

Insurance Corporation of British Columbia

2017/18 – 2019/20 SERVICE PLAN

September 2017



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Board Chair Accountability Statement



The 2017/18 - 2019/20 Insurance Corporation of British Columbia (ICBC) Service Plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. 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 August 31, 2017 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, 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.

A handwritten signature in blue ink that reads "Joy MacPhail". The signature is fluid and cursive.

Joy MacPhail
Chair, ICBC Board of Directors

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Strategic Direction and Operating Environment

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 Responsible (the Ministry) to ensure financial targets and reporting requirements are met.

In line with Government's commitment to make life more affordable for British Columbians, while delivering services that people can count on, ICBC is dedicated to providing customers with the best insurance coverage and service, at the lowest possible cost. To support this, the Corporate Strategy focuses on four key goals: Deliver Value and Service for Customers, Ensure Financial Stability, Deliver Operational Excellence and Align People and Business Capabilities. The items included in the [2017/18 Mandate Letter](#) will help shape ICBC's longer-term strategic plan, developed in collaboration with Government.

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 experiencing 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 (Ensure 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, Objectives, Strategies and Performance Measures

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 adjusted 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 and other directional letters provided to ICBC throughout the year. The focus of the Corporate Strategy reflects being low-cost and operationally excellent, providing 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.

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 2017 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, ICBC's former Minister Responsible directed the ICBC Board of Directors to commission a comprehensive independent review of the Corporation. This review was intended to provide a wide range of options to increase fairness and affordability, to help ensure rates are affordable for British Columbians and in line with inflation as much as possible, for years to come. A final report was provided to ICBC's Board of Directors on July 10 and was made public on July 24. In alignment with the 2017/18 mandate letter, ICBC is committed to working with Government to determine which of the report's recommendations will ensure ICBC is viable and efficient, and that the cost of vehicle insurance is fair and reasonable for British Columbians.

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 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 suspicious claims. Through the use of a new high-tech analytics tool that identifies suspicious claims, ICBC is boosting its efforts to identify and fight claims fraud and exaggeration 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 per cent of drivers have mobile phones, and 88 per cent 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.

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 per cent increase in intersection crashes in 2015 compared to 2013. ICBC invests in intersection safety through 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

Government has committed itself to delivering services that British Columbians can count on. 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. Customers can now request their driver abstracts online, rather than by phone. Over the past several years, ICBC implemented changes to the Claims system that improve the customer experience, convenience and **give customers more choice for interacting with ICBC**. In late 2016, 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

To improve value and service for customers, ICBC has developed the following key strategies:

- Work with 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 Measure	2016/17 Actual	2017/18 Target ¹	2018/19 Target ¹	2019/20 Target ¹
Insurance Services Satisfaction	95%	n/a	n/a	n/a
Driver Licensing Satisfaction	93%	n/a	n/a	n/a
Claims Services Satisfaction	92%	n/a	n/a	n/a

Data Source: Customer service performance is measured based on the percentage of satisfied customers for each major transaction type across our lines of business. The design of our measures and targets reflects the inherent differences of these key transactions. Two independent research firms conduct customer survey interviews throughout the year to monitor transactional satisfaction.

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

Discussion

ICBC continues to meet or exceed strong service measures for its Insurance Services, Driver Licensing and Claims Service to ensure customers are receiving consistent, quality service while interacting with ICBC. ICBC will continue to strive toward these strong results after the planned refresh in 2018/19.

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 late 2017/18.

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: Ensure Financial Stability

ICBC aims to create value for customers by operating in a disciplined and focused manner. ICBC strives to continue to *operate the corporation in a low-cost manner*, in line with Government's 2017/18 mandate to make life more affordable for British Columbians, 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 a continued increase in crash frequency along with an accelerating number of 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 works 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 has further increased its overall claims staff which includes hiring additional injury adjusters, support staff, in-house legal and Special Investigation Unit employees. The additional injury staff already provides a significant net benefit by providing capacity to settle the increased number of claims files being received. In addition, ICBC has improved 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 its 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 investments in the Transformation Program¹ investments other

¹ The Transformation Program was a 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.

initiatives. In addition, and in line with the 2017/18 mandate letter, ICBC will work with Government to conduct a comprehensive operating review of ICBC.

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 the investment portfolio.

Performance Measure 2: Ensure Financial Stability

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

Performance Measure	2016/17 Actual	2017/18 Target ¹	2018/19 Target ¹	2019/20 Target ¹
Minimum Capital Test (MCT)	112%	TBD	TBD	TBD
Combined Ratio	128%	116%	117%	116%
Investment Return (Market Return)	Benchmark +0.31%	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, management targets and assumptions.

¹ Minimum Capital Test (Corporate) ratio is comprised of ICBC's Basic and Optional insurance business target Minimum Capital Test ratios. In light of the current claims trends, Corporate MCT targets for 2017/18 to 2019/20 are subject to review.

