ICBC

Insurance
Corporation
of British
Columbia

# SERVICE PLAN
# 2002 – 2004

JANUARY 31, 2002

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# ICBC OVERVIEW

The Insurance Corporation of British Columbia (ICBC) is a provincial Crown Corporation established in 1973 by the *Insurance (Corporation) Act*, to provide universal auto insurance to B.C. motorists. It is also responsible for all driver and vehicle-related services, including commercial vehicle compliance. ICBC's customers consist of all licensed motor vehicle owners and licensed drivers in B.C., as well as pedestrians, cyclists and the non-driving public who use B.C.'s roads. ICBC is currently one of B.C.'s largest corporations, and one of Canada's largest property and casualty (P&C) insurers. Through its operations, ICBC provides direct employment of over 5,500 full-time equivalent employees and generates an estimated indirect impact of 42,000 jobs on the provincial economy (with close to 18,000 full time jobs in the auto repair industry).

The Corporation is governed by the following legislation:

- Insurance Corporation Act
- Transport of Dangerous Goods Act
- Insurance (Motor Vehicle) Act
- Motor Carrier Act
- Motor Vehicle Act
- Motor Vehicle (All Terrain) Act
- Commercial Transport Act

## Insurance & Claims

All motorists in B.C. are required to buy a basic package of ICBC Autoplan insurance that includes accident benefits, minimum third-party legal liability protection and protection from underinsured, uninsured and hit-and-run motorists. The system in B.C. is tort based which provides claimants with the right to sue for damages. The basic package provides the most extensive coverage among jurisdictions in Canada including an allowance for no-fault accident benefits coverage of up to $150,000 per person for medical and rehabilitation expenses. In Alberta and the Maritime provinces, which like B.C. have tort-based insurance, no-fault accident benefits are limited to $10,000-$50,000 per person. Manitoba, Saskatchewan, and Quebec are all no-fault jurisdictions with government-run systems. No-fault insurance restricts the injured party's right to sue for damages. Ontario uses a threshold system, a hybrid of both the tort and no-fault model.

In addition to providing this basic insurance, the Corporation competes with other automobile insurance companies in the sale of extended third-party legal liability and other optional insurance coverages such as collision and comprehensive coverage.

Both the basic and optional insurance coverages are defined in the *Insurance (Motor Vehicle) Act* and its regulations.

ICBC receives insurance premiums from more than 2.6 million motorists and invests these premiums to provide insurance benefits for customers and victims of crashes. In setting premiums, ICBC does not discriminate on the basis of age, sex or marital status.

ICBC's insurance portfolio includes approximately 2.6 million insurance policies which results in excess of $2.4 billion in annual insurance premiums. ICBC uses a network of over 900 independent brokers located throughout the province to provide one-stop shopping for its Autoplan products, vehicle registration and licensing services. Commissions of $178 million were paid to these brokers in 2001.

The Corporation currently handles approximately 1.1 million claims per year through a province-wide network of 45 claim centres, telephone claims call centres and other claims-handling facilities. ICBC's 2001 forecasted claims costs are anticipated to be $2.1 billion[1]. This amount does not include ICBC's expenses for claims services and road safety, other insurance expenses and non-insurance expenses.

Bodily injury and material damage claims incurred are forecasted to be $1.144 billion and $984 million respectively in 2001. To service these claims, ICBC contracts with suppliers and service providers in a variety of industries, including body and glass shops, towing companies, doctors, physiotherapists, other medical service providers, and lawyers in all parts of the province. These suppliers and service providers are involved in helping claimants to repair their vehicles, recover from injury, or settle their claims with ICBC.

## Loss Prevention / Road Safety

In the late 1990s, ICBC merged with the former Motor Vehicle Branch (MVB) and assumed responsibility for driver licensing services, commercial vehicle compliance (e.g. weigh scales and commercial vehicle inspections), and road safety programs.

These programs include: Graduated Licensing, Intersection Safety Cameras, and funding for enhanced enforcement for speeding, dangerous driving and CounterAttack. In accordance with its objective to create a safe driving environment for B.C. motorists, ICBC invested in a variety of road safety program initiatives. From 1994 to 1999, ICBC invested $159 million in these and other road

1 As ICBC's 2001 financial statements had not been finalized at completion of this service plan, 2001 forecasts have been provided. These are the best forecasts available at the time of preparing the service plan. For final numbers, please consult ICBC's 2001 Annual Report once it is available.

safety programs in pursuit of the financial benefits from reduced crashes, injuries and deaths. In 2001 alone, ICBC has spent over $44 million on road safety. Statistics indicate that this investment has a payback of less than one year. The success of these programs relies upon the support of agencies as well as partners working with ICBC to make B.C.'s roads safer. These partners include the Ministry of the Attorney General, the Ministry of Transportation, the enforcement community, municipalities, community groups and volunteers.

## Vehicle Registration and Licensing

ICBC provides vehicle registration and renewal of vehicle license through its network of brokers when the customer attends to purchase insurance. This provides customers with convenience, and the broker's ability to process a multitude of transactions enables the Corporation to maintain low distribution costs. The linkage between vehicle registration, licensing and the insurance policy also ensures that vehicles are insured when registered and remain so throughout the registration period.

## Driver Licensing

ICBC provides driver licensing services through 17 Driver Service Centres, and 50 Government Appointed Agents' offices throughout B.C.. Relative to the insurance business, licensing is a labour-intensive area of ICBC's business. In 2001, spending in this area is forecasted to be approximately $40 million in operating costs with 487 full-time equivalent[2] employees. ICBC is forecasted to collect and remit to government over $420 million annually in vehicle registration fees, license fees and fine revenue. ICBC has been a leader in the area of driver training and education using programs such as Graduated Licensing to reduce the incidence of crashes among new drivers.

