

Insurance Corporation of British Columbia

2017/18 – 2019/20 SERVICE PLAN

February 2017





For more information on the *Insurance Corporation of British Columbia*, contact:

In the Lower Mainland

604-661-2800

Elsewhere in B.C., Canada, or the U.S.

1-800-663-3051

Head Office

151 West Esplanade
North Vancouver, British Columbia, V7M 3H9
www.icbc.com

Email address: www.icbc.com/contact-us

ICBC's Corporate Service Plans, Annual Reports and Financial reports are available on the ICBC website.

Accountability Statement

The 2017/18-2019/20 ICBC Service Plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act* and the B.C. Reporting Principles. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported. The Board is responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks as of February 10, 2017 have been considered in preparing the plan. The performance measures presented are consistent with the Taxpayer Accountability Principles, ICBC's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of ICBC's operating environment, forecast conditions, risk assessment and past performance.



Barry Penner, QC

Chair, ICBC Board of Directors

Table of Contents

Accountability Statement.....	3
Strategic Direction and Context.....	5
Performance Plan	6
Goals, Strategies, Measures and Targets	6
Financial Plan	15
Key Forecast Assumptions	16
Sensitivities Analysis	17
Management Perspective on Future Financial Outlook.....	17
Capital Plan and Major Projects	19
Appendices	20
Appendix A: Hyperlinks to Additional Information.....	20
Appendix B: Subsidiaries and Operating Segments	21
Appendix C: Corporate Strategy Summary	22

Strategic Direction and Context

Strategic Direction

ICBC's mandate, as provided through the *Insurance Corporation Act*, *Insurance (Vehicle) Act* and the *Motor Vehicle Act*, is to provide Basic and Optional vehicle insurance for B.C. motorists. The Basic rates are regulated by the British Columbia Utilities Commission ([BCUC](#)), an independent regulator. The BCUC approves the Basic insurance rates and ensures the Basic insurance product is adequate, efficient and reasonable. ICBC also sells Optional auto insurance in a competitive marketplace. In addition, ICBC provides driver licensing, vehicle registration and licensing, and violation ticket and government fine collections services on behalf of the Province under a Service Agreement between government and ICBC. ICBC also implements road safety initiatives to reduce crashes and losses on B.C. roads and to assist in managing claims costs. The organization works closely with the Ministry of Transportation and Infrastructure (the Ministry) to ensure financial targets and reporting requirements are met. Additional priority actions are provided in the 2017/18 Mandate Letter.

ICBC is committed to providing customers with the best insurance coverage at the lowest possible cost. To support this, the Corporate Strategy focuses on four key goals: Deliver Value and Service for Customers, Maintain Financial Stability, Deliver Operational Excellence and Align People and Business Capabilities. In alignment with government direction, ICBC has embedded the [Taxpayer Accountability Principles](#) into the Corporate Strategy. Its policies, processes and values align with the principles of cost consciousness (efficiency), accountability, appropriate compensation, service, respect and integrity.

Operating Environment

In B.C., auto insurance is based on a full tort system, which means that an at-fault driver may be taken to court for the full range of damages. An injured party also has access to accident benefits coverage, regardless of fault, including medical and rehabilitation expenses and wage loss. This environment may result in higher claims costs compared to jurisdictions that operate under different auto insurance systems.

Risks in the operating environment could impact future performance and the ability to execute the Corporate Strategy. Like other jurisdictions, B.C. is seeing an increased frequency of motor vehicle crashes. From these crashes, more people are claiming bodily injury with a shift toward more complex claims that cost more to settle. The growing sophistication of cars is also driving up repair costs. These factors combined put upward pressure on rates for customers. Managing these costs, along with exaggerated and fraudulent claims and increasing legal representation rates are critical to offering customers the best insurance coverage for the lowest possible cost. See Goal 2 (*Maintain Financial Stability*) for more discussion on this topic.

Natural catastrophes, volatility in investment markets and global economic uncertainty continue to be risks to the Property and Casualty industry. Investment income has historically been a strong and consistent contributor to ICBC's financial health, helping to partially offset the pressure of rising claims costs. In recent years, however, lower interest rates in Canada and globally have put additional pressure on insurance rates across the country. In the current low-interest rate investment climate,

ICBC cannot rely upon investment return to help offset claims costs to the same extent it did in the past.

Performance Plan

Goals, Strategies, Measures and Targets

This section sets out ICBC's goals, strategies, performance measures and targets for 2017/18-2019/20. While these remain similar to the 2016/17-2018/19 Service Plan, ICBC has refocused its goals and strategies to reflect changes to the operating environment and progress made over previous years.

ICBC has changed its fiscal year end date from December 31 to March 31 to align with the B.C. Government's fiscal year end. This change was effective immediately after the fiscal calendar year ended December 31, 2015. As a result of this change, 2016/17 is a 15 month transition fiscal period from January 1, 2016 to March 31, 2017 ("2016/17"). For 2017/18 and thereafter, ICBC's fiscal year will be the 12 month period from April 1 to March 31. Unless otherwise noted, the financial targets and corporate performance metrics reflect this change.

