

Insurance Corporation of British Columbia

2015/16 – 2017/18 SERVICE PLAN





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

Accountability Statement

On behalf of the Board of Directors, the Executive Team and employees, I am pleased to submit ICBC's 2015 – 2017 Service Plan. This Service Plan was prepared under the direction of the ICBC Board of Directors 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, as well as with ICBC's mandate, vision and goals. The ICBC Board of Directors and management are accountable for the contents of the plan, including what has been included in the plan and how it will be reported.

All significant assumptions, policy decisions, events and identified risks, as of January 22, 2015, have been considered in preparing the plan. The performance measures presented are consistent with ICBC's mandate and goals, and focus on aspects critical to our performance. The targets in this plan have been determined on an assessment of ICBC's operating environment, forecast conditions, risk assessment and performance.



Walter Gray

Chair, ICBC Board of Directors

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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 BC motorists. Our Basic rates are regulated by the British Columbia Utilities Commission ([BCUC](#)), an independent regulator. The BCUC approves our Basic insurance rates and ensures our Basic product is adequate, efficient and reasonable. As well, 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 the Ministry of Transportation and Infrastructure (the Ministry) and ICBC. We also implement road safety initiatives to reduce crashes and losses on B.C. roads and to assist in managing claims costs. We work closely with the Ministry to ensure financial targets and reporting requirements are met. Additional specific priority actions are provided in the [2015/16 ICBC Mandate Letter](#).

We are committed to providing customers with the best insurance coverage at the lowest possible cost. To support this our Corporate Strategy focuses on four key goals: Improve Value and Service for Customers, Maintain Financial Stability, Focused Operational Excellence and Aligned People and Business Capabilities. In alignment with government direction, ICBC has embedded the [Taxpayer Accountability Principles](#) into our Corporate Strategy. Our 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, or vehicle owner, may be taken to court for the full amount 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 other jurisdictions that operate under different auto insurance systems.

There are a number of risks in our operating environment that could impact our future performance and our ability to execute our Corporate Strategy. Rising bodily injury claims costs continue to be a key risk for auto insurers, putting pressure on rates for customers. Managing these costs is critical to offering our customers the best insurance coverage for the lowest possible cost. Please refer to the *Maintain Financial Stability* section of this document for more information.

Natural catastrophes, volatility in investment markets and global economic uncertainty also continue to be risks to the Property and Casualty industry. Historically low interest rates are also influencing insurance companies, including ICBC, to depend less on investment income and shift more of it's investment portfolio to safer fixed income investments.

Performance Plan

Goals, Strategies, Measures and Targets

This section sets out ICBC's goals, strategies, performance measures and targets for 2015 – 2017. The four goals (previously called objectives) are unchanged from the 2014 – 2016 Service Plan.

In alignment with the Taxpayer Accountability Principles, an updated [Code of Conduct](#) has been approved and accepted by the Board of Directors. ICBC continues to work with the Ministry to develop an evaluation plan to measure the organization's performance against the Taxpayer Accountability Principles, as well as on a strategic engagement plan to ensure accountability for the outcomes and measurements identified.

Goal 1: Improve Value and Service for Customers

ICBC's Corporate Strategy is focused on being a low-cost and operationally excellent company that provides value to our customers by keeping rates as low as possible and delivering consistent quality service. This goal is critical to our strategy and also aligns to the Taxpayer Accountability Principles of cost consciousness and service.

Improving Value

A key part of improving value to our customers is to keep rates as low as possible while moderating rate fluctuations. Escalating claims costs are putting direct pressure on ICBC's Basic rates. Rate changes are important to our customers and ICBC has been focused on smoothing out rate increases and looking for ways to help stem increasing claims costs so that we can continue to provide the lowest possible rates to our customers.