## Compliance

ICBC provides commercial vehicle compliance programs including 39 fixed weigh scales and 23 portable weigh scales located throughout the province. These programs are delivered primarily to support transportation and commerce within B.C.. Programs include enforcement of vehicle safety requirements and protection of road infrastructure. As with driver licensing, this is another labour intensive area of ICBC's activities involving 296 full-time equivalent employees[3] and expenditures of $30 million in 2001. ICBC's responsibilities for driver and vehicle licensing and commercial vehicle compliance are outlined in the *Motor Vehicle Act*.

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2 ICBC financial systems, December 2001.
3 Ibid.

## Governance

A nine-member Board of Directors appointed by the Lieutenant-Governor-in-Council guides the Corporation in fulfilling its mandate. Board members set the direction and goals of ICBC and are responsible for ensuring the overall financial health and operating results, while management is responsible for the day-to-day management of the Corporation. ICBC's governance structure is defined in the *Insurance Corporation Act*. ICBC is also held accountable to British Columbians through requirements articulated in law such as the *Budget Transparency & Accountability Act*, the *Financial Information Act*, the *Financial Administration Act*, and the *Freedom of Information and Protection of Privacy Act*.

# INTRODUCTION

With the recent introduction of a new Board of Directors and a new management team, the key themes for ICBC are to:

- Focus on doing what is best for the customer and the people of British Columbia
- Strengthen business efficiencies and financial stability
- Shift to a performance-based culture and
- Continue to initiate and support loss-prevention efforts that provide cost-savings from an insurance perspective, and more importantly, minimize the human tragedy that occurs with injuries and deaths on B.C. roads.

In 2002, ICBC will introduce a Performance Management System to reflect the newly defined accountabilities among executives and management, and expectations for delivery of results. Measurement will be a hallmark for monitoring and rewarding performance.

With these business directions, the Corporation will continue to aim to optimize benefits to ICBC's customers and to improve service while containing premium increases.

This Service Plan was developed *assuming a status quo business model*. It is important to note that the future of the automobile insurance industry in British Columbia is currently under review through the Government's Core Services Review process. Changes are not known at this time and may impact the mandate of ICBC. As new direction is provided by ICBC's Board of Directors and the Government of British Columbia through the Core Services Review and other business initiatives, ICBC will adapt and respond strategically to align with those directives. ICBC's strategy, including some elements within this plan such as the mission and vision, may change accordingly.

This Service Plan describes ICBC's current plans for the 2002 to 2004 period. It also outlines key performance measures and annual targets. Commercially sensitive information has been omitted as it relates to ICBC's competitive business.

# MISSION

ICBC's current mission statement is ***"Helping British Columbians take the risk out of road transportation."*** The mission statement will be reviewed in light of direction received from Core Services Review and ICBC's Board of Directors.

ICBC is an insurance company with a difference. ICBC provides effective and reliable universal auto insurance and competitive optional coverages to British Columbians. ICBC is also responsible for all driver and vehicle-licensing and regulated services, including commercial vehicle compliance. With this current mandate, ICBC has been able to work effectively towards reducing the risks on B.C. roads since 1996. By developing and implementing a wide range of loss prevention programs, ICBC has made an important contribution to reducing the costs of injuries and deaths. These costs not only include claims costs, and associated pressures on premiums, but also and more importantly, the larger costs of human tragedy for all involved in a crash. As ICBC moves forward, its mission will also focus on business values and developing the best and most efficient delivery mechanism to provide valued products and services.

# VISION

***ICBC's vision is to ensure B.C. has the safest road transportation system with the best insurance program in North America:***

- ICBC's excellence in taking the risk out of road transportation would result in the best record in North America for saving lives and saving money.
- ICBC would save lives and money through comprehensive loss prevention (e.g. road safety), insurance protection, and recovery initiatives.
- ICBC would deliver customer-valued safety and insurance products and services to minimize premiums.

While direction from Core Services Review and the Board of Directors is pending, ICBC will be revising this vision; many themes are unlikely to change. In particular, a continued focus on customer service, road safety and efficiency is assured.

# VALUES

ICBC's corporate values are: ***Integrity, Commitment, and Dedication to Customers.***

ICBC has interpreted these words internally as follows:

***Integrity*** - We value people by treating others with respect and dignity. We are open and honest by representing our intentions and ourselves truthfully. We will be accountable for our performance and ensure decisions made are supportable.

***Commitment*** - We demonstrate commitment as employees by doing our best work at all times. ICBC leadership demonstrates commitment to employees by creating a work environment that supports employees in making their best contribution for the benefit of the customer. We are committed to operating in a cost-effective manner and will continue to seek ways to improve efficiency.

***Dedication to Customers*** - We measure our success by our customers' belief that ICBC products and services provide good value for their money. We provide excellent customer service by approaching every customer interaction as an opportunity to create a positive customer experience. These values will be reflected in all of our actions, strategies and corporate policies.

# PLANNING CONTEXT

## Customer trends

Automobile insurance customers in general are becoming more demanding in the following ways:

***Increased customer expectations.*** Consumers are looking for full-service delivery: price, choice, convenience and service. In addition, they want to be able to access their insurers in a variety of ways, including personal contact, via telephone or the Internet. Price is by far the biggest influence on the customer's selection of an insurer.

***Greater use of more efficient shopping tools.*** With the availability of instant quotes on the Internet, consumers can easily shop around to get the best deal on insurance. For example, quote aggregators such as InsWeb and Quicken in the U.S. allow consumers to get quotes from a wide range of carriers through a single on-line request.

