in partnership with:

- independent insurance brokers, who are guided by the Autoplan Agency Agreement and the recently renewed five-year Strategic Broker Accord;
- the provincial government, especially the Ministry of Public Safety and Solicitor General (MPSSG), which works closely with ICBC on a number of issues and functions, including those related to the Office of the Superintendent of Motor Vehicles and Police Services;
- road authorities — e.g., the Ministry of Transportation and Infrastructure and municipalities to share costs on road improvements that decrease the frequency and severity of crashes;
- police and enforcement agencies to increase road safety;
- a broad base of suppliers in the collision repair industry — guided by a performance-based agreement, which was recently renewed;
- the medical community to assist injured customers in getting well;
- government agents and appointed agents that provide driver and vehicle licensing services in a number of communities where there are no ICBC offices; and
- a host of diverse community organizations, including business improvement associations, auto crime groups and sports facilities, which support the delivery of our safety and auto crime programs.

For more information, please visit the Business Partners page on www.icbc.com.

ICBC Points of Service

ICBC offers insurance products to more than three million policyholders through a province-wide network of approximately 900 independent brokers, government agents and appointed agents. Our claims-handling services process almost one million claims per year through our 24-hour, seven days a week telephone claims handling facility, our province-wide network of over 37 claims servicing locations, the various Express Glass and Repair facilities across the province and www.icbc.com.

We also provide licensing services through approximately 120 offices, including driver licensing centres, government agents and appointed agents, throughout the province.

We deliver our products and services in partnership with businesses and organizations in communities throughout British Columbia, including insurance brokers, law enforcement agencies, auto repair facilities and health service providers. Our partners are involved in different aspects of the insurance and claims processes, such as repairs to damaged vehicles, loss management programs or rehabilitation services.

For further information on our points of service in British Columbia, please visit www.icbc.com.

Operating Structure

ICBC operates its business using an integrated business model. Although the majority of premium revenues are specifically identifiable as Basic or Optional, certain costs are not tracked separately. For those revenues and costs that are not specifically identified as Basic or Optional, a pro-rata method of allocation is used to allocate the revenues and costs between the two lines of business. This method allocates revenues and costs to each line of business based on the drivers of those revenues and costs, the degree of causality and any directives from the British Columbia Utilities Commission (BCUC), which are applied on a prospective basis.

A breakdown of actual revenues and allocated costs can be found in the *Notes to Consolidated Financial Statements* section in our Annual Report, which can be found at www.icbc.com. Information on the allocation methodology can be found in our submissions to the BCUC, which can be viewed at www.bcuc.com.

We continue to operate our business through an integrated business model. There have not been any significant shifts or changes in our business areas, program delivery or internal operating environment from the previous year.

Governance

ICBC's governance is defined through legislation applicable to all Crown corporations and legislation specific to the company itself. ICBC's corporate governance is further defined by the Shareholder's Letter of Expectations between the minister responsible for ICBC, as a representative of the shareholder, the Government of British Columbia, and the Chair of ICBC's Board of Directors, as a representative of ICBC. The Honourable John van Dongen, Minister of Public Safety and Solicitor General, is the minister responsible for ICBC.

Legislative Framework

As a Crown corporation, ICBC is subject to the *Budget Transparency and Accountability Act (BTAA)*, the *Financial Information Act*, the *Financial Administration Act*, and the *Freedom of Information and Protection of Privacy Act*. Under these provincial Acts, we are accountable for making public our strategic plan (i.e., Service Plan) and performance against the plan (i.e., Annual Report). In addition, we are required to provide financial and other information in accordance with the requirements of applicable legislation. In terms of providing Basic and Optional insurance and non-insurance services on behalf of government, ICBC must adhere to a number of Acts, including:

- *Insurance (Vehicle) Act*
- *Insurance Corporation Act*
- *Motor Vehicle Act*
- *Commercial Transport Act*
- *Motor Vehicle (All Terrain) Act*
- *Sales Tax Act (of B.C.)*
- *Offence Act*

ICBC as a Regulated Crown Entity

The British Columbia Utilities Commission (BCUC), as the independent regulator for ICBC, approves Basic insurance rates and ensures that our provision of service for our Basic product is adequate, efficient and reasonable. As we are the sole provider of Basic insurance, this regulatory environment is important for B.C., providing customers with an independent and transparent review of our Basic insurance operations and an opportunity to be heard and involved in the review.

The BCUC's initial phase of regulation included financial allocation between Basic and Optional insurance lines of business, revenue requirements for Basic insurance, and Basic rate design. These elements have now been reviewed. We continue to work with the BCUC to achieve effective and efficient regulation that contributes to an open and transparent regulatory process for the setting of Basic insurance rates and meeting the expectations of our customers. More information on BCUC is available on their website: www.bcuc.com. ICBC's current regulatory proceedings can be found on www.icbc.com under Inside ICBC.

Shareholder's Letter of Expectations

The Shareholder's Letter of Expectations is intended to create a common understanding between the shareholder and ICBC's Board of Directors on responsibilities and accountabilities, key governance issues, the corporate mandate, public policy issues, strategic priorities and high-level performance expectations. For specific information, please refer to the section on *Alignment with Shareholder's Letter of Expectations* in this Service Plan.

ICBC Board Governance

The Board of Directors guides ICBC in fulfilling our mandate and sets our corporate direction. The Board and management approve our vision, mission and values that guide us. The Board sets goals for our performance and these goals and associated objectives are the basis upon which accountability and performance are evaluated. Performance against these goals and objectives is reviewed and reported regularly.

The governance processes and guidelines outlining how the Board will carry out its duties of stewardship and accountability are set out in the *Board Governance Manual*, which is updated annually by the Board's

Governance Committee. ICBC's Board complies with the *Board Resourcing and Development Office Guidelines* and has adopted the guiding principles included in the provincial government's *Governance Framework for Crown Corporations: Best Practices Governance and Disclosure Guidelines* (www.lcs.gov.bc.ca/brdo/governance/corporateguidelines.pdf). For more detail on these governance principles, please refer to the Annual Report.

Further information on Board policies and members is available on our website, www.icbc.com under Inside ICBC.

Board Governance Structure

Board of Directors

Mandate: To foster the Corporation's short and long-term success consistent with the Board's responsibilities to the people of British Columbia as represented by the Government of British Columbia.

Chair: T. Richard Turner

Vice-Chair: Neil de Gelder

Members: Carol Brown, Diane Fulton, Paul Haggis, Kenneth Martin, T. Michael Porter, Jatinder Rai, Stacy Shields

Executive Team

Mandate: The primary role of the executive team is to lead the management of ICBC's business and affairs, and to lead the implementation of the plans and policies approved by the Board of Directors (the "Board") of ICBC.

President & CEO: Jon Schubert

Members: Donnie Wing, Senior Vice-President Insurance, Marketing and Underwriting; Geri Prior, Chief Financial Officer; Len Posyniak, Vice-President Human Resources and Corporate Law; Keith Stewart, Chief Information Officer & Business Transformation; Craig Horton, Senior Vice-President Claims; Fred Hess, Vice-President Driver Licensing

Governance Committee

Purpose: To provide a focus on governance for ICBC and its subsidiaries that will enhance ICBC's performance.

Chair: Neil de Gelder

Members: Carol Brown, Jatinder Rai

Audit Committee

Purpose: To assist the Board in fulfilling its oversight responsibilities by reviewing: (i) financial information; (ii) systems of internal controls and risk management; and (iii) all audit processes.

Chair: T. Michael Porter

Members: Diane Fulton, Paul Haggis, Jatinder Rai

Investment Committee

Purpose: To recommend and review investment policy for both ICBC and any pension fund of which ICBC is an administrator.

Chair: Paul Haggis

Members: Diane Fulton, Kenneth Martin

Human Resources and Compensation Committee

Purpose: To assist the Board in fulfilling its obligations relating to human resource and compensation policies.

Chair: Kenneth Martin

Member: Carol Brown, Stacy Shields

Strategic Context

Industry and Competitive Context

The insurance industry is affected by external factors, risks and regulatory trends, which impact profitability and rate stability. The following section provides an overview of recent events, which may pose risks to the insurance industry and consumers.