Over the last few years, increases in legal representation have added pressure to claims costs and ultimately rate increases. Going forward, the use of smartphones will continue to be a challenge for auto insurers across North America, including ICBC. Distracted driving is now one of the leading causes of fatal crashes in B.C. with an average of 88 deaths per year. We will continue to partner with law enforcement to raise awareness about the risks, consequences and choices regarding high-risk driving behaviours, such as distracted driving, to reduce injury and death on B.C. roads.

ICBC implemented a new rate-smoothing framework in 2013 that helps prevent year-to-year volatility in insurance rates. Under this framework, changes to Basic insurance rates are limited to within plus-or-minus 1.5 percentage points of the prior year's rate change. Our cost containment strategies and the rate-smoothing framework have shifted the Basic rate cost trend and will continue to stabilize rates for our customers.

Improving Service

Improving service for customers is also a focus. In 2014, we implemented a new Claims system and business model that will help **improve the quality, consistency and timeliness of claims handling**. This model positions ICBC to further build on our strategy to increase online and mobility services for our customers. **Increasing online and mobility services** will help reduce costs and enable the organization to operate more efficiently by increasing capacity among customer facing staff for high-value interactions with customers.

As a key objective ICBC will continue to have a presence in communities by providing necessary services in all regions through our facilities, and through our partners that include body shops, brokers and offices that offer driver licensing services. ICBC is also strongly committed to making investments in road safety to improve the safety of all communities.

Strategies

In order to improve value and service for customers, ICBC has developed the following key strategies:

- Keep rates as low as possible while moderating rate fluctuations.
- Improve quality, consistency and timeliness of claims handling.
- Increase online and mobility services.

Performance Measures and Targets

Maintaining our current high levels of customer satisfaction is how we measure whether we are 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.

Performance Measures	2013 Actual	2014 Forecast	2015 Target	2016 Target	2017 Target
Insurance Services Satisfaction	96%	96%	≥95%	≥95%	≥95%
Driver Licensing Satisfaction	94%	94%	≥95%	≥95%	≥95%
Claims Service Satisfaction	89%	87% ¹	≥90%	≥91%	≥91%

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

¹ Claims Service Satisfaction 2014 forecast is the April 2014 year-to-date score.

Discussion

ICBC will endeavour to meet or exceed these strong service standards for its Insurance Services, Driver Licensing and Claims Service to ensure customers are receiving positive experiences while interacting with ICBC.

Insurance Services Satisfaction

Independent insurance brokers process over 3 million policies each year. The insurance services satisfaction measure is based on surveys of approximately 100,000 customers over the course of a year.

Driver Licensing Satisfaction

Each year, ICBC conducts approximately 1.5 million transactions relating to the issuance of driver licenses 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. The Claims service satisfaction measure is typically drawn from a sample of over 12,000 customers surveyed throughout the year. However in 2014, the number of customer's interviewed was just over 7,000; lower than previous years due to new reporting solutions not yet online. Traditional survey levels should resume in 2015/2016.

Goal 2: Maintain Financial Stability

ICBC's approach to business is driven by creating value for customers by operating in a disciplined and focused manner. In this three-year Service Plan period, ICBC will strive to be a low-cost operation focusing on accountability, operational excellence and continued spending control.

We will continue our ongoing efforts to *manage increasing bodily injury claims costs*, which are up by about \$600 million from 2009 to 2014. Current and future initiatives include implementing a new claims model, changing processes to manage legal representation trends and working with government to support its new penalties for distracted driving, as well as implementing a new distracted driving campaign to reduce the frequency of crashes.

The two elements that have an impact on claims costs are bodily injury *severity* trends (the average pay-out for an injury claim) and bodily injury *frequency* (how many bodily injury claims are made each year). The increase in *severity* is largely being driven by the escalation of legal representation and higher than inflationary costs. ICBC will continue to address this trend in 2015 – 2017 by being diligent in addressing customers' needs as early as possible and offering fair settlements on a timely basis while managing claims costs. The new processes and claims system will provide staff with the tools and ability to consistently manage claims and related costs and moderate severity trends as much as possible. The *frequency* of bodily injury claims is being monitored closely. ICBC is assuming that it will resume a slight downward trend after three years of trending flat; however, only at half of the downward trend rate that existed prior to the mass adoption of smart phones that began in 2009.