***Tailoring to specific customer needs.*** Customers are increasingly exposed to more choices and information about the products they purchase. They are also more accustomed to having companies provide services and products that are tailored to their specific situation. As companies endeavor to collect, mine and utilize consumer data, customers have come to expect that companies will not only deliver to their specified requirements, but will anticipate their unarticulated needs as well.

## Industry/competitive trends

### FINANCIAL PERFORMANCE

In the early to mid 1990s, property and casualty insurers were making good progress with better pricing, loss frequency, and loss severity in automobile insurance and fewer large losses in homeowners' insurance. Combined with a strong stock market during this time, the industry accumulated significant capital that allowed many insurers to aggressively seek increases in market share through reduced prices.[4]

However, with the slowdown of the economy and increases in claims costs, since 1998, the property and casualty sector has experienced steady deterioration in earnings, capitalization, and pricing adequacy.[5] Despite increases in premium rates, "many believe pricing in a number of large-market segments, particularly in the automobile insurance business ... are still below adequate levels."[6]

4 Standard & Poor's *"Personal Lines Outlook-2002: Benefits of Market Turnaround Diminished by Continued Heavy Competition,"* December 18, 2001.
5 Ibid.
6 A.M. Best, *Special Report: P/C Underwriting Results Continue to Weaken,"* December 17, 2001.

Third-quarter results for the P&C industry, as reported by the Insurance Bureau of Canada (IBC), indicated that net profits dropped by 46.7 per cent compared to the same quarter of 2000.[7] It is expected the Canadian property and casualty insurance industry will not achieve more than a two per cent return on equity and a combined ratio around 110 per cent for 2001.[8]

As a result of these major trends, the entire P&C industry will be looking to improve its performance through a greater focus on the bottom line. Key strategies will be to decrease administrative costs, increase efficiencies, improve underwriting performance through rate increases, and address rising claims costs.

***Price Increases*** - As the industry becomes more constrained, the trend is towards insurance price increases. Written premiums for the first three-quarters of 2001 indicate an increase of 11 per cent for the Canadian P&C sector and this trend to increase rates is continuing in 2002.[9] In Ontario, auto premiums increased by 15.2 per cent in 2001 and increases are also being considered in Atlantic Canada where the industry is experiencing large losses. In Alberta, increases as high as 35 per cent have been approved as insurers raise premiums to reflect risk.

Historically, positive prior years' claims adjustments and high investment returns have compensated for poor loss ratios[10] and allowed premiums to remain low. However, some recent major trends have placed increasing financial pressure on insurers and raised the specter of rate inadequacy and the need for price increases. These trends include:

> **Claims costs** - Soft-tissue injuries are accounting for the largest share of rising claims costs.[11] Auto insurers across Canada are faced with rising costs in the area of accident benefits and bodily injury. Medical and rehabilitation costs have increased considerably, with insurers taking over a growing portion from the public sector. In the past 10 years, Ontario has experienced a decline in the number of injuries related to automobile crashes, yet the costs of providing medical care to the injured has increased by 350 per cent.[12] Third quarter financial results for the industry indicate claims costs are increasing at a rate of 12 per cent.[13]

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7 IBC, *Perspective*, Volume 7, Number 4, December 2001.
8 "2002 Primary Market Outlook Angst", *The Canadian Underwriter*, December 2001. The combined ratio is defined as the ratio of insurance cost (claims, claims-related costs and operations cost) to insurance premium dollars earned.
9 IBC, *Perspective*, Volume 7, Number 4, December 2001.
10 The ratio equals claims and claims-related costs divided by insurance premium dollars earned.
11 Ibid.
12 *Thompson's World Insurance News*, January 18, 2002.
13 Insurance Information Institute, *"Special Report: Early Bird Forecast 2002"*, December 2001.

**Reinsurance costs** - The terrorist attacks on September 11, 2001 resulted in the largest insured loss in history (current loss estimate is $35-41 billion U.S. dollars) with significant impacts on reinsurance companies around the globe.[14] Although reinsurance cost increases had been well underway prior to this event, it is expected that even greater premium increases, particularly in commercial lines, will be seen as reinsurers attempt to cover their costs.[15] It is possible that although P&C insurers in the personal lines segment were almost completely unaffected by the September 11 event[16], they will be impacted by the availability of capacity in the reinsurance market.[17]

**Investment Returns** - With the weak economic outlook for 2002, investment returns and realized gains are expected to be down significantly from the previous years. Declining interest rates initially had favourable impacts on the value of investments purchased when rates were high; however, this is not likely to continue as new investments purchased will reflect the lower rates. This will have a impact on the profitability of the insurance sector in the future.

## COMPETITION

ICBC's major optional insurance competitors in B.C. include Canadian Direct Insurance (HSBC Bank Canada), ING Western Union (ING Group), and Canadian Northern Shield. These companies have tended to focus on customers in particular geographic regions and market niches. These companies may also operate other lines of business with subsidies between product lines, and most are backed by major multinational financial institutions with significant sources of investment capital.

Generally, most insurers have increased pricing to address potential future rate inadequacy issues. However, the pricing strategies of certain competitors in B.C., where they have dropped prices, seem to indicate they are focused on aggressively pursuing market share in the short-term. A move to secure market share at a loss is sustainable for a short period of time and then followed by important premium increases. This would appear to be the case in Alberta.[18]

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14 Morgan Stanley, *Equity Research, North America - Property-Casualty Insurance Industry*, "Update on WTC-Related Issues," October 22, 2001, p. 2.