Goal 1: Deliver Value and Service for Customers

ICBC is committed to working with the *Ministry to fully support government within the context of government's overall strategic priorities* and those outlined in the 2017/18 Mandate Letter, the 2017/18 Shared Priorities Letter and other directional letters provided to ICBC throughout the year. The Corporate Strategy is focused on being a low-cost and operationally excellent company that provides value to customers by keeping Basic insurance rates as low as possible, and delivering consistent quality service including the implementation of more online services and the creation of safer roads. This goal is critical to the strategy and also aligns with the Taxpayer Accountability Principles of cost consciousness and service.

Delivering Value

A key part of improving value to customers is to keep Basic rates as low as possible while ensuring fairness in pricing. Basic insurance rates in B.C. have experienced ongoing pressure from the number and cost of claims in recent years – with the pressure continuing in 2016 and the foreseeable future. In addition to existing efforts, ICBC continues to look for ways to mitigate increasing claims costs so that it can continue to provide the best insurance coverage at the lowest possible cost. On December 19, 2016, the Minister of Transportation and Infrastructure, directed the ICBC Board of Directors to commission a comprehensive independent review of ICBC. This review will help ICBC assess and improve its operations, evaluate its management practices and identify additional measures to help ensure rates are affordable for British Columbians and in line with inflation as much as possible, for years to come.

ICBC continues to identify new strategies to help alleviate the pressure claims costs continue to put on insurance rates. One immediate area of increased focus is on fraud prevention. While the overwhelming majority of customers make honest claims, exaggerated and fraudulent claims are an increasing area of focus for all insurers. ICBC's Special Investigation Unit continues to investigate

fraudulent claims. ICBC is boosting its efforts to fight fraud through the use of a new high-tech analytics tool which will help identify and target exaggerated and fraudulent claims early in the claims process. Fraud analytics technology uses data, algorithms and statistical methods to help spot potentially fraudulent claims.

Smartphone usage and distracted driving-related crashes also continue to add pressure on claims costs. In B.C., more than 90 % of drivers have mobile phones, and 88% of those are smartphones. A recent study by the Insurance Institute of Highway Safety determined that hand-held phone use makes drivers five times more likely to be involved in a crash. Distracted driving is now responsible for approximately one quarter of all fatal crashes in B.C. On average, 78 people die every year in crashes where distracted driving is a contributing factor.

In 2016, government renewed its focus on distracted driving by introducing tougher distracted driving penalties. ICBC is committed to **reducing injury and death on B.C. roads** and will continue to partner with law enforcement and government to raise awareness about the risks, consequences and penalties associated with distracted driving by implementing public awareness campaigns including advertising, news releases, videos and digital ads. ICBC is also exploring improvements to intersection safety given the 23% increase in intersections crashes in 2015 compared to 2013. ICBC invests in intersection safety through the intersection safety camera and road improvement programs. This investment in road safety will help to improve the safety of all communities in B.C. and also help to manage claims costs.

Improving Service

ICBC's service focus aims to **provide consistent, quality products and services to our customers** and to address business needs by cost-effectively serving customers where they are, in ways that they value. Over the coming years, ICBC will expand various customer service opportunities in the channels most relevant to customers, including digital, print and in-person. As part of these initiatives, ICBC continues to **increase online services** to help reduce costs, increase customer convenience, and enable the organization to operate more efficiently. As of early 2016, customers can request their driver abstracts online, rather than by phone. Over the past several years, ICBC has made changes to the Claims system that will help improve the customer experience, convenience and **give customers more choice for interacting with ICBC**. Just recently, ICBC launched its Claims Customer Portal to allow customers to initiate a claim and check their claims' status online with a simple and secure experience.

ICBC will continue to provide services across the Province through its partners that include body shops, brokers, and agents that offer driver licensing services. Increased digital services also help to make ICBC more accessible to all British Columbians.

Strategies

In alignment with our 2017/18 Mandate Letter, to improve value and service for customers, ICBC has developed the following key strategies:

- Work with our partners and government to support government priorities.
- Keep rates as low as possible while ensuring fairness in pricing.

- Design and deliver quality products and services in ways that meet customer and business needs.
- Reduce injury and death on B.C. roads.

Performance Measure 1: Deliver Value and Service for Customers

Measuring feedback is how ICBC knows if it is improving value and service for customers. ICBC measures customer service performance based on the percentage of satisfied customers for each major transaction type: insurance product purchase, driver licensing and claims service.

Performance Measures	2015 Actual	2016/17 Forecast	2017/18 Target ²	2018/19 Target ²	2019/20 Target ²
Insurance Services Satisfaction	93%	95%	n/a	n/a	n/a
Driver Licensing Satisfaction	94%	94%	n/a	n/a	n/a
Claims Service Satisfaction	n/a ¹	87%	n/a	n/a	n/a

Data Source: An independent firm is retained to conduct ongoing surveys of customers for the purposes of monitoring transactional satisfaction.

¹Claims customer satisfaction surveying was temporarily suspended at the end of May 2014 due to transition to the new Claims system. No data is available from this period. Claims customer satisfaction surveying resumed in 2016.² Customer measures will be undergoing a planned refresh prior to 2018, which will include new performance measures. No targets have been set at this time.