Discussion

Minimum Capital Test

MCT is a best practice property and casualty industry measurement framework established by the Office of the Superintendent of Financial Institutions (OSFI). It is a customizable framework for measuring 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 per cent MCT ratio for Basic insurance. In addition to this legislative minimum, the BCUC has approved a regulatory target of 145 per cent 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 per cent indicates an underwriting profit while a ratio above 100 per cent indicates an underwriting loss. ICBC's combined ratio is typically higher than the industry average. This is partially due to the unique nature of ICBC's 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 operating the corporation in a low-cost manner. This means actively controlling spending, avoiding unnecessary costs and delivering a consistent, quality experience and value for customers.

In 2014, ICBC introduced an 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***. 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 Measure	2016/17 Actual	2017/18 Target ¹	2018/19 Target ¹	2019/20 Target ¹
Loss Adjustment Ratio	16.6%	TBD	TBD	TBD
Insurance Expense Ratio	17.3%	TBD	TBD	TBD

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

¹ Targets will be determined, in conjunction with Government, once implementation plans with respect to initiatives from the Independent Review have been developed.

Discussion

To ensure that ICBC can effectively manage the higher frequency and complexity of claims, and manage the number of pending claims, additional claims staffing continues to be added. 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 Special Investigation Unit (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 to provide more information, improved services and better access for customers. ICBC will continue to build its 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 people, technology, and practices to build business value***. In 2016, ICBC completed the final stage of its multi-year business Transformation Program, which has greatly modernized the business. The transformation 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 to allow increased development of digital and mobility services and to enable delivery of new product offerings. With ICBC's 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, ICBC has developed the following strategies:

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

Performance Measure 4: Align People and Business Capabilities

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

Performance Measures	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Employee Opinion Indices		Indices ≤ 80 will maintain as current level at threshold to a target of an increase of 3 points	Indices ≤ 80 will maintain as current level at threshold to a target of an increase of 3 points	Indices ≤ 80 will maintain as current level at threshold to a target of an increase of 3 points
Aligned	78	Indices >80 will maintain at a minimum as a target	Indices >80 will maintain at a minimum as a target	Indices >80 will maintain at a minimum as a target
Enabled	66			
Motivated	64			
Accountable	87			
Leadership ¹	70			

Data Source: Employee Opinion Survey conducted by an independent firm

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

Score Legend

80-100 = Extremely positive

60-79 = Moderately positive

40-59 = Moderately negative

0-39 = Extremely negative

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 per cent (a seven per cent increase from 2014) and results indicated that ICBC reached or exceeded its index targets in four out of five indices and fell 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.

Maintaining and building upon the positive momentum of the 2016 survey results is a priority throughout 2017/18. ICBC’s leadership teams have created and are implementing 2017/18 action plans that will focus on continuing to improve the employee experience.

Financial Plan

Summary Financial Outlook

(\$m)	15 months 2016/17 Actual ¹	12 months 2016/17 Actual ² <i>(unaudited)</i>	2017/18 Budget	2018/19 Budget	2019/20 Budget
Premiums earned	6,051	4,914	5,319	5,810	6,342
Service fees and other	130	106	108	117	142
Total earned revenues	6,181	5,020	5,427	5,927	6,484
Provision for claims occurring in the current period	5,660	4,612	4,719	5,251	5,779
Change in estimates for losses occurring in prior periods	306	202	(63)	(46)	(29)
Net claims incurred	5,966	4,814	4,656	5,205	5,750
Claims service and loss management	445	365	395	400	407
Insurance operations expenses	284	231	237	237	247
Transformation Program	38	31	30	28	28
Premium taxes and commissions	819	688	707	784	801
Total expenses	7,552	6,129	6,025	6,654	7,233
Underwriting loss	(1,371)	(1,109)	(598)	(727)	(749)
Investment and other income	615	624	499	538	435
Income (loss) - insurance operations	(756)	(485)	(99)	(189)	(314)
Non-insurance operations expenses	126	102	101	101	102
Non-insurance commissions	38	31	32	33	34
Non-insurance - other income	(7)	(6)	(7)	(21)	(39)
Net income (loss)	(913)	(612)	(225)	(302)	(411)
Other comprehensive income					
Pension and post-retirement benefits remeasurements	79	79	-	-	-
Net change in available for sale financial assets and change in non-controlling interest	152	152	(191)	81	122
Total comprehensive income (loss)	(682)	(381)	(416)	(221)	(289)
Total liabilities	15,098	15,098	16,000	17,260	18,674
Retained earnings	2,459	2,459	2,233	1,931	1,520
Other components of equity	(32)	(32)	(223)	(142)	(20)
Non-controlling interest	19	19	20	20	20
Total equity	2,446	2,446	2,030	1,809	1,520
Capital Expenditures³	81	63	60	40	40

¹ Fiscal period 2016/17 is a 15 month transitional fiscal period from January 1, 2016 to March 31, 2017.

² Represents the period April 1, 2016 to March 31, 2017.

³ Major categories of capital expenditure include: facilities (land, building, 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 facilities, and as critical business systems are renewed.