15 Insurance Information Institute, *"Special Report: Early Bird Forecast 2002"*, December 2001.

16 Standard & Poor's, *"Personal Lines Outlook 2002: Benefits of Market Trunaround Diminished By Continued Heavy Competition"*, December 18, 2001.

17 ICBC will not be affected by rising reinsurance premiums as the Corporation holds a reinsurance policy with settled premium amounts for the following two years.

18 *Thompson's World Insurance News*, January 8, 2002.

## INDUSTRY STRUCTURE

The financial services industry has changed more in the last 10 years than in the previous 40 years. Structural changes have led to low profitability and intense competition in the P&C sector throughout North America. These structural changes have been prompted by limited growth, deregulation, consolidation, globalization and technological innovation.

***Deregulation*** - Deregulation has allowed the blurring of the four traditional pillars (banks, trusts, brokerages, insurers) of the financial services industry as evidenced by the increase in mergers and acquisitions. Multinational players are aggressively expanding their operations throughout North America. Such consolidation activity is largely due to:

- Insurers having trouble due to stagnation of the overall premium pool;
- Insurers need for critical mass to be able to compete on expenses and to leverage the technological revolution; and
- The financial services sector being already a part of the worldwide consolidation phenomenon.

***Strategic Alliances/Consolidation*** - Strategic alliances have emerged as an opportunity for insurers to grow their organization and diversify their business risk without investing large capital in new markets. Major insurers are offering a broad line of insurance products to take advantage of opportunities for cross selling, economies of scale, and creative pricing strategies. These products include life, mortgage, home, travel, health, credit and disability insurance. The merger of Pacific Coast Credit Union and Richmond Savings Credit Union into Coast Capital Savings Credit Union in 2001 is a prime example.

## IMPACT OF TECHNOLOGY

Many insurers are exploring use of multiple distribution channels in an effort to remain competitive and to reduce transaction costs in specific market segments. Technology is also lowering the barriers to entry for new competitors as the Internet provides insurance companies direct access to consumers and brokers. New entrants are anticipated, and are emerging in the form of direct writers and alternative distribution channels such as Internet portals (i.e. aggregators and gateway hubs).

## Automobile insurance product trends

In order to address the issue of rising claims costs and its impact on premium rates, governments in a number of jurisdictions are exploring legislative reforms to the automobile insurance product. Some examples include:

- In September 2001, the Ontario Ministry of Finance released a consultation paper as the first step in its review of the cost pressures facing the current threshold auto insurance system.[19]
- Similarly, in October 2001, the Newfoundland government released a consultation paper on automobile insurance reform, including a threshold proposal to restrict the right to claim for pain and suffering due to minor injuries.
- Saskatchewan Government Insurance (SGI) has begun work on developing an alternative coverage where vehicle owners can elect to receive less extensive injury benefits, but instead can sue for pain and suffering subject to a deductible, where there is an at-fault party. This coverage choice will be available to vehicle owners by the end of 2002.
- The Insurance Bureau of Canada (IBC) has set up the Atlantic Automobile Insurance Coalition (Prince Edward Island, New Brunswick, Nova Scotia, and Newfoundland) to develop options for reforming the auto insurance product to ensure that costs can remain stable and that accident victims are fairly compensated.[20]

## Internal Assessment

### KEY HIGHLIGHTS

Over the past year, ICBC has conducted a comprehensive review of its business functions, which resulted in a restructuring of operations, rationalization of programs and improved staffing efficiencies to reduce overall expenses and improve financial performance. As a result, a 15 per cent reduction in administrative expenses was achieved with the most significant component being derived from the departure of approximately 1000 full time equivalents since April 2001. This staffing reduction is estimated to save $50 to $60 million in 2002. Special consideration was given to ensure the reductions did not have a significantly negative impacts on claims costs. ICBC is also in the process of reducing leased space by approximately 80,000 square feet with the associated financial savings.

[19] *Thompson's World Insurance News,* Sept. 4, 2001; *Thompson's World Insurance News,* Oct. 31, 2001 and *Thompson's World Insurance News,* Dec. 4, 2000. See also http:// www.gov.on.ca/fin/english/auto1e.pdf.

[20] Government of Newfoundland and Labrador, "Minister Noel Releases Consultation Paper on Automobile Insurance Reform," www.gov.nf.ca/releases/2001 and "Car Insurance Premiums Going North," www.cbc.ca, Oct. 4, 2001.

Through this review, ICBC was able to hold the rate of increase of premiums to 7.4 per cent on average. This increase was necessary to address the issue of premium rate inadequacy to cover future claims as a result of freezing premium rates for six years.

ICBC's road safety initiatives and loss prevention activities have helped ease the human trauma caused by automobile crashes on B.C. roads. These initiatives have also helped improve ICBC's loss cost experience and net income. ICBC achieved positive net income from 1997 to 2000 and maintained stable rates over the past six years. Road safety and claims cost initiatives have allowed the Corporation to make a series of favourable prior years' adjustments that have accumulated to $991 million over the last five years.

## FINANCIAL PERFORMANCE

Despite these actions, the Corporation is not immune to the financial trends and cost pressures of the industry. ICBC is estimating a loss of $258 million for 2001 which includes a $100 million provision for the Central City development in Surrey. Its investment portfolio, a major contributor in the positive net income for the Corporation in the past, is forecasted to be substantially lower at approximately $450 million due to declining markets and reduced interest rates. These declines are expected to continue in 2002 and beyond as part of the general industry's investment income trend. However, in terms of financial performance on key indicators, ICBC's loss ratio and expense ratio[21] are at par or better than the industry.