Discussion

ICBC plans to meet or exceed these strong service measures for its Insurance Services, Driver Licensing and Claims Service to ensure customers are receiving consistent, quality service while interacting with ICBC.

Insurance Services Satisfaction

Independent insurance brokers process over three million Autoplan policies each year. The insurance services satisfaction measure is typically based on surveys of approximately 5,000 customers over the course of a year. During the stabilization that follows the implementation of the new insurance system, there will be constraints to data access. The survey is expected to resume in the 2017/18 fiscal year.

Driver Licensing Satisfaction

Each year, ICBC conducts approximately 1.6 million transactions relating to the issuance of driver licences and driver exams, including 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 over 3,000 customers surveyed throughout the year.

Claims Service Satisfaction

Approximately 900,000 claims are processed each year through ICBC's Claims call centre, claims centres and specialty departments such as commercial claims and rehabilitation services. Claims customer satisfaction reporting was suspended at the end of May 2014, due to data restrictions resulting from the transition to the new Claims system. Claims service satisfaction measurement resumed in January 2016.

Goal 2: Maintain Financial Stability

ICBC aims to create value for customers by operating in a disciplined and focused manner. ICBC continues to strive to *operate the corporation in a low-cost manner*, in line with government's taxpayer accountability principles; focusing on accountability, service and cost consciousness.

Claims costs are the vast majority of ICBC's costs and can be divided into injury costs, and material damage costs. Frequency (how many claims are made each year per a given number of policies) and severity (the average pay-out for a claim) are the two main elements that impact claims costs. ICBC is seeing an increase in crash frequency along with more injury claims being reported, as well as an increase in material damage severity above what was expected, with a continued increase in injury severity.

Despite the fact that vehicles and roads today are much safer, the frequency of bodily injury claims and the number of injury claims per crash continues to increase. Bodily injury severity has also followed an upward trend. The increasing number of crashes has also led to more vehicle damage claims being reported to ICBC. As this is happening, material damage costs are also rising. Vehicles today are more reliant on technology and expensive materials than ever before, while the hours of labour required to repair vehicles, and the cost of replacement parts, are also increasing, particularly for newer vehicles.

ICBC is committed to *managing bodily injury and material damage claims costs* and has been working with government to develop and implement short and long term strategies to mitigate the growth in claims costs. To address the growth in bodily injury claims, ICBC is increasing its overall claims staff which includes hiring additional injury adjusters, support staff, in-house legal and Special Investigation Unit employees. The additional injury staff is expected to provide a considerable net benefit by settling claims files quicker. In addition, ICBC is improving customers' access to benefits, including timely access to the medical treatments they need immediately after they report their claim. Tools to proactively combat exaggerated and fraudulent claims and strategic sourcing and initiatives designed to improve our supply chain model and manage supplier costs are also being implemented.

ICBC uses investment income to partially offset the cost of rising insurance rates to policyholders and aims to *balance risk and return within our investment portfolio*, specifically the ability to generate an investment return against a need to control risk. Historically, investment income has been a strong contributor to ICBC's financial health. The current investment portfolio continues to perform well, exceeding industry benchmark returns. However, ICBC cannot rely upon investment return to help offset claims costs to the same extent it did in the past due to the current low level of interest rates.

ICBC has kept its controllable operating costs flat for the last number of years and has managed to absorb inflationary increases despite an increase in business volumes both in policies and claims activity. Moving forward, ICBC will continue to manage operating costs by being an operationally excellent, low cost organization, with a continued focus on prudent management of administration costs, and realizing efficiencies from Transformation Program¹ investments and other initiatives.

¹ The Transformation Program was our business renewal program that replaced aging technology and put systems and business processes in place to support the services customers expect, and to deliver future financial savings.

Strategies

ICBC will continue to manage the costs of bodily injury and material damage claims, and develop ways to better manage and reduce the risks and growth in costs associated with claims. These include focused claims analytics and hassle-free process initiatives, and an increased focus on investigating potentially fraudulent and exaggerated claims:

- Operate the corporation in a low-cost manner.
- Manage increasing bodily injury and material damage claims costs.
- Balance risk and return within our investment portfolio.

Performance Measure 2: Maintain Financial Stability

The following measures will be used to evaluate the *maintain financial stability* goal.

Performance Measures	2015 Actual	2016/17 Forecast	2017/18 Target	2018/19 Target	2019/20 Target
Minimum Capital Test (MCT) ¹	157%	116%	TBD ¹	TBD ¹	TBD ¹
Combined Ratio	120.0%	123.6%	113.9%	112.1%	112.6%
Investment Return (Market Return)	Benchmark +0.43%	Policy market benchmark return			

Data Source: Financial performance measures are derived from actual financial information, forecasted trends, management targets, and assumptions.

¹ Corporate MCT ratio is comprised of two components being the combined total of ICBC's Basic and Optional insurance business target MCTs. In light of the current claims trends and the upcoming independent review, Corporate MCT targets for 2017/18 to 2019/20 are subject to review.