Profitability of Canadian Property and Casualty Insurance Industry

The Canadian Property and Casualty (P&C) market experienced a strong, profitable year overall in 2007 given that the industry held over \$7 billion in excess capital.² Net income for P&C insurers decreased slightly over 2006 but remained strong at over \$4 billion.³ Indications from the industry are that 2008 has been a more challenging year due to an increase in claims costs and the impacts of an unstable global economy.

During 2008, the industry experienced a significant deterioration in most regions and lines. As an industry overall, the automobile line has experienced an increase in loss ratios due to the rise in claims costs. The loss ratio for personal property also worsened, largely due to inclement winter weather in most of the country.⁴ These results are especially evident in the two largest insurance markets, Ontario and Alberta, during the latter part of 2007 and into 2008.⁵

More recently, the credit crisis has created significant instability in the financial markets, eroding the capital levels that have been built up by insurers. Deteriorating performance will be further exacerbated by low investment yields, which will decrease investment income and create a stronger reliance on underwriting income. This is happening while underwriting results have been poor in key markets like Ontario and Alberta auto. Industry experts warn that the risk of insolvency may increase if sound underwriting practices and rate increases are not enough to offset rising costs.⁶

Despite the volatility in financial markets and instability in the Canadian P&C market, ICBC's position is sound and we are faring well relative to the industry. We continue to have

a conservative investment philosophy, and are managing our insurance operations and capital levels prudently, which allow us to continue working to keep rates low and stable over the long term for our customers.

Automobile Insurance

Automobile insurance is the largest class of insurance in the Canadian P&C industry accounting for approximately 48% of direct premiums written within the industry.⁷ The automobile insurance product offered in each province differs. Where B.C. is a tort system, some other provinces in Canada have an automobile insurance product that is based on some variant of no-fault or mixed no-fault and tort systems. No-fault systems are characterized by compensation that is based on predetermined benefit schedules regardless of who is at fault and there may be little or no ability to sue for further damages.

The auto insurance line in Canada has been negatively affected by increased loss ratios, especially for personal accident benefits, which have climbed to 94.4% in 2007, well above levels from the previous year.⁸ The auto insurance market continued to worsen through most of 2008 and industry experts predict that profitability will be troubled with instability through 2009.

The Alberta auto insurance market, the second⁹ largest auto insurance market for private insurers, is facing significant challenges with the striking down of the cap on compensation for minor injuries in February 2008.¹⁰ The cap was challenged on the grounds of being unconstitutional and the ruling is retroactive to when the reform was introduced in 2004. Although the court ruling is being appealed in the Alberta Court of Appeal, it has caused significant uncertainty around how insurers should be pricing mandatory auto insurance.¹¹ Actuarial analysis by the Insurance Bureau of Canada (IBC) indicated that a 3% rate increase would be required if the cap stays and a 36.9% increase would be warranted if it is removed.¹² After extensive rate hearings, the Alberta Automobile Insurance Rate Board (AIRB) approved a 5% rate increase for mandatory auto insurance, effective November 1, 2008, yet industry experts state that this increase will not offset rising bodily injury claims costs.¹³

² MSA/Baron Outlook Report Q4 2007, p.4

³ MSA/Baron Outlook Report Q4 2007, p.3

⁴ MSA/Baron Outlook Report Q1 2008, p.3

⁵ Thompson's Daily Insurance News Service, May 26, 2008

⁶ MSA/Baron Outlook Report Q2 2008, p.3

⁷ Canadian Underwriter 2008 Statistical Issue, p.56 & p.60

⁸ MSA/Baron Outlook Report Q4 2007, p.7. The loss ratio for auto line accident benefits climbed by 14 points over 2006 results

⁹ MSA Researcher 2008

¹⁰ MSA/Baron Outlook Report Q4 2007, p.7

¹¹ MSA/Baron Outlook Report Q1 2008, p.7

¹² MSA/Baron Outlook Report Q1 2008, p.7

¹³ MSA/Baron Outlook Report Q2 2008, p.3

Further, if the ruling is stayed by the province's appellate court, this may have implications for insurance caps and deductibles put into place in the Atlantic provinces during the 2003 – 2004 regulatory reforms. There is also concern that the deductible and minor injury threshold in Ontario may be challenged on similar grounds. A final ruling in the appellate court affirming the removal of the cap for minor injuries in Alberta would have widespread disruptive effects in the auto insurance line across the country. Given that auto insurance in B.C. is based on a full tort system, where caps and thresholds do not apply, there is no expectation for ICBC to be impacted by this.

Ontario, the largest auto insurance market in Canada, has seen a number of significant product and regulatory changes over the course of the past five years. This has included the setting of maximum expenses payable to health care providers, changing the requirements for how injuries are assessed, updating the deductible amount for pain and suffering (also known as non-pecuniary damages) and the definition of the verbal threshold for defining when injuries sustained were sufficiently serious and permanent to permit a claimant the right to sue for damages. The frequency of regulatory reviews and reforms over this time period reflects the rule of unintended consequences and the challenge of managing the complexities of an insurance system. More recently, the market is also facing instability as insurers have seen significant deterioration in accident benefits loss ratios due to increases in severities over the past three years.¹⁴ If these losses continue, and market conditions remain as they are, the potential risk of insurer insolvency may become a reality. Approved rate increases that have been filed by insurers in 2008 may be far from being able to offset the escalating claims costs.¹⁵ As insurers increase their rates to address deteriorating profitability, regulators may have to balance the potential risk of insurer stability and mitigating consumer rate shock.

In addition to the issues outlined above, the Financial Services Commission of Ontario (FSCO), the provincial insurance regulator in Ontario, is also in the process of doing a comprehensive review of Part VI of the *Insurance Act*, which deals with auto insurance. This review is part of the *Insurance Act's* mandatory review of auto insurance provisions every five years and has an objective to enhance protection of insurance consumers, and ensure ongoing product affordability and availability.¹⁶

Regulatory Trends

Following the wave of regulatory reforms in 2003 and 2004 to curb a period of double-digit rate increases, there has been very little regulatory change in the Canadian P&C industry. The review of the *Bank Act*, which was completed in May 2007 and is not due for another review until 2011,

affirmed the existing position that banks cannot retail insurance. On the insurer-intermediary front, the Industry Practices Review Committee has proposed no mandatory regulatory changes.

However, given the uncertainty outlined in the previous section, which follows a period of relative stability, the industry may face a number of regulatory changes during 2009 and beyond. In addition to the potential changes to minor injury regulation and regulatory changes already mentioned, the insurance industry is experiencing the following regulatory trends:

- There has been significant industry discussion around the potential move towards risk-based market conduct regulation, reflecting the transition from prudential regulation (rules-based compliance). The Canadian Council of Insurance Regulators (CCIR) released a discussion paper at the beginning of 2008 that proposed an approach that could form the basis for a framework for applying risk-based market conduct concepts to the ongoing work of regulators in Canada. This approach would necessitate a stronger relationship between regulators and key stakeholders and would change the role of the regulator from enforcing rules to assessing degrees of achievement for marketplace outcomes.¹⁷ Although no definitive regulatory changes have been finalized, there seems to be industry support for this direction as well as recognition that risk-based approaches to regulation are a global trend.

In B.C., the BCUC plays an important role in regulating Basic insurance. The move to risk-based market conduct regulation by Canadian regulators is not expected to have a significant impact on ICBC or the B.C. auto insurance market at this time.

- The Canadian Accounting Standards Board (AcSB) has confirmed that International Financial Reporting Standards (IFRS) will replace Canadian Generally Accepted Accounting Principles (GAAP) effective for fiscal years beginning on or after January 1, 2011, for all publicly accountable enterprises. In order to provide comparative information for IFRS reporting in 2011, companies will also need to collect data in accordance with IFRS in 2010. Industry practice and guidelines issued by government and other regulatory organizations will need to be considered to ensure appropriate accounting policy choices are made as this will impact future reporting and regulatory filings.

ICBC is currently anticipating being able to meet the January 1, 2011 convergence timeline.

¹⁴ MSA/Baron Outlook Report Q4 2007, p.9

¹⁵ MSA/Baron Outlook Report Q2 2008, p.3

¹⁶ FSCO website: <http://www.fSCO.gov.on.ca/english/insurance/auto/5yr-review/default.asp>

¹⁷ Canadian Council of Insurance Regulators (CCIR), "An Approach to Risk-Based Market Conduct Regulation", January 2008

Key Strategic Issues and Risks

Looking ahead to 2009 – 2011, we have identified a number of issues and risks that could impact our future performance.