ICBC's expense ratio at 24 per cent in 2000 (23.6 per cent forecast in 2001) compared favourably with the current industry average of between 30 per cent to 32 per cent even when including the costs of the non-insurance business, such as the driver licensing, vehicle registration, compliance, and road safety (four per cent of premiums earned in 2001).[22] This is largely due to ICBC's investment in technology and economies of scale. In addition, there is also a reduced need for costs associated with marketing, advertising, underwriting, and distribution that are found in competitive private jurisdictions.

21 The ratio of non-claims costs to insurance premium dollars earned. The expense ratio is the amount spent on all expenses, other than those for claims services costs, which includes items such as administrative expenses, broker commissions, and premium tax as a percentage of premiums earned.
22 Source: AM Best 2000. 5 year average.

ICBC's loss ratio was higher than the industry average by 12 per cent in 2000. However, when compared to other public insurers (i.e. SGI and MPI), the loss ratio was at par with that benchmark group. Public insurers typically have higher loss ratios due to their mandate to provide universal insurance to both high and low risk drivers. ICBC also provides one of the most comprehensive set of coverages in the country.[23] Both these factors contribute to the higher loss ratio.

It is also important to note that as a public insurer with a break-even mandate, ICBC requires less premium dollars to pay for similar claims than private insurers because the Corporation does not need to generate a profit margin or a return on a significantly larger capital base. In addition, investment income, often viewed by the private sector as the profit component of their business, can be channeled to cover claims losses and used to reduce premium requirements.

Faced with diminishing returns on the investment portfolios and increasing claims costs, the key challenge for ICBC, like other insurers, will be to focus on continued improvements to fiscal position and operational excellence as it moves forward in 2002. ICBC needs to challenge the way it provides services. The Corporation also needs to address the financial consequences of the 2001 losses, the distribution made in the first part of the year, and the six year rate freeze to ensure ICBC's reserves are at the appropriate level to maintain the Corporation's financial and operating viability.

The Government's Core Services Review will provide direction on how Government wants ICBC to move strategically in addressing these issues.

23 In private jurisdictions, coverage with lower deductibles is available but only a small portion of the customer base actually purchase it as it is quite expensive.

# STRATEGIC POSITION

***ICBC will position itself to serve the broad market of all British Columbia customers, as a low-cost producer of auto insurance, achieved through operational excellence and loss prevention.***

ICBC will be customer focused by providing insurance at the lowest possible rates and operating as efficiently as possible. ICBC is an insurance company with a difference based on its knowledge and understanding of driving behaviours, vehicle safety, and crash locations and types. This knowledge uniquely positions ICBC to help reduce crashes and their effects on customers by developing customer-valued insurance products, helping people recover from crashes, improving the quality of drivers, and working with partners to improve the safety of roads and vehicles. These actions will provide customers with value for their premiums.

# STRATEGIC THEME & KEY STRATEGIES

ICBC's strategy of being customer-driven and providing customer value remains a primary focus. Customers want low premiums, which can be achieved through lowered costs.

To meet customers' needs, ICBC will be undertaking some significant changes in the coming years. Building on the election of a new Provincial government, a new Board of Directors, a new management team, and a leaner organization, ICBC will be focusing on the following key areas:

***Understanding the Customer:*** A key task for ICBC in the coming year is to understand and to deliver what customers want and value. ICBC will be talking with its customers, hearing their concerns and ideas, improving their understanding of what we do, and taking action to better address their needs and expectations.

***Operational Excellence:*** ICBC underwent a downsizing in 2001. The current challenge is to now focus on ensuring the existing operations are running efficiently and productively in serving customers. This focus will include finding better ways to work to improve the efficiency and effectiveness of internal cost structure, asset utilization, and business processes. These changes will enable ICBC to continue to provide competitive rates to customers. Key elements of success will include involving front-line staff in improving our performance in meeting customers' needs, focusing on realizing benefits from projects and initiatives, and better leveraging of the Corporation's data in decision-making.

***Financial Sustainability:*** ICBC will work to develop financially sustainable and independent lines of business and products such as the separation between basic and optional insurance. This will include ensuring that ICBC's products are appropriately priced and that each group of customers is paying the premium required for the risk they represent. ICBC will continue to use non-discriminatory underwriting practices to ensure all vehicle owners can access and afford the insurance they need to be on the road. ICBC will also explore new areas for revenue and cost containment opportunities.

***Performance Culture:*** ICBC will accelerate its shift to becoming a more results-oriented culture. ICBC has begun to introduce a Performance Management System to reflect the new accountabilities and expectations for performance and delivering results.

***Loss Prevention:*** ICBC will continue to work with key partners to reduce crashes and crimes, and their impacts on customers through customer-valued and effective loss prevention initiatives. These initiatives include working towards creating a safe driving environment, safer vehicles, better drivers, and improved rehabilitation for those injured in crashes. Ultimately, loss prevention aims to reduce the number of crashes and minimize their physical, emotional, and financial costs. By reducing crashes, ICBC is supporting customers and helping keep premium prices down.

Improvements in systems and operations will position ICBC to better meet customers' insurance products and service needs, to improve innovation, and to better respond to competitive pressures.

This strategy is designed to ensure ICBC's long-term success by addressing the risks and opportunities identified in the planning context and by ensuring the Corporation has the required robust internal capacity. ICBC's overall strategy is sufficiently robust and flexible to prepare the Corporation for success through any likely futures for B.C.'s automobile insurance to be determined by Core Services Review.