Discussion

Minimum Capital Test

MCT is a property and casualty industry measurement framework set by the Office of the Superintendent of Financial Institutions (OSFI). It measures the capital adequacy of an insurer to protect policyholders from financial risk and to provide long-term financial stability. It is the ratio of ICBC's capital available to capital required as calculated for specific risks, and is expressed as a percentage. While ICBC is not federally regulated by OSFI, [Special Direction IC2](#) requires ICBC to have a minimum of 100% MCT ratio for Basic insurance. In addition to this legislative minimum, the BCUC has approved a regulatory target of 145% for Basic insurance to reflect the risk profile of the Basic insurance product and to promote relatively stable and predictable rates (rate smoothing). In 2016/17, ICBC made capital and income transfers from Optional to Basic to improve Basic capital levels and maintain the required Basic MCT ratio.

Combined Ratio

The combined ratio is a key measure of overall profitability from operations within the insurance industry determined as a ratio of all costs and expenses over premiums (excluding investment income). A ratio below 100% indicates an underwriting profit while a ratio above 100% indicates an underwriting loss. ICBC's combined ratio is typically higher than the industry average. This is partially due to the unique nature of our business model where premiums are not set to generate large underwriting profits and, together with investment income, are set to recover costs and to achieve and

maintain capital targets. ICBC also delivers non-insurance services on behalf of government and these costs are reflected in the combined ratio.

Investment Return

ICBC collects premiums, which are invested in alignment with ICBC's strategic asset mix to earn a return. Investment income is important and is used to reduce the cost of insurance to policyholders. ICBC evaluates its investment performance against a policy market benchmark, which is available at the year-end. ICBC sets an investment return target equal to the policy market benchmark return. ICBC will be reviewing its strategic asset mix in 2017/18 to ensure investments continue to generate a reasonable return while maintaining sufficient assets to pay ICBC's claims.

Goal 3: Deliver Operational Excellence

Providing customers with the best insurance coverage at the lowest possible cost requires us to operate the corporation in a low-cost manner. This means actively controlling spending, avoiding unnecessary costs and improving our ability to deliver a consistent, quality experience and value for our customers.

In 2014, ICBC introduced operating methodology to deliver Operational Excellence². ICBC continues to train and encourage its employees and is reviewing its business processes to find and remove operational inefficiencies, ensure processes add value for the end customer, and build internal capacity and capability for continuous improvement.

ICBC is committed to *continuously improving the business by leveraging operational excellence principles* and making improvements more effectively. In 2016, Operational Excellence tactics delivered benefits to the organization in the form of cost avoidance, revenue generation and operational efficiency. A key area has been *developing skills and processes that enable organizational flexibility to respond to a changing environment*. This includes streamlining processes in claims handling and implementing management practices that facilitate performance focus and problem solving, such as team huddles, root cause analysis and problem solving sessions. Some major achievements have been refreshing standards on how claims are handled, expediting the file assignment process and streaming document management.

Strategies

To have a focused operation and maintain excellence, ICBC has developed the following key strategies:

- Continuously improve the business by leveraging operational excellence principles
- Develop organizational flexibility to respond to a changing environment.

² Operational Excellence is a philosophy of leadership, teamwork and problem solving that focuses on customer needs, empowering employees and optimizing existing activities so that an organization may operate more efficiently and avoid unnecessary costs.

Performance Measure 3: Deliver Operational Excellence

The following measures will be used to evaluate the *deliver operational excellence* goal.

Performance Measures	2015 Actual	2016/17 Forecast	2017/18 Target	2018/19 Target	2019/20 Target
Loss Adjustment Ratio	17.1%	17.2%	16.2%	16.1%	16.0%
Insurance Expense Ratio	17.5%	17.4%	16.9%	16.5%	16.3%

Data Source: Financial performance measures are derived from actual financial information, forecasted trends and assumptions.

Discussion

To ensure that ICBC can effectively manage the higher frequency and complexity of claims, and reduce the number of pending claims, additional claims staffing is required. Other operating costs such as corporate support costs should be relatively stable regardless of claims volume and complexity. To better monitor and measure how ICBC is leveraging operational excellence to manage these trends, ICBC is replacing the previous performance measure of Gross Expenses (Insurance Business) per Policy with the following two measures: Loss Adjustment Ratio and Insurance Expense Ratio.

Loss Adjustment Ratio

The Loss Adjustment Ratio is the percentage of claims handling costs per dollar of claims paid. It is calculated as the sum of claims services costs, external expenses and loss management expenses divided by claims paid net of external expenses. Claims services costs consist of salaries, benefits and operating expenses while external expenses consist primarily of costs for outside legal counsel, medical and dental reports, private investigators, independent adjusters and towing services. Loss management expenses include ICBC’s SIU, which covers auto crime and fraud prevention, investigation and detection to help reduce claims costs. ICBC anticipates the Loss Adjustment Ratio to be stable or decreasing in the current environment of increasing crashes and bodily injury claims.