ICBC will continue to hold controllable operating expenses flat and to 2013 levels with inflationary increases fully absorbed through 2017. We will achieve this through continuing prudent management of administration costs, realizing efficiencies from Transformation Program¹ investments and continuing to embed operational excellence principles throughout the organization to further improve and simplify business processes.

Strategies

ICBC will continue its focus on managing the costs of bodily injury, fine-tuning our claims business model and developing ways to better manage and reduce the risks/costs associated with claims, such as focused claims analytics, performance management and hassle-free process initiatives. This is represented in the following strategy:

- Manage increasing bodily injury claims costs.

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

Performance Measures and Targets

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

Performance Measures	2013 Actual	2014 Forecast	2015 Target	2016 Target	2017 Target
Minimum Capital Test (MCT) ¹	204%	193%	185%	187%	190%
Combined Ratio ²	109.2%	113.8%	107.1%	106.5%	106.5%
Investment Return (Market Return)	Benchmark +0.34%	policy market benchmark return	policy market benchmark return	policy market benchmark return	policy market benchmark return

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

¹ MCT targets for 2015 to 2017 are estimated based on a revised Optional MCT target and the phase-in requirement in transitioning to the new MCT Guidelines, effective January 1, 2015.

² Combined ratios for 2014 to 2017 reflect the revenue and expense reclassification. The Combined ratio for 2014, before restatement is 113.3%.

Discussion

Minimum Capital Test (MCT)

MCT is a property and casualty industry measurement set by the Office of the Superintendent of Financial Institutions. 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. [Special Direction IC2](#) requires ICBC to have a minimum of 100% MCT for basic insurance. ICBC's corporate management target is now 185% for both basic and optional insurance, which provides an amount above the minimum requirement to cope with volatility in investment markets, unexpected changes in claims trends and changes in other economic conditions. ICBC management targets are expected to be reviewed in 2015 and therefore are subject to change.

Combined Ratio

The combined ratio is a key measure of overall profitability from operations within the insurance industry determined as a ratio of 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 but, 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 to earn investment income until claims are paid. Investment income is important to reduce the cost of insurance to policyholders. ICBC evaluates its performance for investment returns compared to the policy market benchmark return, which is available at the year-end reporting period. ICBC sets an investment return target of the policy market benchmark return net of fees and operating expenses. For more information on investment management please refer to the [Insurance Companies Act Section 942](#).

Goal 3: Focused Operational Excellence

Providing customers with the best insurance coverage at the lowest possible cost requires us to ensure that we *operate the corporation in a low-cost manner*, in the most efficient way possible, while continuously improving our business practices.

To help leverage our Transformation Program investments and simplify business processes, ICBC has introduced a new operating methodology to support achievement of focused operational excellence. The program’s methodology and tools will build more internal capacity and guide our employees in identifying and implementing simpler ways to do things to improve customer service. Since its launch in February 2014, more than 470 managers and employees have participated in introductory training. The program has reviewed nine business processes and delivered improvements that have increased productivity and service to customers. For example, improvements made in the handling of insurance-related customer inquiries have cut the response time in half. This has enabled ICBC to handle more queries without requiring any additional staff.

We will also continue to use the Operational Excellence program’s methodology and tools to *increase capacity through targeted business improvements* and either improve service or contribute to operational savings. As the program matures, we will shift focus in 2015 to larger scale business processes that will help us to continuously improve the quality, consistency and timeliness of our business.

Strategies

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

- Operate the corporation in a low-cost manner.
- Focus our ability to make continuous business improvements more efficiently.

Performance Measures and Targets

The following measure will be used to evaluate the performance of our *focused operational excellence* goal.