The following diagram provides a visual representation of ICBC's strategic themes.

| | **Road Safety**<br>**(1996 – 2004)** | **Operational Excellence**<br>**(2001 – 2004)** | **Product & Service Enhancements**<br>**(2003 – 2004)** |
|---|---|---|---|
| **Emphasis** | **Prevention**<br>Reduce crashes and crimes | **Financial Health**<br>Operate in the most effective and efficient manner | **Competitiveness**<br>Enhance products & services to customers while operating efficiently & effectively |
| **Key Strategies** | • Invest in programs to reduce crashes, crimes and claims costs<br>• Increase business partners' participation in road safety<br>• Develop world class expertise in transportation risk reduction | • Understand customer needs<br>• Reduce operating, administration, and claims costs and improve processes to reduce the need for premium increases<br>• Enhance ICBC's performance-based culture<br>• Develop financially sustainable and independent core lines of business including basic & optional insurance<br>• Reduce crashes & crimes and their impacts on customers and premiums | • Improve the "value proposition"[24] to customers<br>• Implement competitive service and delivery changes for customers<br>• Maintain operating and administrative efficiencies & cost reductions |

24 Value Proposition is defined as the combined package of products, services and quality provided to customers for the price which the customers pay. The value is defined by the customer.

# STRATEGIC GOALS AND OBJECTIVES

Implementation of ICBC's Strategy is designed around four strategic perspectives with corresponding objectives. These objectives reflect the outcomes necessary for ICBC to achieve its mission.

***Customer*** **- "ICBC will be customer-driven"**
**ICBC will deliver customer-valued products and services and minimize premiums.**

- Minimize premiums.
- Satisfy customers.

***Financial*** **- "ICBC will be financially sound"**
**ICBC will manage revenues, costs, investments and liabilities to provide maximum value to our customers, and operate in a fiscally responsible manner.**

- Manage claims costs and premium revenues.
- Manage operating and administrative costs.
- Maximize investment return within an acceptable risk profile.
- Ensure financial stability.
- Reduce crashes and crime.

***Employee*** **- "ICBC will be performance based."**
**ICBC will be an organization of highly capable people focused on achieving performance excellence.**

- Implement a strategic workforce plan.
- Attract, develop and retain highly capable and engaged people.
- Align and engage employees in achieving performance excellence.
- Foster leadership.

***Business Partner*** **- "ICBC will develop efficient, customer-focused business partnerships"**
**ICBC will develop effective, efficient business partner relationships that add value to our customers.**

- Deliver services that are effective for our customers, on our behalf
- Develop cost-effective, efficient and value-added business partner relationships.

# PERFORMANCE MEASURES AND TARGETS

ICBC uses the Balanced Scorecard as the tool to implement strategic performance management by translating the Corporate Strategic objectives into identifiable measures and target. The targets are developed to provide direction for the coming year and to emphasize the areas of focus for the Corporation. These high level measures and targets are then used as the starting point to manage performance for all levels of management in the form of individual performance plans.

For year 2002, all cost measures have been normalized or expressed as a percentage of 'earned' premiums, thereby facilitating year-to-year and industry comparisons. To facilitate comparability, previous years' actuals and targets have been retroactively restated to conform to the measurements for year 2002. ICBC's non-insurance costs have also been removed to ease comparability with insurance benchmarks. ICBC's 2003 and 2004 figures are provided as preliminary targets. As further information becomes available, ICBC will further refine the targets. They do provide an indication of the direction ICBC is seeking to take with each performance measure. ICBC's Balanced Scorecard for 2002 is as follows:

| Strategic Objective | Corporate Measure | Definition | 1999 Actuals | 2000 Actuals | 2001 Target | 2002 Target | 2003 Preliminary Target | 2004 Preliminary Target |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL – ICBC will be financially sound** | | | | | | | | |
| **1. Manage claims costs and premium revenues** | **Combined Ratio:** | The ratio of insurance cost (claims, claims-related costs and operations cost) to insurance premium dollars earned. This is a measure of overall profitability from the insurance business. A ratio of below 100% indicates an underwriting profit while a ratio above 100% indicates an underwriting loss.<br>Calculation : Total Cost excluding non-insurance costs ÷ Premiums Earned or Loss Ratio + Operating Expense Ratio<br>Benchmark: Year 2000 Canadian P&C selling auto insurance 110.8% | 110.9% | 107.0% | 112.9% (forecast & not a target as this is a new measure) | 113.1% | 108.1% | 106.5% |

| Strategic Objective | Corporate Measure | Definition | 1999 Actuals | 2000 Actuals | 2001 Target | 2002 Target | 2003 Preliminary Target | 2004 Preliminary Target |
|---|---|---|---|---|---|---|---|---|
| **1. Manage claims costs and premium revenues** | **Loss ratio:** | The ratio claims and claims-related costs to insurance premium dollars earned. This is a measure of the insurance product's profitability. The lower the number, the more profitable the insurance product.<br>Calculation: (Claims Cost + Road Safety Costs) ÷ Premiums Earned<br>Benchmark: Year 2000 Canadian P&C selling auto insurance 73.6% | 91.3% | 87.0% | 93.9% | 95.5% | 90.6% | 89.0% |
| **2. Manage operating and adminis-tration costs** | **Operating Expense Ratio:** | The ratio of non-claims costs to insurance premium dollars earned. They include operating costs that are not directly related to servicing claims such as commissions paid to brokers who sell our insurance to customers, premium taxes paid to Government on sales, and product design (underwriting).<br>Calculation: (All operating costs that are not directly attributable to the claims line of business excluding non-insurance costs) ÷ Premiums Earned<br>Benchmark: Year 2000 Canadian P&C selling auto insurance 24.2% | 19.6% | 20.0% | 19.0% (forecast & not a target as this is a new measure) | 17.6% | 17.5% | 17.5% |