Insurance Expense Ratio

The Insurance Expense ratio is a standard industry measure to assess operational efficiency of an insurer. The Insurance Expense Ratio is calculated as a ratio of insurance operating expenses (excluding claims, claims-related costs, and non-insurance expenses) to insurance premium dollars earned. ICBC anticipates the Insurance Expense Ratio to be stable.

Goal 4: Align People and Business Capabilities

Critical to achieving the Corporate Strategy is having the right people with the right business capabilities in place so that we may provide more information, services and access for customers. We will continue to build our people capabilities through implementation of human resource initiatives and workforce plans, which will include leadership development, succession planning and various employee experience programs.

One of the key strategies within this goal is to *develop accountable, aligned, enabled and motivated leaders and employees*. ICBC’s Employee Opinion Survey captures employees’ opinions regarding the tools and processes through which they execute their work, their understanding of how their efforts align to the Corporate Strategy, their personal motivation and their individual accountability

for delivering business results. All ICBC employees are invited to participate in the full Employee Opinion Survey every two years. A full survey using ICBC’s updated employee opinion survey approach was conducted in the fall of 2016.

Another key strategy within this goal is to *leverage our people, technology, and practices to build business value*. In 2016, ICBC completed the final stage of its multi-year business transformation efforts, the Transformation Program, which has greatly modernized the business. The transformation has included the implementation of a new claims system and, a new insurance system which brings improvements to the way brokers serve customers by automating and streamlining a number of processes. It sets the stage for ongoing business enhancements in future years. It’s one of the largest and most complex system renewal initiatives to date.

As each major project of the Transformation Program has been implemented and stabilized, recurring annual savings have been realized and substantial ongoing cost savings are expected. ICBC’s goal is to continue to leverage new technology from the Transformation Program through increased use of digital and mobility services to enable delivery of new product offerings. With our new Claims system, all new claims files are electronic which allows customers to be helped by an adjuster anywhere in the province, no matter where they live.

Strategies

To improve business capabilities and better align people, we have developed the following strategies:

- Develop accountable, aligned, enabled, and motivated leaders and employees.
- Leverage our people, technology, and practices to build business value.

Performance Measure 4: Align People and Business Capabilities

The following measures will be used to evaluate our *aligned people and business capabilities* goal

Performance Measures	2015 Actual	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target ²
Employee Opinion Survey - Indices:					
• Aligned	76	78	For indices scoring <80 an increase of ≥ 3 pts over 2016/17 results. For indices scoring ≥80 maintain or increase score relative to 2016/17 results.	For indices scoring <80 an increase of ≥ 3 pts over 2017/18 results. For indices scoring ≥80 maintain or increase score relative to 2017/18 results.	For indices scoring <80 an increase of ≥ 3 pts over 2018/19 results. For indices scoring ≥80 maintain or increase score relative to 2018/19 results.
• Enabled	63	66			
• Motivated	59	64			
• Accountable	82	87			
• Leadership	n/a ¹	70			

Data Source: An independent firm is retained to conduct our survey of employees.

Score Legend: 80-100 = Extremely positive. 60-79 = Moderately positive. 40-59 = Moderately negative. 0-39 Extremely

negative.

¹ The Leadership index can only be updated in a full survey year.

² Pulse Check year. Targets may not be adjusted upward.

Discussion

Employee Opinion Survey

From 2014 to 2016 – the period covering the introduction of ICBC’s new employee opinion survey format (2014), the first Pulse Check (2015) and the second full survey (2016) – ICBC has seen an improvement in responses across all survey indices.

ICBC’s response rate to the 2016 survey was 77% (a 7% increase from 2014) and results indicated that ICBC reached or exceeded its index targets in four out of five indices and falling just two points short of the target in the fifth. Survey results indicate that ICBC employees largely understand where the organization is going and feel individually accountable for driving better results. The survey results further identify areas for improvement and indicate that ICBC can place greater attention on enabling employees through processes, training and tools. Motivation can be enhanced through creating a stronger sense of belonging. Programs like Diversity and Inclusion and leadership forums are examples of ways management is addressing this sense of belonging. ICBC aims to be recognized as a leader in Diversity and Inclusion in the B.C. public service. This includes leading practices such as Respectful Workplace training for managers, and support for voluntary, grassroots-driven Employee Resource Groups. These groups bring together employees with a shared background – such as Aboriginal employees, LGBTQ2+ people, persons with a disability, and women in leadership – and provide opportunities to develop professionally and personally.

In late January, ICBC leadership teams began reviewing 2016 survey results as a part of their annual business planning process and will be looking to continue the positive momentum generated from 2014 to today. Specific employee experience priorities and actions will be confirmed and shared back with employees by April 2017.