Performance Measures	2013 Actual	2014 Forecast	2014 Forecast Restated ²	2015 Target ²	2016 Target	2017 Target
Gross Expenses (Insurance Business) per Policy ¹	\$339	\$344	\$349	\$354	n/a	n/a

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

¹ Operating cost targets are not planned in detail beyond the current year.

² 2014 and 2015 reflect the revenue and expense reclassifications.

Discussion

Gross Expenses (Insurance Business) per Policy measures the average cost per policy to run ICBC’s insurance business. The measure is calculated as costs divided by number of Basic policies. Gross expenses include costs to service claims (staffing and external costs), administrative costs, commissions paid to brokers, premium taxes, our investment in new systems and processes and

investment portfolio management fees. It excludes costs incurred by ICBC to deliver non-insurance services.

Goal 4: Aligned People and Business Capabilities

Critical to achieving the Corporate Strategy is having the right people with the required business capabilities in place. ICBC's employees are key to delivering value and service to our customers. We will continue to build our people capabilities through implementation of human resource initiatives, which will also include leadership development and succession planning.

One of the key strategies within this goal is to *develop accountable, aligned, enabled and motivated leaders and employees*. This strategy was used to develop ICBC's new approach to employee opinion measurement.

Beginning in 2014, ICBC's new *employee opinion survey* captures employees' opinions regarding how their work environment supports the delivery of our Corporate Strategy and replaces the single "engagement" score used previously. The employee opinion survey results tell us how employees are enabled and inspired to give their best at work and allows better insights for practical actions to be taken by employees and leaders at all organizational levels.

A "pulse check" will be completed in September 2015 with a representative group of employees (20%) versus a full survey. A full survey will be conducted again in September 2016.

Another key strategy within this goal is to *ensure we are getting business value from our investments in technology*. ICBC is managing a major business renewal program (Transformation Program) to replace aging technology and put the right systems and business processes in place to support the services customers expect and to deliver on future financial savings. Investments in new core systems and foundational capabilities will help ICBC provide better customer service, settle claims faster, mitigate future rate changes and lower operating costs.

To date, a majority of the Transformation Program projects have been completed, including a new rating engine to calculate customers' insurance premiums and a modern integrated Claims management system to enable efficient and consistent claims handling. A realistic and achievable plan is in place to deliver the remaining Transformation Program projects including implementing a new policy administration system to modernize how ICBC sells and services Autoplan insurance through our broker distribution network. This significant, complex project is a corporate priority for the 2015 - 2017 period and the organization is focused on ensuring successful implementation.

ICBC will also *continue to work with the Ministry to support government's non-insurance priorities*. As well, we are fully engaged in adopting the new Taxpayer Accountability Principles.

Strategies

In order to improve our business capabilities and align people better, ICBC has developed the following strategies:

- Develop accountable, aligned, enabled, and motivated leaders and employees.
- Leverage business value from technology investments.
- Align with our shareholder to support government priorities.

Performance Measures and Targets

The following measure will be used to evaluate the performance of our *aligned people and business capabilities* goal.

Performance Measures	2013 Actual	2014 Forecast	2015 Target	2016 Target	2017 Target
Employee Engagement	34%	n/a	n/a	n/a	n/a
Employee Opinion Survey - Indices:			Indices ≤79 to increase a minimum of 3 points	Indices ≤79 to increase a minimum of 3 points	Indices ≤79 to increase a minimum of 3 points
<ul style="list-style-type: none"> • Aligned • Enabled • Motivated • Accountable • Leadership 	<ul style="list-style-type: none"> • n/a • n/a • n/a • n/a • n/a 	<ul style="list-style-type: none"> • 77 • 63 • 60 • 87 • 67 	Indices ≥80 to maintain ≥80 or increase	Indices ≥80 to maintain ≥80 or increase	Indices ≥80 to maintain ≥80 or increase
Support government non-insurance priorities ¹	n/a	100% ²	100%	n/a	n/a

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

¹ Targets are not set beyond the current year.

² As identified in the 2014 Government's Letter of Expectation.