| Strategic Objective | Corporate Measure | Definition | 1999 Actuals | 2000 Actuals | 2001 Target | 2002 Target | 2003 Target | 2004 Target |
|---|---|---|---|---|---|---|---|---|
| **3. Manage operating and adminis-tration costs** | Acquisition Cost Ratio | Average commission for each insurance premium dollar earned. This measure includes non-insurance costs. | 7.3% | 7.5% | 7.2% (forecast & not a target as this is a new measure) | 7.3% | 7.3% | 7.3% |
| | General Expense Ratio | This measure represents ICBC's costs for administration, internal costs associated with servicing Autoplan product and the payments expressed as a percentage of premium dollars earned. This measure includes non-insurance costs.<br>Calculation: (Autoplan + Premium tax + Administration) ÷ Premiums earned | 13.3% | 13.5% | 12.7% (forecast & not a target as this is a new measure) | 11.2% | 11.0% | 11.0% |
| | Commercial Vehicles and Driver Services | This measure represents the amount ICBC spends in commercial vehicle services and driver services.<br>This measure can be broken down into:<br>Commercial Vehicles ratio 1.3%<br>Driver Services ratio 1.6%<br>2.9%<br>Calculation: (Commercial Vehicles + Driver Services) ÷ Premiums earned | 2.9% | 3.2% | 3.7% (forecast & not a target as this is a new measure) | 2.9% | 2.7% | 2.6% |
| **4. Maximize investment return** | Investment return | Investment return on a financial accounting basis. | 8% | 10.8% | 8% | 7% | 6% | 6% |

| Strategic Objective | Corporate Measure | Definition | 1999 Actuals | 2000 Actuals | 2001 Target | 2002 Target | 2003 Target | 2004 Target |
|---|---|---|---|---|---|---|---|---|
| 3. Reduce crashes and crimes | Injury Frequency | This measure represents the number of injuries due to car crashes<br>Calculation: Average monthly injuries per 10,000 vehicle policy years | Not available | Not available | Not available | Under develop-ment | To be determined | To be determined |
| | Autocrime Frequency | This measures the amount of autocrime<br>Calculation: Average monthly auto crime incidents per 10,000 vehicle policy years | Not available | Not available | Not available | Under develop-ment | To be determined | To be determined |

| Strategic Objective | Corporate Measure | Definition | 1999 Actuals | 2000 Actuals | 2001 Target | 2002 Target | 2003 Target | 2004 Target |
|---|---|---|---|---|---|---|---|---|
| **CUSTOMER – ICBC will be customer driven** | | | | | | | | |
| 1. Satisfy customers[25] | Customer Confidence Index: | This measures the customer's confidence or trust in ICBC's ability to deliver its services fairly and effectively (Autoplan, Claims, Road safety, and licensing services). | 58.6% | 58.8% | 63% | To be determined | To be determined | To be determined |
| | Percent satisfied: | Percentage of customers satisfied with a recent transaction with ICBC: | 74% | 76.4% | 81% | To be determined | To be determined | To be determined |

[25] ICBC is moving to improve its customer satisfaction through the introduction of a new approach. As a result, new targets will be established.

## Data Sources & Reliability

- Data for the financial information contained in this plan are from ICBC's corporate financial systems, which are audited annually by the Corporation's external auditors.

- The Customer Confidence Index and the Percent Satisfied measures are maintained through ICBC's Corporate Research Department's customer survey results which is based on a sample size of 18,000 customers (4,500 each quarter) annually, with a margin of error of ±0.5 per cent, 19 times out of 20.

# SUMMARY FINANCIAL OUTLOOK

| ($Thousands) | 2001 (outlook) | 2002 (outlook) | 2003 (outlook) | 2004 (outlook) |
|---|---|---|---|---|
| Premiums Earned | 2,446,423 | 2,575,490 | 2,803,000 | 2,969,000 |
| Investment Income | 448,033 | 398,777 | 347,000 | 347,000 |
| **Total Revenue** | 2,894,456 | 2,974,267 | 3,150,000 | 3,316,000 |
| Claims Incurred — net | 2,106,137 | 2,160,494 | 2,222,000 | 2,307,000 |
| Claims Services & Road Safety | 325,214 | 299,908 | 316,000 | 337,000 |
| Other Insurance Expenses | 480,017 | 410,737 | 491,000 | 521,000 |
| Non Insurance Expenses | 98,669 | 98,588 | 99,000 | 100,000 |
| **Total Expenses** | 3,010,037 | 2,969,727 | 3,128,000 | 3,265,000 |
| Operating Income (loss) before the under-noted | (115,581) | 4,540 | 22,000 | 51,000 |
| Transition Costs | (42,000) | (15,000) | | |
| Investment provision | (100,000) | | | |
| **Net Income (loss)** | (257,581) | (10,460) | 22,000 | 51,000 |

| Key Assumptions | Forecast Risks & Sensitivities |
|---|---|
| • Claims increases and vehicle growth.<br>• No prior years' adjustments are reflected in 2002 and beyond.<br>• Outlook is based on no significant change in business practices.<br>• Outlook is based on the status quo business model.<br>• Transitions costs are one time costs to streamline the organization.<br>• Rate increases at inflation and to ensure long-term financial stability.<br>• Return on investment – zero asset growth and seven per cent (2002) and six per cent (2003-2004) rate of return on average portfolio balance.<br>• Other insurance expenses include acquisition costs and any related adjustments. | • One per cent change in premiums would result in a $26 million change in net premiums.<br>• Five per cent change in claims would result in a $105 to $125 million change in claims costs.<br>• 0.25 per cent change in investment return means $14 million in investment income.<br>• One per cent change in investment balance would result in a $4 million change in investment income.<br>• One per cent change in unpaid claims balance equals $40 million. |

# MAJOR CAPITAL PROJECT INFORMATION

## Central City

### PROJECT DESCRIPTION AND OBJECTIVES

ICBC Properties Ltd. (IPL), was created in 1999 as a wholly owned subsidiary of ICBC, with responsibility for managing ICBC's real estate held within its investment portfolio, including real estate development. IPL has its own board of directors and executive management team. Two of the three IPL directors are also on ICBC's Board of Directors.