Key Strategic Issues

Meeting Increasing Customer Expectations

Customers have increasing expectations around prices, choice, convenience and service. In addition, they want to be able to access their insurers in a variety of ways, including face-to-face, via telephone or the Internet. Value is by far the greatest influencer of customer purchasing behaviour. Continuing to provide value to customers as their expectations increase will be an ongoing challenge, particularly in the face of claims cost pressures (refer to the Key Strategic Risks section for more on Claims Costs risk).

Competition in the Optional Insurance Market

Based on premiums written, the B.C. Optional automobile insurance market has experienced strong growth over the past five years. There are about 36 private insurers, many of which are large multi-national insurers that sell some level of B.C. Optional auto insurance. The past few years of overall industry profitability have left many insurers well capitalized, presenting them with opportunities for reinvestment into the business, expansion into other markets, and acquisitions. Although insurers may be adversely impacted by lower investment returns and the issues in the Alberta and Ontario auto insurance markets, we expect that the Optional market will continue to be robust and competitive.

High-Risk Drivers

High-risk drivers are a serious concern as they cause a disproportionate number of crashes and these crashes are very costly, which in turn, affect everyone's insurance premiums. There were more than 100 traffic fatalities caused by impaired driving in 2007, and more than 200 fatalities caused by other high-risk driving behaviours, such as excessive speed and failing to observe traffic signals. We are taking steps to increase personal accountability for high-risk driving through a combination of underwriting enhancements, which includes higher premiums for higher risk drivers.

Automobile-Related Crime

Insurance costs for all British Columbians are impacted by automobile-related crime. This continues to be an area of focus for us and automobile-related crime rates have declined by more than 50% since 2002. The improving trends may be attributed to the positive results of the Bait Car Program, newer vehicles having built-in immobilizers, growing public education and awareness over the use of vehicle anti-theft technology, as well as strong partnerships

with the police and community stakeholders on automobile-related crime prevention.

Evolving Business Environment

In an evolving business environment, it is important for us to continue innovating to better serve customers through examining and reinvesting in our people, business processes and technology. Some of the challenges we face include a tight B.C. labour market and legacy systems that are not easily adaptable for business change.

Economic Downturn

With the deterioration of the global economy, we will need to prudently manage our investment portfolio, keep tight controls over operational expenditures, and keep a close watch on our capital levels to make sure capital is not at risk of falling below management set targets.

Key Strategic Risks

ICBC's Corporate Risk Framework is approved by its Board of Directors and defines the approach used to assess and manage corporate risk to an acceptable level. Consistent with good governance practices and insurance sector practices, ICBC manages risk from an organization-wide perspective. The framework goes beyond strategic risk to describe management's approach to managing risk for its key change initiatives, and managing risk at an operational level.

The Corporate Risk Framework considers both external and internal environments, and the risks and challenges associated with each. The framework is used by ICBC executives and Board of Directors to discuss and monitor strategic risks and planned mitigation strategies.

The key strategic risks and mitigation strategies identified on the following pages are already considered and incorporated into our corporate strategy as outlined in this Service Plan and into detailed operational plans.

Through monitoring and review of the external environment and the performance of our corporate strategy, the set of key strategic risks is expected to change over time. New risks may emerge and identified risks may be reduced or eliminated through mitigation strategies or changes in the risk profile. The 2008 review resulted in some changes to the key risks reported. The updated risks and their mitigation strategies are listed in the tables on the following pages.

Description of Sensitivities / Risks:		Mitigation Strategies:
Workforce Planning		
<ul style="list-style-type: none"> The risk that ICBC cannot deliver its core business or change initiatives due to capability, capacity and engagement of employees. 		<ul style="list-style-type: none"> Continued implementation and refinement of the human capital plan, which focuses on recruitment, compensation, training and leadership development to attract, develop and retain talent for the future. The company is working with its various divisions to determine critical skills and knowledge gaps.
Knowledge Management		
<ul style="list-style-type: none"> The risk that ICBC may not operate as efficiently/effectively as possible because: <ul style="list-style-type: none"> employees leave without an appropriate transfer of knowledge; ICBC cannot enable knowledge sharing and retention (e.g., governance, process, technology not yet established). 		<ul style="list-style-type: none"> Conduct operational risk assessments. Develop tactics around talent acquisition and management. Investment in content management.
Technological Readiness		
<ul style="list-style-type: none"> The risk that ICBC cannot fulfill its business change objectives due to prerequisite technology investments not being implemented and made available. 		<ul style="list-style-type: none"> Develop longer-term technology requirements to meet strategic direction. Identify and prioritize renewal of end-of-life systems.
Financial Markets		
<ul style="list-style-type: none"> The risk that market value and/or investment income is lower than planned due to an adverse change in the market value of assets driven by an increase in interest rates or a deterioration in equity markets. 		<ul style="list-style-type: none"> ICBC's investment policy addresses the Corporation's risk tolerance and investment goals, and specifies a long-term investment asset mix and fixed income duration consistent with these objectives. The policy is based on prudence and regulatory requirements, and provides guidelines for balancing the levels of risk and return in ICBC's investment portfolio. ICBC follows a long-term strategy and diversifies its investment holdings to manage investment return fluctuations.
Credit		
<ul style="list-style-type: none"> The risk that ICBC is exposed to the deterioration of credit quality in companies that ICBC invests in or has significant financial exposure with. 		<ul style="list-style-type: none"> Monitor liquidity, profitability and capital structure for the major financial credit exposures. Establish a corporate-wide credit risk policy to set standards of risk exposure.
Claims Costs		
<ul style="list-style-type: none"> The risk that insurance rates increase due to claims cost increases arising from internal or external factors. <ul style="list-style-type: none"> Internal factors: claims handling. External factors: increased claims fraud, severity, frequency and/or litigation. 		<ul style="list-style-type: none"> Strategies to address crashes and claims costs are a priority for ICBC, and include improvements to claims handling processes, public awareness campaigns on high-risk driving, and other road safety activities. ICBC recently reviewed and updated its claims handling practices to reflect industry best practices and improve consistency across the company.
Business Partner Management		
<ul style="list-style-type: none"> The risk that insurance rates increase due to ICBC's business partner costs. 		<ul style="list-style-type: none"> Performance-based compensation with business partners. Multi-year negotiated compensation agreements with business partners (e.g., CRIA, Broker Accord). Collaborate with business partners to find ways to drive out costs while maintaining quality/service performance standards.
Reputation		
<ul style="list-style-type: none"> The risk that ICBC's reputation, particularly the trust afforded by its customers and key stakeholders, could be diminished due to perceived or real inability by ICBC, or the third parties with which ICBC is associated, to conduct business securely, ethically and responsibly. 		<ul style="list-style-type: none"> This risk is mitigated by management's enhanced risk management framework, which explicitly considers the impact on ICBC's reputation associated with business practices and decisions. Branding and proactive corporate communications to build customer trust and confidence in ICBC.