Discussion

Employee Opinion Survey

The employee opinion survey was provided to all ICBC employees (excluding contractors).

2015 Government Non-insurance Priorities The goal for 2015 is to continuously strive for completion for the non-insurance priorities referenced in the [2015 Mandate Letter](#).

Financial Plan

Summary Financial Outlook

\$ millions ¹	2014					
	2013 Actual	2014 Forecast	Forecast Restated ²	2015 Budget ²	2016 Budget ²	2017 Budget ²
Premiums earned	\$3,928	\$4,128	\$4,159	\$4,371	\$4,532	\$4,671
Service fees and other	56	59	87	91	91	94
Total earned revenue	3,984	4,187	4,246	4,462	4,623	4,765
Provision for claims occurring in the current year	3,167	3,379	3,379	3,454	3,559	3,685
Changes in estimates for losses occurring in prior years	(54)	181	181	(8)	(9)	(11)
Net claims incurred	3,113	3,560	3,560	3,446	3,550	3,674
Claims services	270	283	283	285	278	271
Road safety & loss management services	51	51	51	52	53	53
Claims and claims related costs	3,434	3,894	3,894	3,783	3,881	3,998
Operating costs insurance	167	170	219	226	232	238
Transformation program	29	24	24	29	29	27
Premium taxes & commissions - insurance	541	468	468	508	546	575
Total expenses	4,171	4,556	4,605	4,546	4,688	4,838
Underwriting loss	(187)	(369)	(359)	(84)	(65)	(73)
Investment income	671	863	853	425	428	443
Restructuring	(3)	-	-	-	-	-
Income – insurance operations	487	494	494	341	363	370
Non-insurance operations						
Operating costs – non-insurance	92	93	98	106	106	107
Commissions – non-insurance	27	28	28	30	31	32
Other income – non-insurance	-	-	(5)	(5)	(5)	(6)
Loss – non-insurance operations	119	121	121	131	132	133
Net income	\$368	\$373	\$373	\$210	\$231	\$237
Other comprehensive income						
Pension and post-retirement benefits remeasurements	22	(81)	(81)	-	-	-
Net change in available for sale financial assets	243	(179)	(179)	6	17	24
	265	(260)	(260)	6	17	24
Total comprehensive income	\$633	\$113	\$113	\$216	\$248	\$261
Total equity – beginning of year	3,247	3,643	3,643	3,626	3,682	3,770
Transfer of excess Optional capital to the Government of British Columbia	(237)	(130)	(130)	(160)	(160)	(160)
Total equity – end of year	\$3,643	\$3,626	\$3,626	\$3,682	\$3,770	\$3,871
Represented by:						
Retained earnings – end of year	\$3,146	\$3,389	\$3,389	\$3,439	\$3,510	\$3,587
Other components of equity	497	237	237	243	260	284
Total equity – end of year	\$3,643	\$3,626	\$3,626	\$3,682	\$3,770	\$3,871
Capital expenditures³	\$79	\$81	\$81	\$115	\$50	\$40
Total liabilities	\$11,507	\$12,294	\$12,294	\$12,850	\$13,345	\$13,868

Notes

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

² To conform with IFRS presentation for the financial statements in 2015 and beyond, miscellaneous revenues and recoveries previously netted in operating costs and costs previously netted in revenues have been reclassified to the appropriate revenue and expense categories respectively. The reclassification has no impact on net income. On a comparative basis, controllable operating costs are being maintained at the same level for the 2013 (plan) to 2017 period. For comparative purposes, the 2014 forecast has also been restated.

³ 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 issues and risks facing the organization and changes in the external environment. Typical of other property and casualty insurance companies, ICBC has both financial and non-financial risks. Within the next three years, to address specific material corporate risks including strengthening 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, will continue to remain a focus; along with the renewal of our core operational systems as part of our evolving business model. Leadership development and succession planning also continues to support our business model. Finally, like other B.C. Crown corporations, in response to the Auditor General report, ICBC will ensure we have the appropriate business continuity plans for earthquake preparedness should this crisis scenario materialize in the near future. Based on these plans, assumptions were developed (see below) and used to develop the financial forecasts on page 13.