Financial Plan

\$ millions ¹	Summary of Financial Outlook				
	2015 Actual ²	2016/17 Forecast ³	2017/18 Budget	2018/19 Budget	2019/20 Budget
Premiums earned	4,448	6,082	5,298	5,645	5,988
Service fees and other	94	130	109	131	139
Total earned revenue	4,542	6,212	5,407	5,776	6,127
Provision for claims occurring in the current year	3,798	5,609	4,611	4,980	5,425
Independent review target	-	-	-	(140)	(280)
Changes in estimates for losses occurring in prior years	244	206	(19)	(15)	(18)
Net claims incurred	4,042	5,815	4,592	4,825	5,127
Claims services	271	371	339	344	350
Road safety & loss management services	50	62	55	55	56
Claims and claims related costs	4,363	6,248	4,986	5,224	5,533
Operating costs insurance	217	285	233	233	243
Transformation program	27	36	30	30	29
Premium taxes & commissions - insurance	601	781	654	709	802
Total expenses	5,208	7,350	5,903	6,196	6,607
Underwriting loss	(666)	(1,138)	(496)	(420)	(480)
Investment and Other Income	920	599	467	492	436
Income (loss) - insurance operations	254	(539)	(29)	72	(44)
Non-insurance operations					
Operating costs - non-insurance	100	127	100	100	101
Commissions - non-insurance	30	39	32	33	34
Other income - non-insurance	(7)	(8)	(17)	(36)	(36)
Loss - non-insurance operations	(123)	(158)	(115)	(97)	(99)
Net income /(loss)	131	(697)	(144)	(25)	(143)
Other comprehensive income					
Pension and post-retirement benefits remeasurements	(30)	124	-	-	-
Net change in available for sale financial assets and change in non controllable interest (NCI)	(433)	(17)	37	65	70
	(463)	107	37	65	70
Total comprehensive income (loss)	(332)	(590)	(107)	40	(73)
Total equity - beginning of year	3,616	3,146	2,556	2,449	2,489
Transfer of excess Optional capital to the Government of British Columbia	(138)	-	-	-	-
Total equity - end of year	3,146	2,556	2,449	2,489	2,416
Represented by:					
Retained earnings - end of year	3,372	2,675	2,531	2,506	2,363
Other components of equity	(262)	(131)	(94)	(29)	41
Non controlling interest	36	12	12	12	12
Total equity - end of year	3,146	2,556	2,449	2,489	2,416
Capital expenditures ⁴	94	82	60	40	40
Total liabilities	13,552	15,084	15,967	16,923	18,103

Notes

¹ Financial information for all years was prepared based on International Financial Reporting Standards (IFRS).

² 2015 Actual represents the period January 1, 2015 to December 31, 2015.

³ To align with the Government fiscal year, ICBC changed to a March 31 fiscal year end effective immediately after the end of the December 31, 2015 calendar year. Figures for 2016/17 reflect a transitional 15 month fiscal period starting January 1, 2016 and ending March 31, 2017. The 2016/17 forecast net loss on a government fiscal 12 month basis is \$396 million.

⁴ Major categories of capital expenditure include: facilities (land, building and leasehold), furniture and equipment, IT systems (computer equipment and software). Looking ahead, ICBC expects capital expenditures will change in the planning period as the company maintains or replaces aging infrastructure, including replacement or upgrade of facilities, and as critical business systems are renewed.

Key Forecast Assumptions

Financial forecasts take into consideration ICBC's plans to address the key strategic risks facing the organization and changes in the external environment. Typical of other property and casualty insurance companies, ICBC faces material risks in the execution of its strategy and conduct of operations. The Board of Directors, the Board Committees and the Executive Leadership Team review these material risks and also financial market risk, as part of their governance and oversight function. Within the next three years, ICBC will continue to address material risks. This includes continuing to evaluate and strengthen our information security system controls to protect against cybersecurity incidents (such as inappropriate access to systems or data and/or inappropriate disclosure of personal information) and continuing to leverage the use of our core operational systems as part of evolving our business model. Leadership development and succession planning also continues to support our business model. Finally, like other B.C. Crown corporations, ICBC will ensure we have the appropriate business continuity plans for earthquake preparedness should this crisis scenario materialize. Based on these plans, assumptions were developed (see below) and used to develop the financial forecasts on page 15.

- The summary financial outlook is based on the status quo business model and the company's expected investment in the renewal of existing systems.
- These results reflect the overall operations of the business, including Basic and Optional insurance and non-insurance activities and are prepared based on current legislative, regulatory, accounting and judicial frameworks.
- For the 2017/18 – 2019/20 period, rate changes are assumed for both the Basic and Optional insurance businesses. Any proposed changes to Basic insurance rates are subject to BCUC regulatory approval.
- Investment income, as shown, includes the expected interest, dividends, and other income and realized gains/losses from the investment portfolio.
- Claims incurred reflect current claims trends, vehicle population growth and inflation.
- Prior years' claims reflect changes in the discounted value of unpaid claims.
- 2016/17 forecast includes an estimate for the 2016/17 pension and post-retirement actuarial loss.
- The transfer of Optional capital to the Government of British Columbia, and the transfer of Optional income and capital to the Basic business, is based on legislation and/or regulation.
- Changes in unrealized gains and losses continue to impact Other Components of Equity in 2016/17 – 2019/20 until proposed changes in the accounting standard are in effect.
- The amount of Driver Penalty Point premiums and/or Driver Risk Premiums included in the summary outlook is based on current estimates.

- Fiscal 2018/19 and 2019/20 include a claims cost savings target on account of the upcoming comprehensive independent review.