Description of Sensitivities / Risks:	Mitigation Strategies:
Privacy	
<ul style="list-style-type: none"> The risk that: <ul style="list-style-type: none"> ICBC is not in compliance with privacy legislation; and ICBC's reputation (trust of customers or employees) could be diminished due to breaches (by ICBC or business partners) to adequately safeguard personal information. 	<ul style="list-style-type: none"> Updated privacy strategy and risk assessment of privacy risk facing the organization. Privacy Incident Protocol is in place to ensure any incidents/breaches are effectively handled. ICBC has data security measures in place, including Information Systems Security Policies governing the access and use of corporate data. ICBC's Code of Ethics reflects its focus on protecting access to information. The company continues to undertake significant awareness campaigns internally and with our business partners on the importance of understanding our obligation to ensure privacy of customers' personal information. Direct access to ICBC databases by specified third party businesses is managed through access controls and, in some cases, formal information-sharing agreements. Continued corporate privacy training and annual awareness campaigns.
Access to Systems	
<ul style="list-style-type: none"> The risk that system-dependent operations could be intentionally or accidentally compromised due to: <ul style="list-style-type: none"> unauthorized access to ICBC's systems/data obtained; and/or legitimate access to information systems/data used inappropriately. 	<ul style="list-style-type: none"> Enterprise-wide IT security program. Communication of updated Code of Ethics throughout the organization, reflecting a focus on appropriate access to information and systems. ICBC also continues to undertake significant awareness campaigns within the company, as well as with our business partners, to educate them on the importance of understanding our customers' personal privacy.
Data Centre	
<ul style="list-style-type: none"> The risk that ICBC cannot fulfill its customer service mandate due to replacement of existing Data Centre not being complete before its end of life. 	<ul style="list-style-type: none"> A joint procurement with other provincial entities and Crown corporations for the provision of Data Centre services is underway with contract negotiations in progress. Alternate plans are being developed should the procurement not result in a contract. The existing Data Centre facility is being monitored and maintained.
Catastrophic Loss	
<ul style="list-style-type: none"> The risk that ICBC's capital strength is eroded in the event of a major disaster. 	<ul style="list-style-type: none"> In the event of losses resulting from catastrophes, such as an earthquake, ICBC has financial protection through a reinsurance program that is reviewed and renewed annually. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits. In addition to protection against individual catastrophic events, the reinsurance program protects ICBC against abnormally large losses by limiting the amount for which it is liable in any single event and in any given year.
Business Interruption	
<ul style="list-style-type: none"> The risk that operations cannot be maintained or essential products and services cannot be provided due to business interruption arising from physical and/or technical events. 	<ul style="list-style-type: none"> ICBC's business interruption risk is managed through three related programs: Emergency Response Program (safe building evacuations, search and rescue, etc.), Business Continuity Planning (continued essential customer services during interruption) and IT Disaster Recovery Planning (ICBC's Data Centre). The company continues to explore partnership opportunities with other B.C. government entities and Crown corporations to develop more cost effective shared solutions for disaster recovery. Conduct an annual test of the IT Disaster Recovery program and implement improvements to ensure a successful recovery program.

Corporate Strategy

ICBC's current corporate strategy was established in 2006 by the Board of Directors, and continues to be endorsed as a long-term strategy to guide the company.

As we are faced with new risks and opportunities, which are ever present in our environment, important trade-offs will need to be made around allocating finite resources and how we implement our corporate strategy.

In today's operating environment, we are observing a global recession, which has impacts on the B.C. economy that are still yet uncertain. The tightening of credit and the deterioration of consumer confidence introduce a volatile operating environment that may have downstream impacts on the demand for insurance and the cost of doing business. We need to continually monitor the changing environment and adjust our strategies as needed.

Our goals, objectives and strategies have not significantly changed from the previous year and will continue to guide our corporate strategy. For the purposes of the Service Plan, we have focused the discussion at the goals and strategies level.

We established five key strategies under the four corporate goals as outlined below. The strategies represent core areas of focus for the work that is underway to achieve our corporate goals and objectives over the next three years.

Consequently, it is important to understand these strategies in the context of our overall vision, mission and objectives. For more information on this, please refer to the Appendix (Corporate Strategy – The Road Ahead).

Goal	Strategies
Customer Focus	<ul style="list-style-type: none">• Strengthen our underwriting and pricing abilities• Create an integrated customer experience around all major touch points, focusing on value attributes important to customers
Financial Responsibility	<ul style="list-style-type: none">• Reduce the growth of bodily injury claims with claims-handling improvements, targeted crash prevention programs, and product and underwriting refinements
High Performing, Engaged and Capable People	<ul style="list-style-type: none">• Position ICBC's workforce to effectively support business strategy by improving leadership capability and talent management processes and outcomes
Operational Excellence	<ul style="list-style-type: none">• Examine key business processes and systems capabilities critical to ICBC's success in the market, and set priorities for investment over the next three years

Performance Management Systems

ICBC has a uniquely different business model relative to other insurers in the P&C industry. Our business model is to set premiums to achieve and maintain our capital target rather than to maximize our return on capital. We operate exclusively within British Columbia under a full tort environment wherein the cost of settling a claim may be higher than in other jurisdictions that do not operate in the same system. We are mandated to provide automobile insurance to all drivers in B.C., including high-risk drivers. We provide auto insurance rates that are not based on age, gender or marital status. ICBC also provides a wide range of non-insurance services, such as driver licensing, vehicle registration and licensing, and fine collection on behalf of the provincial government. Due to our unique business model, we therefore do not set our performance targets based on industry benchmarks.

However, we do use a “balanced scorecard” approach, which embodies our corporate strategy. By using a balanced scorecard framework, we establish our strategic goals and related objectives, and our corporate performance measures are aligned with these goals and objectives. Our strategic plan and report on performance against our plan, are reported externally through the Service Plan and Annual Report.

Our financial performance measures are derived from actual financial information and forecasted trends and assumptions. Key corporate performance metrics, such as the combined ratio, loss ratio and expense ratio, are benchmarked to P&C industry benchmarks and reported in the Annual Report. Non-financial performance measures are generated by external sources. Independent firms are retained to conduct ongoing surveys of customers for the purpose of monitoring satisfaction and an annual survey for the purpose of monitoring employee engagement.

Our divisional plans are also aligned with the corporate strategy, and where applicable, corporate performance measures are cascaded down to divisional business plans. Other benchmarking studies focusing on specific areas of operation are undertaken to support improvement in management practices internally.

Divisional performance measures and targets are established annually, and divisional performance measures are included in individual performance plans, as appropriate. We hold a quarterly corporate performance update with executive and senior management, which includes an update on key financial results and performance measures, and a review of the projected year-end results. Divisions also report on their performance results and highlight business issues as part of this quarterly update.

ICBC maintains and relies on risk management practices that encompass management, system and financial controls designed to provide reasonable assurance that tangible and intangible assets are safeguarded and transactions are properly authorized and recorded. The controls include written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic risk-based audits by the internal auditors who independently review and evaluate these controls. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Policies that require employees to maintain the highest ethical standards have also been instituted.

ICBC recognizes the inherent limitations in all risk management frameworks and believes the current framework provides an appropriate balance between costs and desired benefits. We believe that the systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

The Audit Committee, composed of members of the Board of Directors, oversees management's risk, management processes and discharge of financial reporting responsibilities. The committee meets no less than quarterly with management, our internal auditors and representatives of our external auditors, to discuss auditing, financial reporting and internal control matters. All financial statements are externally audited by our independent auditors in accordance with Canadian Generally Accepted Auditing Standards.

Customer Focus

To be B.C.'s preferred auto insurer requires that we focus on the customer. This means understanding the needs and expectations of customers, delivering to those needs efficiently, and building a relationship of trust. To further our Customer Focus goal for the next three years, we will continue our strategies around strengthening underwriting and pricing abilities and improving customer experience across all major touch points, focusing on value attributes important to customers.

Insurance prices and the value of the insurance protection are important factors to customers. We remain committed to ensuring all British Columbians can access quality auto insurance at affordable rates. To achieve this, we will be improving our underwriting and pricing by continuing to move in the direction of driver-based pricing, where premium rates are more reflective of driver risk. This will position us to continue to provide value to our customers. Driver-based pricing also supports the concept of increased driver accountability, where drivers can have a greater influence on their premiums by their driving behaviour on the road.

Our other key strategy within this goal is improving the customer experience across key touch points. This strategy will be a major driver behind redefining our processes used to interact with customers, and our ultimate reinvestment in aging infrastructure, which is discussed further under the Operational Excellence section. This is a multi-year strategy that ultimately aims to improve our business processes by providing customers a more hassle-free experience. We are in the initial stages of developing this key strategy and are currently focused on researching and analyzing different options to execute the strategy.

Part of being customer focused includes helping our customers better deal with the issues of safety and the environment. ICBC is committed to improving driver well-being in B.C. We will be continuing the *Drive Smart Save Green* campaign, which focuses on improving road safety and protecting the environment. The campaign educates drivers on how they can save money by reducing fuel costs and contribute to reducing carbon emissions by changing how they drive.

Summary Performance Measures

Strategies	Performance Measures	2007 Actual	2008 Plan	2008 Outlook	2009 Target	2010 Target	2011 Target
<ul style="list-style-type: none"> Strengthen our underwriting and pricing abilities Create an integrated customer experience around all major touch points, focusing on value attributes important to customers 	Insurance Services Satisfaction	93%	93%*	93%	93%	93%	93%
	Driver Licensing Satisfaction**	91%	91%	93%	91%	92%	92%
	Claims Services Satisfaction	84%	83%	85%	83%	83%	83%

* 2008 Plan was revised from 90% to 93%. The original plan of 90% was set to reflect the expectation of rate design changes to be implemented during 2008. However, the timing of these changes has been deferred.