- 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.
- For the 2015 - 2017 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.
- The plan reflects the change to the statutory discount rates used in calculating the present value of future claims damages included in the *Law and Equity Act* of B.C.
- 2014 forecast includes the 2014 pension and post-retirement actuarial loss, primarily due to the decrease in the discount rate from the prior year-end.
- The transfer of excess Optional capital to the Government of British Columbia is the amount of Optional capital in excess of the management target MCT, and the estimated costs for the total

Transformation Program and any other deductions as approved by Treasury Board. For the year 2014, the estimated transfer to government is \$130 million.

- Changes in unrealized gains and losses continue to impact Other Components of Equity (OCE) in 2015 - 2017 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.

Sensitivities Analysis

Premiums

- 1% fluctuation means \$41- \$47 million in net premiums.

Claims

- 1% fluctuation means \$34 - \$37 million in claims costs.
- 1% fluctuation in the unpaid claims balance means \$75 - \$94 million in claims costs.
- 1% fluctuation in the rate used to discount claims means about \$195 million in claims costs.

Investments

- 1% fluctuation in return means \$135 - \$157 million in investment income.
- 1% change in investment balance means \$4 - \$5 million in investment income.

Market Share

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

Management Perspective on Future Financial Outlook

The net income for 2014 forecast is \$373 million, as compared to the 2013 actual of \$368 million. The increase in net income is primarily due to higher premiums earned, investment income, and favourable deferred premium acquisition cost adjustment, partially offset by higher claims costs.

The budgets for 2015 - 2017 are based on ICBC's status quo business model and 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 previous years based on longer term claims cost trends. Bodily injury (BI) severity is the major driver of claims cost increases. The BI severity trend has moderated from a historical trend of 5.7% to a little over 5% due to the ongoing focus of managing the bodily injury costs and the mix of claims. The frequency of bodily injury claims is being monitored closely and appears to be resuming to a slight downward trend after three years of flattening. ICBC expects some benefits from the distracted driver campaign and new penalties for distracted driving.

Investment income will be challenged by low interest rates. Over the last several years, investment income has been negatively impacted by interest rates at historically low levels. For the foreseeable future, these market dynamics are not expected to change and, as a result, ICBC's investment returns cannot be relied upon to the same extent as in the past. ICBC will continue to monitor investment markets to maximize returns from its investment portfolio.

Capital expenditures, primarily consisting of Transformation Program costs and the ongoing renewal of information technology and facilities, will change in the planning period. Operating expenses in 2015 reflect management's continued focus on cost containment, application of tight discretionary spending policies and reduced staffing. ICBC also expects efficiencies to materialize from the Transformation program, which have been incorporated into the budgets. Premiums earned will be impacted by changes in Basic insurance rates, which are subject to regulatory approval. For the purpose of this summary outlook, rate changes are assumed for both the Basic and Optional insurance businesses.

Capital Plan and Major Projects

Capital Expenditure by Year and Type

Major Capital Projects ¹ \$ millions	Cumulative Prior Years Actual	2014 Forecast	2015 Budget	2016 Budget	Projected Cost to Complete	Total Project Cost
Transformation Program	\$166	\$50	\$55	-	-	\$271

Notes

¹ 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 13.

Transformation Program

ICBC is committed to the modernization of the company through the Transformation Program, which includes the replacement of our aging technology and helps put the right systems and business processes in place to support the services customers expect, and to deliver on future financial savings. ICBC is in the seventh year of this eight-year program and has completed most of the projects. The largest of these remaining projects is the Insurance Sales and Administration Strategy (ISAS), which is the new point of sales system for brokers.