The Central City development is IPL's major real estate development. Located next to the Surrey Central SkyTrain Station, the project consists of the Surrey Place Mall and new construction of a Galleria and 25 story-office tower with leased commercial and office space. The gross leaseable area for this project is 870,000 square feet. Construction began in spring 2000, with completion expected in January 2003.

TechBC has entered into a 25-year lease agreement with IPL for approximately 450,500 gross square feet of space. ICBC is actively seeking potential tenants for the remaining 320,000 gross square feet of space. ICBC's current arrangement is for occupancy of approximately 205,000 gross square feet of space.

### COSTS

ICBC spent $40 million for the purchase of the Surrey Place Mall for $31 million in cash, and an agreement to assume a $9 million outstanding mortgage on the property. At the time of the purchase, the mortgage interest rate was higher than the market rate. This difference represented an additional $3.5 million in costs for the purchase of the mall. The budget for the construction project is $209.4 million. As of November 30, 2001, approximately $92.1 million was expended, $61.9 million had been committed and $55.4 million remained. As is common practice, these amounts do not include tenant improvements or relocation costs. Construction is continuing to progress in accordance with the original schedule and budget.

### BENEFITS

The benefits originally intended for this project included:

- Direct employment resulting from construction, maintenance, and administration of the facility,
- Increased economic activity associated with the tenants' business needs,
- Enhanced utilization of existing transportation infrastructure, and
- Advantages derived from synergies between ICBC, TechBC and other tenants.

ICBC recently undertook an assessment of the benefits and the fair market value of its investment in the Central City development. The assessment concluded the value of the asset should be reduced by $100 million given the current market conditions. The facility has specifications designed for tenants with sophisticated technology needs. The current market rates for these types of buildings are lower than forecasted when the project was approved. Moreover, it was originally intended that ICBC would occupy space at a higher rental rate. Returns for similar development projects would be higher than Central City's originally projected return.

## RISKS

***Development risks:***

Financial risks exist due to the potential for fluctuation in the cost of materials, design errors and omissions, scope changes, and other unanticipated construction costs typical of a project of this size and complexity.

The design and materials used in the structure are complex and sophisticated, requiring particular diligence on the part of contractors, architects and project managers. This has been addressed by having a qualified team at IPL with substantial project management experience and by ensuring fixed-price contracts are put in place. The project has now progressed such that these major construction risks have been mainly overcome.

***Leasing risks:***

Vacancy rates have a major influence on leasing risks. Since the project began there has been a general market slowdown, with an associated impact on vacancy rates.

The building is a Class A building and was designed for specific tenants. The sophisticated nature of the facilities design and amenities lends itself to attracting tenants with specific space requirements, thereby limiting the market for potential tenants.

Generally, real estate development projects are designed to provide higher returns to compensate for the higher risks. In the case of Central City, lower financial returns were accepted given the anticipated social benefits. ICBC has reviewed its investment policies with respect to the appropriate role for social investments in its portfolio. Changes to the investment policies will ensure that ICBC is aligned with industry standards, that future investments will achieve a rate of return that is comparable to the risks assumed, and that the investments are appropriate for the nature of the liabilities being covered by the portfolio.

# APPENDIX A: CHANGES TO ICBC'S PERFORMANCE MEASURES

## Financial Perspective

- ***Combined ratio*** - Combined ratio, a standard industry measure, was added as a key financial indicator of performance.
- ***Loss ratio*** - The 2002 measure now incorporates the cost of road safety or loss prevention. This was done to better reflect the complete cost of managing claims costs. This measure includes the previously used Claims Cost Control Expense per Reported Claim measure and a portion of the previously used Total Expense per Gross Premium Written.
- ***Operating costs*** - The unit of measure was changed from a per claim basis to one based on premium dollars earned for ease of comparability to other insurance companies. This measure also includes the remaining portion of the previously used Total Expense per Gross Premium Written measure.
- ***General expense ratio*** - This measure replaces the Administrative Expense to Gross Revenue measure. This new measure includes not only administrative expenses, but also premium tax and Autoplan costs. The denominator was changed from gross revenue to earned premiums to facilitate year-to-year and industry comparisons.
- ***Rate stabilization ratio*** - Calculation of this formula is under review.
- ***Reduce crashes and crimes*** - This measure was previously located in the customer perspective. It has now been transferred to better reflect the cost control aspect of road safety and loss prevention. In addition, the unit denominator has been changed from per 100,000 population to vehicle policy years, which is a much more objective and accurate base. The number of crashes and crimes are still subject to timing delays on reporting of crashes and crimes.

## Customer Perspective

- ***Rate of premium price change*** - The measure has been removed to reflect the fact that it consists of policy advice and competitive information.
- ***Customer Confidence Index*** - This measure was formerly named the Customer Value Index and continues to measure customers' expectations on being satisfied by ICBC.