** In 2008, Driver Services was renamed to Driver Licensing. The Driver Services Satisfaction measure from the previous year has, therefore, been renamed to Driver Licensing Satisfaction.

Performance Measures

Measuring customer service performance at ICBC is based on the percentage of satisfied customers. A separate measure is used for each major transaction type — insurance product purchase, driver licensing, and claims. The design of ICBC's measures and targets reflects the inherent differences of these key transactions.

An independent research firm is retained to conduct ongoing surveys of customers for the purposes of monitoring satisfaction.

Insurance Services Satisfaction

Independent insurance brokers process over three million policies each year. This measure represents the percentage of customers satisfied with a recent ICBC insurance transaction and is based on surveys of over 1,000 customers over the course of a year. The measure is typically over 90% and indicates the positive relationship ICBC and its brokers enjoy with customers.

Based on results to date, the 2008 outlook is 93%, which is consistent with the target as well as 2007 actual results. For future years, rate design initiatives are expected to be implemented in phases and will result in more time being needed by brokers to discuss these changes with customers. This may have a negative impact on customer satisfaction levels during this transition period. The historical satisfaction levels continue to be reflected in the forecast years until the rate design initiatives are better defined and the implementation schedules are determined.

Driver Licensing Satisfaction

Each year, ICBC conducts over 1.4 million transactions relating to the issuance of driver licences and driver exams. This measure represents the percentage of customers satisfied with their driver licensing transaction with ICBC, which includes renewing a licence, taking a knowledge test, or undergoing a road test. This measure is weighted by the number of transactions for each type of service and is drawn from a sample of approximately 4,000 customers surveyed throughout the year.

The 2008 outlook for ICBC's customer satisfaction for Driver Licensing is 93%, which is higher than 2007. This score indicates that the 2008 target will be exceeded.

For 2009, the target has been lowered to take into account enhanced security measures and other initiatives that will change procedures during the processing of licence applications and licence renewals. For 2010 and 2011, ICBC expects customer satisfaction to improve and to return to historical norms.

Claims Services Satisfaction

Almost one million claims are processed each year through telephone claims and claims centres throughout the province. This measure represents the percentage of customers satisfied with a recent ICBC claims transaction and is drawn from a sample of approximately 6,000 customers surveyed throughout the year.

The 2008 outlook for Claims Services Satisfaction is 85%, which is higher than 2007. This score indicates that the 2008 target will be exceeded.

ICBC expects that 2009 will be a year of transition for Claims Services. The company will be making some changes to measure customer satisfaction at the field office level, which may change the mix of claims in the survey, and make the forecast targets more challenging to achieve. Once the full extent of the survey changes are defined, forecast targets may need to be reassessed.

Financial Responsibility

Our strong financial performance over the last several years has supported keeping rates low and stable for customers. In 2008, there was no increase in Basic insurance rates while Optional insurance rates were, on average, reduced by three per cent.

Looking ahead, we will need to continue to manage operating costs and capital levels prudently throughout this period of changing economic trends and investment market volatility. Generating strong investment returns will be a challenge during this period and our investment income cannot be relied upon to the same degree to absorb some of the cost increases.

The most significant cost pressure to our business is the cost of bodily injury claims. Bodily injury costs are a major challenge for the insurance industry as a whole, particularly in light of the increase in severity trends over the past few years. Over 2008, ICBC has seen the growth in costs slow down. It will be critical for us to maintain this strategy of reducing the growth of bodily injury claims costs through our multi-pronged efforts, which include streamlined claims handling and cost controls, road safety enhancements, and underwriting changes that provide incentives to drivers for improving their driving behaviour resulting in fewer crashes.

Summary Performance Measures

Strategies	Performance Measures	2007 Actual	2008 Plan	2008 Outlook	2009 Target	2010 Target	2011 Target
<ul style="list-style-type: none"> Reduce the growth of bodily injury claims with claims-handling improvements, targeted crash prevention programs, and product and underwriting refinements 	Minimum Capital Test*	188%	Min 150%	209%	Min 150%	Min 150%	Min 150%
	Combined Ratio	101.0%	106.1%	95.6%	104.2%	106.3%	107.9%
	Loss Ratio	83.7%	87.0%	77.2%	84.7%	86.2%	87.6%
	Insurance Expense Ratio	16.0%	16.7%	16.1%	16.3%	16.5%	16.8%
	Non-insurance Expense Ratio	<u>2.6%</u>	<u>2.8%</u>	<u>2.9%</u>	<u>3.0%</u>	<u>3.2%</u>	<u>3.2%</u>
	Expense Ratio (excluding DPAC)	18.6%	19.5%	19.0%	19.3%	19.7%	20.0%
	Investment Return (Market Return)**	Benchmark + 0.24%	Benchmark + 0.268%	Benchmark + 0.269%	Benchmark + 0.269%	Benchmark + 0.270%	Benchmark + 0.271%

* Minimum Capital Test (MCT) is based on the Guidelines for MCT for Federally Regulated Property and Casualty Insurance Companies, No: A, dated March 2008 issued by the Office of the Superintendent of Financial Institutions Canada.

** The ICBC target investment market return is an added value objective in excess of the policy benchmark return. In May 2008, an investment policy change was made, which impacted the asset classes. Therefore, the added value objective, which previously was the policy benchmark + 0.268%, has been amended to the policy benchmark + 0.271%. As the target is calculated based on the four year annualized return, the change in the added value objective transitions over the next four years.

Performance Measures

Minimum Capital Test (MCT)

MCT is an industry measure set by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurance companies across Canada. The MCT is used to determine whether a company has sufficient capital levels to protect policyholders from financial risk and provide long-term financial stability.

The 2008 outlook MCT of 209% is higher than the target of 150% and was built from higher than expected net income over the past years. Net income increases the amount of retained earnings held by the Corporation, thereby increasing available capital.

ICBC's target MCT for 2009 – 2011 continues to be a minimum of 150% to meet its capital management plan.

Combined Ratio

The combined ratio is a key measure of overall profitability within the insurance industry. This measure is calculated as the ratio of all costs (claims costs, claims-related costs, administrative costs, acquisition costs and non-insurance costs) to all insurance premium dollars earned. A ratio below 100% indicates an underwriting profit while a ratio above 100% indicates an underwriting loss. ICBC's combined ratio is slightly higher than the industry average. This is partially due to ICBC's mandate to deliver non-insurance services on behalf of government and these costs are reflected in the combined ratio. Also, ICBC uses its investment income primarily to reduce premiums for its customers rather than to generate a return for the shareholder.

The 2008 outlook for the combined ratio of 95.6% is better than the target of 106.1%. This is mainly due to lower than plan claims costs, as well as lower claims-related and operating costs, higher premiums earned and a deferred premium acquisition cost (DPAC) adjustment, which is more favourable than plan.

2008 is expected to be an unusually good year for claims. Current year claims incurred costs were favourable to plan due to ICBC's claims initiatives, less rain than is usually expected, and a moderation in the vehicle population growth. This has a positive impact on the combined and loss ratios of about four per cent. In addition, due to the favourable development of outstanding claims from prior years, the total change in the prior years' claims adjustment is expected to be better than plan. The impact to the combined and loss ratios is approximately six per cent. Both of these favourable adjustments are not expected to be repeated in 2009. The higher targets for 2009 – 2011 reflect expectations of longer-term trends, including claims costs reverting back to historical norms, offset by higher premiums earned. Any required adjustments to DPAC have been reflected in the forecasts.

Premiums earned reflect the growth in policies, which has seen a slowdown in 2008 that is expected to continue,

and the flow through of rate adjustments made in 2008. Basic rates were not changed in 2008, and Optional rates decreased by three per cent on average mid-year. For these reasons, the expected increase in costs is outpacing the expected increase in premiums resulting in a higher combined ratio for the 2009 – 2011 period.