Sensitivities Analysis

Premiums

- 1% fluctuation means \$49 - \$60 million in net premiums (Basic and Optional combined).

Claims

- 1% fluctuation means \$45 - \$51 million in claims costs.
- 1% fluctuation in the unpaid claims balance means \$91 - \$126 million in claims costs.
- 1% fluctuation in the rate used to discount claims means approximately \$250 - \$260 million in claims costs.

Investments

- 1% fluctuation in return means \$148 - \$182 million in investment income.
- 1% change in investment balance means \$4 - \$6 million in investment income.
- 10% change in US exchange rate is equivalent to approximately \$38 million in investment income.
- 1% change in interest rate would result in a change of approximately \$339 million in the fair value in the corporations fixed income portfolio and a corresponding impact of \$339 million to Other Comprehensive Income (OCI).
- A 10% change in equity prices would result in an estimated corresponding change to OCI of approximately \$246 million.

Market Share

- 1% change in market share represents a \$6 - \$8 million impact on net income.

Pension

- 1% change in discount rate represents approximately \$430 million impact to the defined benefit obligation
- 1% change in discount rate represents approximately \$34 million impact to pension expense.

Management Perspective on Future Financial Outlook

To align with the Government fiscal year, ICBC changed to a March 31 fiscal year end effective immediately after the end of the December 31, 2015 calendar year. Figures for 2016/17 reflect a transitional 15 month fiscal period starting January 1, 2016 and ending March 31, 2017. Outlooks for 2017/18 to 2019/20 reflect the new 12 month, April 1 to March 31 fiscal year.

The net loss for the 15 month transitional period of January 1, 2016 to March 31, 2017 (ICBC's 2016/17) is forecast to be \$697 million, as compared to ICBC's 2015 net income of \$131 million for the 12 month period January 1, 2016 to December 31, 2016. The net loss for the government fiscal year of April 1 to March 31 is forecast to be \$396 million for 2016/17 as compared to a net loss of \$293 million for 2015/16. The net loss is primarily due to higher claims costs. Higher claims costs are driven by an increase in crash frequency, including an increase in claims per crash, and the average cost of material damage (higher labour and material costs). There has also been a greater frequency of bodily injury claims and a shift within legally represented claims towards a greater proportion of complex claims, which have higher associated claims costs. These observed trends are expected to continue and impact the forecast period.

ICBC continues ongoing efforts to identify and moderate the drivers of higher claims costs within its control. ICBC, with the support of government staff, continues developing and implementing short and long-term strategies to help moderate increases in claims costs and the impact of higher claims costs on future Basic insurance rates. ICBC's initiatives emphasize continuous operational improvement and consistent quality and fair handling of claims. ICBC is focused on reducing the increase to claims costs by managing higher claims volumes and reducing the amount of claims pending. This will be done by increasing the overall complement of claims and claims-related staff to address pending bodily injury and represented claims files, improved management of procurement processes and initiatives to combat exaggerated and fraudulent claims.

The budgets for 2017/18– 2019/20 reflect current expectations of claims costs trends and investment market conditions. As a result of these observations, claims costs are expected to be higher than in previous years based on longer term claims cost trends. As bodily injury continues to be the major driver of claims cost increases, there are a number of additional observed emerging trends, as identified above that are factoring into the claims forecast. Additional cost pressure from the shift to a greater proportion of complex represented bodily injury claims has been largely offset by ICBC's management initiatives including the increased complement of claims staff, resulting in a similar forecast for future cost per bodily injury claim as in previous forecasts. However, there has been an increase in the number of crashes resulting in both higher bodily injury and material damage claims frequency and costs. To provide some offset to the higher claims costs, the aforementioned claims strategies and initiative impacts have been built into the claims forecast. As well, budgets for 2018/19 and 2019/20 include a claims costs savings target on account of the comprehensive independent review. While material damage cost pressures are not as large as bodily injury cost pressures, they are rising and still impacting overall claims costs.

Capital Plan and Major Projects

Major Capital Projects ¹ \$ millions	Targeted Completion Date (Year)	Projected Cost to Dec 31, 2016	Estimated Cost to Complete	Approved Anticipated Total Cost of Project (\$millions)
<u>Transformation Program (TP)</u> ICBC's modernization of the company through the Transformation Program was a multi-year program. The final phase of the project, the Insurance Sales and Administration System project - the new policy administration, vehicle licensing and registration system for brokers - was implemented in 2016.	2016	\$385	\$0	\$385

This table reflects projects with capital expenditures over \$50 million. The capital expenditures in this table are a subset of the capital expenditures reported in the Summary Financial Outlook on page 15. Also note the Transformation Program figure of \$385 million reflects the total project costs (capital and expense). Total capital was \$301 million and total expense was \$84 million. In 2010, through Order in Council 222/2010, the Minister of Public Safety and Solicitor General, approved a \$400 million budget for the Transformation Program. ICBC delivered this program on time and under budget.

Appendices

Appendix A: Hyperlinks to Additional Information

Organizational Overview

For an organizational overview of ICBC, please visit our website at www.icbc.com/about-icbc.

Corporate Governance

ICBC's governance is defined through legislation applicable to all Crown corporations, and legislation specific to the company itself.