To mitigate any risks associated with not completing the Transformation Program, a comprehensive governance model with a strict approval process is in place that provides oversight on scope, timelines, and budget. ICBC's internal and external oversight bodies (for example, Board of Directors, Executive Committee, a third party independent risk advisor to the Board) ensure decisions align to corporate strategy to support the business transformation underway and other corporate projects.

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	2013 ² Actual	2014 Forecast	2014 Forecast Restated	2015 Budget	2016 Budget ¹	2017 Budget ¹
Premium taxes and commissions expense	\$515	\$532	\$532	\$556	\$574	\$592
Premium deficiency adjustments (DPAC)	53	(36)	(36)	(18)	3	15
Compensation and other employee benefits	370	375	375	372	698	696
Pension and post-retirement benefits	64	58	58	76		
Professional and other services	39	45	45	43		
Road improvements and other traffic safety programs	32	32	32	33		
Building operating expenses	32	30	30	28		
Merchant and bank fees	n/a	n/a	34	34		
Office supplies and postage	19	21	21	20		
Computer costs	24	31	31	27		
Depreciation and amortization	29	37	37	39		
Other expenses (recoveries/income)	-	(8)	12	26		
Total operating costs before additional items	1,177	1,117	1,171	1,236	1,275	1,303
Non-recurring expenses – restructuring costs	(3)	-	-	-	-	-
Total operating costs	\$1,174	\$1,117	\$1,171	\$1,236	\$1,275	\$1,303

Notes

¹ Operating cost targets are not planned in detail beyond the current year.

² In both tables on this page, 2013 Actual costs are not restated for the revenue and expense reclassifications. 2014 and later years include the revenue and expense reclassifications.

Appendix C: Corporate Strategy Summary

Goals	Strategies	Measures	Forecast	Targets		
			2014	2015	2016	2017
Improve Value and Service for Customers	<ul style="list-style-type: none"> Keep rates as low as possible while moderating rate fluctuations Improve quality, consistency and timeliness of claims handling Increase online and mobility services 	Insurance Services Satisfaction	96%	≥95%	≥95%	≥95%
		Driver Licensing Satisfaction	94%	≥95%	≥95%	≥95%
		Claims Service Satisfaction	87% ¹	≥90%	≥91%	≥91%
Maintain Financial Stability	<ul style="list-style-type: none"> Manage increasing bodily injury claims costs 	Minimal Capital Test (MCT) ²	193%	185%	187%	190%
		Combined Ratio ³	113.8%	107.1%	106.5%	106.5%
		Investment Return	benchmark +0.34%	policy market benchmark return	policy market benchmark return	policy market benchmark return
Focused Operational Excellence	<ul style="list-style-type: none"> Operate the corporation in a low-cost manner Focus our ability to make continuous business improvements more efficiently 	Gross Expenses (Insurance Business) per Policy ^{3,4}	\$349	\$354	n/a	n/a
Aligned People and Business Capabilities	<ul style="list-style-type: none"> Develop accountable, aligned, enabled and motivated leaders and employees Leverage business value from technology investments Align with our shareholder to support government priorities 	Employee Opinion Survey Indices: <ul style="list-style-type: none"> Aligned Enabled Motivated Accountable Leadership 	<ul style="list-style-type: none"> 77 63 60 87 67 	Indices ≤79 to increase a minimum of 3 points	Indices ≤79 to increase a minimum of 3 points	Indices ≤79 to increase a minimum of 3 points
		Support government non-insurance priorities ⁴	100%	100%	n/a	n/a

Notes

¹ Claims Service Satisfaction 2014 forecast is the April 2014 year-to-date score.

² MCT targets for 2015 to 2017 are estimated based on a revised Optional MCT target and the phase-in requirement in transitioning to the new MCT Guidelines, effective January 1, 2015.

³ Combined ratios and Gross Expenses per Policy reflect the revenue and expense reclassifications. The 2014 combined ratio and Gross Expenses per Policy before restatement are 113.3% and \$344, respectively.

⁴ Targets are not planned in detail beyond the current year.