Loss Ratio

This is a key performance indicator within the insurance industry measuring profitability of the insurance product — the lower the percentage, the more profitable the product. This measure is calculated as the ratio of the total of claims costs and claims-related costs, including loss management costs, to total insurance premium dollars earned. ICBC's loss ratio is typically higher than the P&C industry because ICBC premiums are set only to recover costs and to achieve and maintain our capital targets. With lower premiums, ICBC's loss ratio will be higher. ICBC is also mandated to provide Basic insurance to all drivers, including the high-risk ones, whose claims costs are proportionally higher. With higher claims costs, ICBC's loss ratio will be higher.

The 2008 outlook of 77.2% is lower than plan primarily due to lower claims and claims-related costs combined with higher premiums earned. Claims costs are better than plan due to favourable development of injury claims from prior years and lower claims for injury and material damages in the current year, offset by an unfavourable adjustment to claims costs due to a decrease in the rate used to discount claims (also see combined ratio).

The favourable conditions anticipated in the 2008 outlook (e.g., dry weather, prior years' claims improvements) are not expected to be repeated in the future years. The 2009 – 2011 loss ratio targets reflect expectations that claims costs will revert back to longer-term trends starting in 2009 and expected increase in supplier costs. In addition, the loss ratio includes an increase in the amounts for business changes in the areas of claims services and road safety and loss management.

Expense Ratio

The expense ratio is a standard industry measure for assessing the percentage of each premium dollar that goes to an insurer's expenses. This measure is calculated as the ratio of non-claims costs to total insurance premium dollars earned. It includes operating costs that are not directly related to servicing claims, such as general administration, commissions paid to brokers, taxes paid on premiums written, product design (underwriting), and non-insurance costs such as those associated with driver and vehicle licensing and vehicle registration. To enable comparisons with industry benchmarks, the expense ratio excludes the impact of one-time, non-recurring items.

ICBC's expense ratio consists of two key components: the insurance expense ratio and the non-insurance expense ratio. Segregating expenses in this manner allows ICBC to better manage the costs of operating its insurance and non-insurance businesses, and more accurately reflects the distinct nature of ICBC's operating model relative to other automobile insurers.

The overall P&C industry expense ratio for 2007 was approximately 29.2%.¹⁸ For insurers who predominantly write auto insurance, the ratio was about 27.9%.¹⁹ ICBC believes that the automobile insurance expense ratio for the industry would be lower than the overall P&C expense ratio and that ICBC's expense ratio is lower than the industry average due to its ability to achieve economies of scale, the benefits of integrated operations, and lower marketing, underwriting, acquisition and general administration costs. The 2008 outlook expense ratio of 19.0% is better than the target primarily due to higher than plan premiums earned, and lower than plan operating expenses. ICBC continues to demonstrate its commitment to operating efficiently and managing costs effectively.

As part of its operations, ICBC incurs non-insurance expenses in providing driver licensing, vehicle registration and licensing, and government fine collection. The non-insurance expense ratio represents the ratio of the operations and administration costs of ICBC's non-insurance business to total insurance premium dollars earned. Managing these costs closely ensures ICBC remains an efficient provider of these services on behalf of government.

The 2009 – 2011 targets reflect higher insurance and non-insurance expense ratios mainly due to higher operating costs required for general inflationary increases, suppliers' increased costs, support of government priorities, and reinvestment into the business. Higher acquisition costs are also expected in the future years, resulting from the Strategic Accord with ICBC's broker partners. In addition, the increase in premium dollars earned is expected to be more moderate, reflecting a slowdown in the growth of policies in the 2009 – 2011 period.

ICBC has been working on a number of initiatives pertaining to driver licensing security and service, including new digital picture identification technology and facial recognition, and the development of new, more secure driver licences.

Investment Return

Investment income is typically a significant component of any insurer's overall net income and plays an important part in reducing the cost of insurance. ICBC investment assets arise from funds set aside for unpaid claims, unearned premiums and retained earnings. At the end of 2008, ICBC's

investment portfolio is anticipated to have a carrying value of approximately \$10 billion. The portfolio is managed in accordance with the Statement of Investment Policies and Procedures. This policy establishes guidelines for ICBC to manage the level of risk and return in the investment portfolio. The majority of investments are held in the form of fixed income instruments or bonds, and equities are held to enhance returns and provide added diversification. The asset mix was developed with the Corporation's liability profile and cash flow needs in mind, to cover future claims payments, whereas the investment income generated is used to reduce the premiums that would otherwise need to be collected from our policyholders.

Investment returns, which incorporate both change in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard market benchmarks. As well, the return of the overall portfolio is measured against a policy benchmark, calculated as the average of individual asset class benchmark returns and weighted according to the portfolio's strategic asset mix. Asset class benchmarks and strategic asset mix are outlined in the ICBC Statement of Investment Policies and Procedures.

Given the heavy weighting in fixed income instruments or bonds, ICBC is subject to interest rate risk. However, a decline in the market value of fixed income holdings would be offset by a similar decline in the value of ICBC's claim liabilities. ICBC's fixed income portfolio is subject to credit risk. Credit risk will remain heightened as the economy copes with a global recession. To mitigate this risk, it is ICBC's investment policy to hold government and investment grade bonds. ICBC also performs its own internal credit analysis.

The economic environment is expected to remain highly volatile and uncertain. Equity markets are not likely to post a significant recovery in 2009 and equity returns are expected to be modest. The Canadian dollar is expected to remain consistent with current levels. ICBC remains vulnerable to a deterioration in equity markets and to currency fluctuations. Nevertheless, these risks are not unique to ICBC and are proactively managed by the Investment department.

The 2009 – 2011 investment portfolio performance targets are set to outperform the policy benchmark, as described in the ICBC Statement of Investment Policies and Procedures. For performance measurement purposes, ICBC does not forecast the benchmark return as it is the result of market forces beyond the company's control.

An external performance measurement service independently calculates returns at the portfolio, asset class and investment manager levels.

¹⁸ MSA Benchmark Report, Property & Casualty, Canada 2008 (Expense Ratio for Total Canadian P&C excluding ICBC and Saskatchewan Auto Fund)

¹⁹ MSA Benchmark Report, Property & Casualty, Canada 2008 (Expense Ratio for Auto Writers excluding ICBC and Saskatchewan Auto Fund)

High Performing, Engaged and Capable People

Positioning ourselves to be B.C.'s preferred auto insurer is contingent on the performance and availability of our employees. We can best deliver on commitments to our customers and maintain our financial health by having high performing, engaged and capable employees.

We will be faced with multiple challenges in the future due to smaller labour markets in Canada, and especially in British Columbia, given declining birth rates, ensuing retirement of baby boomers and the B.C. economy outpacing the growth of the national economy. The labour force will diminish and the Canadian P&C industry will continue to have more difficulty than other sectors in retaining and attracting employees.²⁰

In order to meet these and other challenges, we have implemented new talent acquisition processes and programs, developed leadership competencies and

succession planning processes for our leaders, expanded performance management to all employees, and reinvested in technical and customer service training. Continued investment in strengthening our workforce will be essential in preparing us for the future. An example of the successes we have already achieved through our commitment to ongoing learning and professional development includes ICBC's staff being honoured with the Canadian Help Desk Analyst of the Year Award for a second year in a row.

Four areas of focus have been identified that will help us position our workforce to effectively support our business strategy. The table below describes these four areas and provides an overview of how we have progressed and where we are heading with a multi-year approach to address human capital challenges.

Area of Focus	Overview
Job Standards & Competencies	<ul style="list-style-type: none"> Appropriate matching of work processes, job position, and employee capabilities and competencies are critical to success. ICBC will continue to build on the review work it has completed for key claims positions and focus on matching positions with candidate competencies. Similar position reviews will commence in other divisions during 2009.
Leadership Culture	<ul style="list-style-type: none"> The leadership culture of an organization is key to facilitating business success. Leadership competencies and succession planning processes have been established and ongoing work will continue to build and enhance leadership competencies at all levels. A leadership development program targeted at line managers has been successfully developed and expanded to other levels.
Talent Management	<ul style="list-style-type: none"> A new performance management system has been successfully implemented for management groups and has expanded to include bargaining unit staff. Promoting career and a range of learning opportunities to assist with advancement are essential to developing and retaining talent. A career framework is under development and will continue to evolve in 2009. More e-learning options are being added to supplement classroom courses and permit easy access to learning and skills development. To maximize staff effectiveness at work, further investments in customer service and technical skills training will continue.
Talent Acquisition	<ul style="list-style-type: none"> In a robust labour market, the ability to attract, select and retain employees with the necessary capabilities is foundational to a successful future for ICBC. Work will continue in developing a centralized and enhanced recruitment process to effectively acquire and manage talent, as well as supporting employees in building their careers within ICBC. Technology has been implemented to increase the efficiency and effectiveness of our talent acquisition processes.