The Board of Directors guides ICBC in fulfilling its mandate and sets our corporate direction. The Board, with input from the Executive Team, approves our vision and values that guide us, and the goals and strategies upon which accountability and performance are evaluated. Information on the role and membership of the Board members and Board committees is available on our website, www.icbc.com/about-icbc/company-info/Pages/Corporate-governance.aspx. Also available via this link is information regarding ICBC's Executive Committee and Governance Principles.

ICBC's Board complies with the *Board Resourcing and Development Office Guidelines* (<http://www.brdo.gov.bc.ca/governance/corporateguidelines.pdf>).

Appendix B: Subsidiaries and Operating Segments

Operating Subsidiaries

A portion of ICBC's investment portfolio is held in real estate. ICBC holds all but one of its investment properties in fully-owned nominee holding companies. ICBC does not have any active operating subsidiary companies.

Operating Segments

Summary Financial Outlook Table

Operating Costs by Nature \$ millions	2015 ¹ Actual	2016/17 Forecast ²	2017/18 Budget ³	2018/19 Budget ³	2019/20 Budget ³
Premium taxes and commissions expense	564	775	666	702	742
Premium deficiency adjustments (DPAC)	67	45	20	40	94
Compensation and other employee benefits	346	463	419	762	780
Pension and post-retirement benefits	77	104	82		
Professional and other services	41	52	39		
Road improvements and other traffic safety programs	33	41	34		
Building operating expenses	28	34	28		
Merchant and bank fees	37	48	43		
Office supplies and postage	20	26	20		
Computer costs	26	36	28		
Depreciation and amortization	37	51	53		
Other expenses (recoveries/income)	20	26	11		
Total operating costs before additional items	1,296	1,701	1,443	1,504	1,616
Non-recurring expenses – restructuring costs	-	-	-	-	-
Total operating costs	1,296	1,701	1,443	1,504	1,616

Notes:

¹ 2015 Actual is on a calendar year basis (12 months January 1 to December 31)

² 2016/17 Forecast is on a 15 month basis (January 1, 2016 to March 31, 2017)

³ Budget is on a new fiscal year basis (12 months April 1 to March 31). Operating cost targets are not planned in detail beyond the current year.

Appendix C: Corporate Strategy Summary

Goals	Strategies	Measures	Forecast	Targets		
			2016/17	2017/18	2018/19	2019/20
Deliver Value and Service for Customers	<ul style="list-style-type: none"> Keep rates as low as possible while ensuring fairness in pricing. Design and deliver quality products and services in ways that meet customer and business needs. Reduce injury and death on B.C. roads. Work with our partners and shareholder to support government priorities 	Insurance Services Satisfaction	95%	n/a ¹	n/a ¹	n/a ¹
		Driver Licensing Satisfaction	94%	n/a ¹	n/a ¹	n/a ¹
		Claims Service Satisfaction	87%	n/a ¹	n/a ¹	n/a ¹
Maintain Financial Stability	<ul style="list-style-type: none"> Operate the corporation in a low-cost manner Manage increasing bodily injury and material damage claims costs. Balance risk and return within our investment portfolio. 	Minimal Capital Test (MCT)	116%	TBD ²	TBD ²	TBD ²
		Combined Ratio	123.6%	113.9%	112.1%	112.6%
		Investment Return	policy market benchmark return	policy market benchmark return	policy market benchmark return	policy market benchmark return
Deliver Operational Excellence	<ul style="list-style-type: none"> Continuously improve the business by leveraging operational excellence principles Develop organizational flexibility to respond to a changing environment. 	Loss Adjustment Ratio	17.2%	16.2%	16.1%	16.0%
		Insurance Expense Ratio	17.4%	16.9%	16.5%	16.3%

Align People and Business Capabilities	<ul style="list-style-type: none"> Develop accountable, aligned, enabled and motivated leaders and employees Leverage our people, technology, and practices to build business value. 	<p>Employee Opinion Survey Indices:</p> <ul style="list-style-type: none"> Aligned Enabled Motivated Accountable Leadership 	<ul style="list-style-type: none"> 78 66 64 87 70 	<p>For indices scoring <80 an increase of ≥ 3 pts over 2016/17 results.</p> <p>For indices scoring ≥ 80 maintain or increase score relative to 2016/17 results.</p>	<p>For indices scoring <80 an increase of ≥ 3 pts over 2017/18 results</p> <p>For indices scoring ≥ 80 maintain or increase score relative to 2017/18 results.</p>	<p>For indices scoring <80 an increase of ≥ 3 pts over 2018/19 results</p> <p>For indices scoring ≥ 80 maintain or increase score relative to 2018/19 results</p>
--	--	--	--	--	---	--

Notes

¹ Customer measures will be undergoing a planned refresh prior to fiscal 2018/19, which will include new performance measures. No targets have been set at this time.

² Corporate MCT ratio is comprised of two components being the combined total of ICBC's Basic and Optional insurance business target MCTs. In light of the current claims trends and the upcoming comprehensive independent review, Corporate MCT targets for 2017/18 to 2019/20 are subject to review.