Operating Costs by Nature

(\$m)	12 months				
	2016/17 Actual ¹	2016/17 Actual ² (unaudited)	2017/18 Budget ³	2018/19 Budget ³	2019/20 Budget ³
Premium taxes and commission expense	763	624	670	734	804
Premium deficiency adjustments	93	95	69	83	31
Compensation and other employee benefits	466	379	403	766	784
Pension and post-retirement benefits	104	83	88		
Professional and other services	53	44	27		
Road improvements and other traffic safety programs	42	35	31		
Building operating expenses	36	29	31		
Merchant and bank fees	48	40	43		
Office supplies and postage	26	22	20		
Computer costs	37	29	27		
Depreciation and amortization	55	45	55		
Other	27	23	38		
Total operating costs	1,750	1,448	1,502	1,583	1,619

¹ Fiscal period 2016/17 is a 15 month transitional fiscal period from January 1, 2016 to March 31, 2017.

² Represents the period April 1, 2016 to March 31, 2017.

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

Key Forecast Assumptions, Risks and Sensitivities

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 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 core operational systems as part of evolving ICBC's business model. Leadership development and succession planning also continue to support the business model. Finally, like other B.C. Crown corporations, ICBC will ensure it has the appropriate business continuity plans for earthquake preparedness should this crisis scenario materialize.

Based on these plans, the following assumptions were developed and incorporated into 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.
- 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 2017/18 – 2019/20 until upcoming changes in accounting standards are in effect.
- 2017/18 – 2019/20 does not include any savings from the recently completed Independent Review due to timing and decisions to be made. Any potential changes will be incorporated into future service plans.

Sensitivity Analysis

Risks are inherent in insurance forecasts since they are based on assumptions about the future. These assumptions are based on historical driving, claims and other economic patterns as well as expert judgment. However due to the volatile nature and the inherent risks of the insurance business, there is a range of uncertainties in these estimations. The following highlight the effect of variations in the assumptions underlying the financial forecast.

Premiums

- 1 per cent fluctuation means \$53 - \$63 million in net premiums (Basic and Optional combined).

Claims

- 1 per cent fluctuation means \$47 - \$58 million in claims costs.
- 1 per cent fluctuation in the unpaid claims balance means \$105 - \$129 million in claims costs.
- 1 per cent fluctuation in the rate used to discount claims means approximately \$270 - \$280 million in claims costs.

Investments

- 1 per cent fluctuation in return means \$155 - \$179 million in investment income.
- 1 per cent change in investment balance means \$4 - \$6 million in investment income.

- 10 per cent change in US exchange rate is equivalent to approximately \$38 million in investment income.
- 1 per cent change in interest rate would result in a change of approximately \$344 million in the fair value in the corporations fixed income portfolio and a corresponding impact of \$344 million to Other Comprehensive Income (OCI).
- A 10 per cent change in equity prices would result in an estimated corresponding change to OCI of approximately \$235 million.

Market Share

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

Pension

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

Management's Perspective on the Financial Outlook

The net loss for fiscal 2017/18 is forecast to be \$225 million as compared to a net loss of \$612 million for fiscal 2016/17 on a comparative 12-month basis. The net loss for 2016/17 was significantly higher than expected primarily due to higher claims costs, due to the increase in crash frequency, as well as a prior years claims adjustment as a result of greater emergence of complex and represented claims. A net loss is expected in 2017/18 and throughout the forecast period as claims costs continue to outpace premium revenues and investment income.

Higher claims costs are driven by an increase in crash frequency, and the average cost of material damage, due to 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 in claims costs by managing higher claims volumes and limiting the amount of claims pending. This is being done by ensuring an appropriate complement of claims and claims-related staff to address claims volumes, pending bodily injury and represented claims files. In addition, ICBC continues its focus on improving management of procurement processes and initiatives to combat exaggerated and fraudulent claims. The recently completed Independent Review has identified potential cost savings opportunities and initiatives in a number of areas, including claims costs management and road safety initiatives. These opportunities are complex and require further analysis and discussion with Government. As ICBC and the Government are still considering the content of the Independent Review report received in late July, it is too soon to identify particular initiatives to

implement, or the impacts they will have. Savings from these initiatives will be included in future budgets.

The budgets for 2017/18 - 2019/20 reflect current expectations of claims costs trends and investment market conditions. Based on longer term claims cost trends, claims costs are expected to be higher than in previous years. 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 partially offset by ICBC's management initiatives including the increased complement of claims staff, resulting in a similar 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. While material damage cost pressures are not as large as bodily injury cost pressures, they are rising and still impacting overall claims costs.

Appendix A: Hyperlinks to Additional Information

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 the corporate direction. The Board, with input from the Executive Team, approves the vision and values that guide ICBC, 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 ICBC's 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>).

Organizational Overview

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

Appendix B: Nominee Companies

Nominee Companies

The Corporation does not have any active operating subsidiary companies.

A portion of ICBC's investment portfolio is held in real estate. All of the fully-owned nominee holding companies hold investment properties for the purpose of generating investment income.