Summary Performance Measures

Strategies	Performance Measures	2007 Actual	2008 Plan	2008 Outlook	2009 Target	2010 Target	2011 Target
<ul style="list-style-type: none"> Position ICBC's workforce to effectively support business strategy by improving leadership capability and talent management processes and outcomes 	Employee Engagement	49%	52%	44%	48%	N/A	N/A

²⁰ Insurance Institute of Canada, "A Demographic Analysis of the P&C Insurance Industry 2007-2017", May 2008, p.19-20

Performance Measures

Employee Engagement

ICBC's goal of High Performing, Engaged and Capable People is currently measured on an annual basis using a third-party supplied Employee Engagement Survey. Employee engagement is reviewed in context with a number of other internal indicators around performance, recruitment and retention. The company's approach has been to establish an annual engagement target, and focus on incremental improvements each year. As a result, the target for this measure is set annually with a focus on internal drivers of engagement rather than benchmark targets against other organizations.

The Employee Engagement Survey was sent to each of the approximately 5,000 employees in the Corporation in October 2008 and the response rate was 75%. The 2008 result is 44%, lower than 2007 actual (49%), as well as 2008 plan (52%). Although the organization did not achieve its target for employee engagement, ICBC recognizes that it cannot be successful without the support and involvement of its workforce. As such, the organization pledges to work on the engagement challenge in the upcoming year.

The target for 2009 has been established at 48%, representing a four percentage point increase over the 2008 result, which is considered to be challenging yet achievable. ICBC intends to strengthen engagement through effective change and communication tactics aligned with our corporate strategy. ICBC's view is that building engagement is a long-term process that requires dedicated effort and continued focus. In keeping with the company's long-term business strategy, ICBC strives to build a culture of high performing, engaged and capable people.

Operational Excellence

Operational excellence is about a continued focus on the ability to deliver efficient and high quality services today and into the future. This includes implementing ongoing business processes and customer service enhancements to address our immediate service pressures at points of customer interaction. It is also about our ongoing investments into business capabilities that better support our corporate strategy over the next three years.

On the immediate planning horizon, we are examining ways to simplify and enhance business processes, minimize cost pressures and build value for our customers. The result will

be a multi-year ongoing plan of investments involving our people, processes, and technology with the objective of enhancing the quality and efficiency of service delivery to our customers. Quality service not only means better service for our customers, it also means looking for responsible ways to enhance our business and minimize our impact on the environment — such as through reducing the use of paper or the consumption of energy. We are committed to our corporate social responsibility in meeting the government climate action targets and reducing our overall carbon footprint.

Summary Performance Measures

Strategies	Performance Measures	2007 Actual	2008 Plan	2008 Outlook	2009 Target	2010 Target	2011 Target
<ul style="list-style-type: none"> Examine key business processes and systems capabilities critical to ICBC's success in the market, and set priorities for investment over the next three years 	Insurance Operating Cost Per Policy	\$184	\$193	\$190	\$196	\$200	\$204
	Driver Licensing Cost Per Transaction*	\$9.3	\$9.4	\$9.7	\$10.3	\$10.9	\$11.4

* In 2008, Driver Services was renamed to Driver Licensing. The Driver Services Cost Per Transaction measure from the previous year has, therefore, been renamed to Driver Licensing Cost Per Transaction.

Performance Measures

ICBC uses two measures to evaluate the efficiency of our services. The measures described below are Insurance Operating Cost Per Policy and Driver Licensing Cost Per Transaction. It is important to note that these efficiency measures need to be looked at in conjunction with the Claims, Insurance, and Driver Licensing satisfaction scores in order to evaluate the quality (effectiveness), as well as the efficiency, of the services provided by ICBC.

Insurance Operating Cost Per Policy

This measures the cost of service delivery of all insurance-related activities including sales and marketing, acquisition costs, internal and external costs of handling claims, loss management programs, and associated support services. These costs are divided by the number of gross annualized Basic and Optional policies written to arrive at the cost per policy.

The 2008 outlook Insurance Operating Cost Per Policy of \$190 is better than plan due to lower than plan operating expenses. The Insurance Operating Cost Per Policy is higher than 2007 mainly due to higher operating costs, acquisition costs, and external claims handling costs, which exceed the increase in the number of policies.

The 2009 – 2011 targets reflect higher operating expenses, higher average acquisition costs and higher external claims handling costs primarily related to legal fees and disbursements. The increase in operating expenses reflects general inflationary increases, suppliers' increased costs, support of government priorities, and reinvestment into the business. It also includes higher acquisition costs resulting from the Strategic Broker Accord. The growth in the number of policies is expected to slow down in the 2009 – 2011 period. Due to current economic conditions, vehicle growth is expected to be more moderate in the future years.

Driver Licensing Cost Per Transaction

This measures the driver licensing cost relative to a driver licensing transaction. Driver licensing transactions include all key transactions such as driver licences issued, driver licence renewals, British Columbia Identification (BCID) cards issued, address changes and driver tests.

The 2008 outlook Driver Licensing Cost Per Transaction of \$9.7 is higher than plan primarily due to lower than plan transaction volumes.

The Driver Licensing Cost Per Transaction is expected to increase in the 2009 – 2011 period due to operating cost challenges driven by inflationary increases, as well as incremental operating expense impacts arising from the implementation of Driver Licensing projects.

Strategy Summary

ICBC's current goals, objectives and targets on its high-level strategies are contained in the following table.

Goal	Strategies	Measures	Outlook	Target		
			2008	2009	2010	2011
Customer Focus	<ul style="list-style-type: none"> Strengthen our underwriting and pricing abilities Create an integrated customer experience around all major touch points, focusing on value attributes important to customers 	Insurance Services Satisfaction	93%	93%	93%	93%
		Driver Licensing Satisfaction	93%	91%	92%	92%
		Claims Services Satisfaction	85%	83%	83%	83%
Financial Responsibility	<ul style="list-style-type: none"> Reduce the growth of bodily injury claims with claims handling improvements, targeted crash prevention programs, and product and underwriting refinements 	Minimum Capital Test	209%	Min 150%	Min 150%	Min 150%
		Combined Ratio				
		<ul style="list-style-type: none"> Claims & Claims-Related Expenses & Insurance Expenses 	92.7%	101.2%	103.1%	104.7%
		<ul style="list-style-type: none"> Non-insurance Expense 	<u>2.9%</u>	<u>3.0%</u>	<u>3.2%</u>	<u>3.2%</u>
		Total	95.6%	104.2%	106.3%	107.9%
		Loss Ratio	77.2%	84.7%	86.2%	87.6%
		Expense Ratio				
High Performing, Engaged and Capable People	<ul style="list-style-type: none"> Position ICBC's workforce to effectively support business strategy by improving leadership capability and talent management processes and outcomes 	Employee Engagement	44%	48%	N/A	N/A
Operational Excellence	<ul style="list-style-type: none"> Examine key business processes and systems capabilities critical to ICBC's success in the market, and set priorities for investment over the next three years 	Insurance Operating Cost Per Policy	\$190	\$196	\$200	\$204
		Driver Licensing Cost Per Transaction	\$9.7	\$10.3	\$10.9	\$11.4

Alignment with Shareholder's Letter of Expectations

The 2009 Shareholder's Letter of Expectations affirms ICBC's mandate to provide Basic and Optional vehicle insurance to B.C. motorists, provide driver licensing and vehicle registration and licensing, and administer violation tickets and provide fee and fine collection services on behalf of the province.

In addition to outlining government's general reporting framework, public policy objectives and other general directions, the 2009 letter also provides specific direction to ICBC, including the following:

Shareholder's Letter of Expectations	ICBC Alignment
Climate Change	
<ul style="list-style-type: none"> Contribute to the B.C. Provincial Government's climate action objectives and comply with the requirement for Crown agencies to achieve carbon neutrality by 2010. 	<ul style="list-style-type: none"> ICBC has established the 2007 baseline of the company's environmental footprint and will be implementing government's SMARTTOOL, a greenhouse gas measurement and reporting tool, in order to track and report the company's greenhouse gas emissions. ICBC has created a climate change action plan that includes reducing energy consumption in its facilities, and fostering employee awareness and participation in energy and resource conservation. ICBC has launched a campaign to help drivers understand how good driving practices can reduce fuel costs, lower carbon emissions and improve road safety.
Legislative Framework	
<ul style="list-style-type: none"> Comply with applicable legislation and regulations, including the Optional insurance framework under the <i>Insurance (Vehicle) Act</i>, and data-sharing provisions authorised by the minister under that Act. Comply with direction from the BCUC in its regulation of ICBC's Basic insurance rates. 	<ul style="list-style-type: none"> ICBC is in compliance with the Optional insurance framework and is working with the Insurance Bureau of Canada and the General Insurance Statistical Agency on data-sharing provisions. ICBC continues to comply with BCUC direction on Basic insurance rates.
Service Agreement	
<ul style="list-style-type: none"> Operate within the Service Agreement between the Ministry of Public Safety and Solicitor General, on behalf of the province, and ICBC. 	<ul style="list-style-type: none"> ICBC continues to operate within the terms and conditions of the Service Agreement and to work with the shareholder on any changes.
Insurance Rates	
<ul style="list-style-type: none"> Operate the business in an efficient and effective manner to keep rates low and stable. Auto insurance rates are not to be based on age, gender or marital status. Develop and implement effective strategies to manage rising bodily injury insurance costs. 	<ul style="list-style-type: none"> ICBC operates in a fiscally responsible manner to help keep rates low and stable for the benefit of customers. ICBC continues to provide auto insurance rates that are not based on age, gender or marital status. ICBC continues to monitor, develop and implement effective strategies to manage rising bodily injury insurance costs.
Material Damage Research and Training Facility	
<ul style="list-style-type: none"> Address recommendations made by PricewaterhouseCoopers (PwC) in their independent review, and build public and stakeholder trust and confidence. 	<ul style="list-style-type: none"> ICBC has taken corrective action on the majority of commitments and work is well underway to complete the public commitments made and to address the recommendations made by PwC.
Driver Licensing	
<ul style="list-style-type: none"> Continue to address driver licensing priorities, including commitments under the Canadian Driver Licensing Agreement (CDLA) and the use of an enhanced driver's licence as an alternative to a passport for border crossings between Canada and the United States. 	<ul style="list-style-type: none"> ICBC works with the provincial government to implement a number of driver licensing enhancements, including new card technology, changes to meet CDLA standards, and the enhanced driver's licence.
Road Safety	
<ul style="list-style-type: none"> Deliver road safety initiatives that provide claims savings and work with the shareholder on initiatives that can complement its road safety objectives. 	<ul style="list-style-type: none"> ICBC continues to deliver a number of road safety programs that provide claims savings and is working with the provincial government on road safety initiatives.

Any additional direction will be incorporated throughout the year and reported in the Annual Report.

Summary Financial Outlook

The financial forecasts take into consideration ICBC's plans to address the key strategic issues and risks facing the organization and changes in the external environment. Based on these plans, planning assumptions (see next page) are developed and are used to develop the financial forecasts below.

2007 was an exceptional year in that ICBC realized strong investment income including a one-time income of \$135 million from the sale of the Central City development in Surrey. 2008 is also expected to be an exceptional year due to unusually low claims costs. Both current year claims incurred costs and prior years' claims adjustments are expected to be favourable to plan. These exceptions are not expected to recur in future years.

The decline in equity investment markets during 2008 has negatively impacted both investment income and the amount of unrealized investment gains. The forecasted investment incomes take into consideration the impacts from the current investment markets. The change in net incomes over the years is mainly due to changes in investment income or changes to claims costs as they revert back to longer-term trends. As in past years, operating costs will continue to be managed prudently.

Throughout 2009 – 2011, ICBC will continue to plan, develop and implement the changes needed to enhance its ability to compete, while continuing to manage claims costs, control staffing levels, and support government-mandated priorities.

\$ Millions	2007 (Actual)	2008 (Outlook)	2009 (Forecast)	2010 (Forecast)	2011 (Forecast)
Premiums earned	\$ 3,482	\$ 3,632	\$ 3,666	\$ 3,696	\$ 3,757
Service fees	66	69	57	57	58
Investment income	612	271	356	366	456
Total Revenue	4,160	3,972	4,079	4,119	4,271
Claims incurred (including prior years' claims adjustments)	2,613	2,498	2,774	2,843	2,938
Claims services and loss management	302	305	330	343	354
Insurance operations expenses	149	159	160	168	176
Acquisition costs (including DPAC adjustment)	380	408	444	456	464
Non-insurance expenses	93	104	111	117	122
Total Expenses	3,537	3,474	3,819	3,927	4,054
Net income before the following	623	498	260	192	217
Gain on sale of property or equipment	19	-	-	-	-
Net Income	642	498	260	192	217
Change in unrealized gains/losses during the year	(203)	(173)	(87)	125	68
Total comprehensive income	439	325	173	317	285
Total equity — beginning of year	1,994 *	2,433	2,758	2,931	3,248
Total equity — end of year	2,433	2,758	2,931	3,248	3,533
Represented by:					
Retained earnings — end of year	2,154	2,652	2,912	3,104	3,321
Accumulated other comprehensive income	279	106	19	144	212
Total equity — end of year	\$ 2,433	\$ 2,758	\$ 2,931	\$ 3,248	\$ 3,533
Number of employees**	5,004	5,010	5,100	5,100	5,100
Capital expenditures***	\$ 14	\$ 25	\$ 42	\$ 100	\$ 125
Long-term debt	Nil	Nil	Nil	Nil	Nil

* Includes \$487 million transitional adjustment on adoption of new accounting standards on January 1, 2007.

** As of month end December 31, 2007: Employees by line of business were: Claims Services & Loss Management 2,925; Administration & Other 1,156; Insurance Services 391; Driver Licensing 532.

*** Major categories of capital expenditure include: facilities (land, building, and leasehold), vehicles, furniture and equipment, IT systems (computer equipment and software). Looking ahead, ICBC expects an increase in capital expenditure in the facilities category as the company maintains or replaces aging infrastructure, including replacement or upgrade of facilities, and in the IT systems category, as critical business systems are renewed. Deferring these expenditures is no longer a viable option.

Assumptions

- Prior years' claims adjustments reflect changes in the discounted value of unpaid claims.
- Deferred premium acquisition cost adjustments are reflected for 2008 – 2011.
- The outlook is based on the status quo business model and existing cost structures and does not incorporate Capital Management Plan changes.
- For policy year 2008, there is no rate change for Basic insurance coverages. Optional rates were reduced by three per cent in July 2008. For policy years 2009 – 2011, required rate changes are assumed for both the Basic and Optional businesses. Any proposed changes to Basic insurance rates are subject to regulatory approval.
- Investment income as shown includes the expected interest, dividends, and other income and realized gains/losses from the investment portfolio.
- The outlook is based on current generally accepted accounting principles.
- These results reflect the overall operations of the business including Basic and Optional insurance and non-insurance activities.
- Claims incurred reflects current claims trends, vehicle population growth and inflation.
- Driver Penalty Point Premiums will be replaced by Driver Risk Premiums beginning in 2009. The amount of Driver Penalty Point Premiums and/or Driver Risk Premiums included in the forecast is constant for all years. Should Driver Risk Premiums exceed the amounts included in the forecast, they will be used to reduce Basic insurance rates for our customers and result in a reduction in insurance premiums.

Forecast Risks and Sensitivities

- Premiums
 - 1% fluctuation means \$35 – \$38 million in net premiums.
- Claims
 - 1% fluctuation means \$26 – \$29 million in claims costs.
 - 1% fluctuation in the unpaid claims balance means \$54 – \$61 million in claims costs.
- Investments
 - 1% fluctuation in return means \$97 – \$111 million in investment income.
 - 1% change in investment balance means \$3 – \$5 million in investment income.
- Market share
 - 1% change in market share represents a \$4 – \$6 million impact on net income.

Appendix

Corporate Strategy — The Road Ahead



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ADDITIONAL INFORMATION

Additional information about ICBC is available at www.icbc.com

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