



Insurance Corporation of British Columbia

# Service Plan

## 2008 – 2010

January 2008



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# Introduction

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## Purpose

The Insurance Corporation of British Columbia's (ICBC) 2008 – 2010 Service Plan presents an overview of the company's three-year plan to fulfill its responsibilities for providing vehicle insurance, driver licensing, and vehicle licensing and registration services. In this Service Plan, ICBC sets out its performance accountability to the public by describing:

- where the company envisions itself in three years;
- what goals ICBC needs to achieve to realize this vision; and
- how ICBC defines and measures progress on achieving these goals.

In 2009, ICBC will publish its 2008 Annual Report detailing the extent to which it has achieved the goals set out in this Service Plan. The Service Plan and Annual Report are companion documents and central to the broader accountability framework for Crown corporations.

In developing the Service Plan, ICBC has relied on guidance from various sources including:

- the Shareholder's Letter of Expectations between ICBC and government, which can be accessed on [www.icbc.com](http://www.icbc.com).
- the Crown Agency Secretariat's *Guidelines for Government Organizations Service Plans*, August 2007, which can be accessed on [www.gov.bc.ca/cas/](http://www.gov.bc.ca/cas/).
- the Legislative Assembly of BC's Select Standing Committee on Crown Corporations (SSCCC) in *A Guide to Operations*, April 2003, which can be accessed on [www.leg.bc.ca/](http://www.leg.bc.ca/).

## Balancing Accountability and Commercial Sensitivity

ICBC is committed to providing customers and the public with information needed to understand the company's plans and to evaluate its performance against those plans. This is fundamental to the governance of any Crown corporation.

ICBC competes with other insurance companies in the sale of optional vehicle insurance products in BC. Due to commercial concerns, this Service Plan does not provide specific competitive information pertaining to the company's Optional insurance business.

## Letter from the Chair of the Board

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

*Dear Minister,*

On behalf of the Board of Directors and employees of ICBC, I am pleased to present the company's 2008 – 2010 Service Plan.

ICBC's vision is to be British Columbians' preferred auto insurer, providing protection and peace of mind, delivering quality auto insurance products and services at competitive prices through a knowledgeable team committed to our customers.

Some of the major achievements in the past year have included the successful introduction of a separate policy contract for Optional insurance to meet the new regulatory framework that took effect on June 1, 2007, enhancements to customer service, and becoming a sponsor of the Vancouver 2010 Olympic and Paralympic Winter Games. The current year has also been strong on the financial front, due in part to the turnaround and sale of the Corporation's Central City development in Surrey, a strong return on our equity portfolio, and the favourable development in current and prior years claims costs.

Looking ahead, growing bodily injury costs continue to be an issue for ICBC as well as for the industry as a whole. ICBC applied to make important changes to Basic insurance rates through the British Columbia Utilities Commission. These changes were approved and will help make rates more reflective of risks and target aggressive high-risk drivers, who we know from police reports contribute to almost 45 per cent of fatalities. ICBC is also focusing on getting bad drivers to either change their behaviour or pay more for their insurance. In addition, ICBC's road safety partnerships with government, enforcement bodies, business partners and local communities are other important aspects of its ongoing campaign to reduce crashes and keep insurance rates low and stable for safe drivers.

ICBC is focused on providing an improved customer experience, which is supported by necessary reinvestments in its aging legacy systems, business processes, and most importantly, in its people, now and for the future. ICBC has successful ongoing partnerships with independent brokers and repair shops that help provide a high level of service to our customers.

In addition to working with the province on an enhanced driver licence as an alternative form of identification for land and sea cross-border travel between Canada and the United States, ICBC is also working with the provincial government to enhance the overall security of the BC driver's licence. This includes measures such as harmonizing driver licensing standards with other jurisdictions.

ICBC also supports government's commitment to address the province's climate change challenge. Global warming is a major issue for everyone. It is incumbent on ICBC to do its part to manage its impact on the environment. ICBC will be engaging its people to develop ideas and new solutions to this end.

With our great team of partners and employees, a proven history of success and a commitment to our customers, I am excited about the opportunities before us and am confident in our ability to meet the challenges ahead.

### **Statement of Accountability**

*ICBC's 2008 – 2010 Service Plan was prepared under the direction of the Board of Directors in accordance with the Budget Transparency and Accountability Act and the BC Reporting Principles. This plan is consistent with government's strategic priorities and overall Strategic Plan.*

*The Board is accountable for the contents of the plan, including the selection of performance measures and targets and the basis on which the plan has been prepared. The targets in this plan have been determined based on an assessment of ICBC's operating environment, forecast conditions, risk assessment and past performance. Achievement of results may be influenced by factors that are beyond the company's control. All significant assumptions, policy decisions and identified risks as of January 23, 2008, have been considered in preparing the plan. The Board is accountable for ensuring ICBC achieves its specific objectives and measures identified in the plan and for measuring and reporting actual performance.*



**T. Richard Turner**  
*Chair, Board of Directors*

## Overview of ICBC

### Insurance Services

ICBC is a provincial Crown corporation established in 1973 to provide universal compulsory vehicle insurance (Basic insurance) to BC motorists. The company is the sole provider of Basic insurance in the province and competes with other insurance companies in the sale of Optional vehicle insurance coverages. ICBC operates as an integrated company, which provides significant benefits to customers in terms of costs and convenience. With annual earned premiums of approximately \$3.6 billion, approximately \$12.0 billion in assets, and employing approximately 5,000 people, ICBC is one of the largest property and casualty insurers in Canada<sup>1</sup>. For more information, please refer to [www.icbc.com](http://www.icbc.com) under Inside ICBC.

### Loss Management Programs

ICBC invests customers' premiums in fraud prevention and road safety initiatives that provide a direct benefit to its customers through reduced claims costs. This ultimately keeps premiums low and stable. ICBC works with a network of partners across the province to deliver these programs, including the Ministry of Public Safety and Solicitor General, the enforcement community, the Ministry of Attorney General, the Ministry of Transportation, municipalities, community groups, and volunteers. For more information, please refer to [www.icbc.com](http://www.icbc.com) under Road Safety.

### Non-Insurance Services

In addition to its Basic insurance and Optional insurance lines of business, ICBC provides vehicle and driver licensing services, vehicle registration services and fines collection on behalf of the provincial government. ICBC refers to the provision of these services as its Non-insurance line of business. The costs of these Non-insurance expenses are typically funded through ICBC's Basic insurance premiums and governed by the Service Agreement with government.

### Key Business Partners<sup>2</sup>

ICBC delivers its services in partnership with:

- Independent insurance brokers – guided by the Autoplan Agency Agreement and the recently renewed five-year Strategic Broker Accord;
- A broad base of suppliers in the collision repair industry – guided by a performance-based agreement which will be renewed in 2008;
- Provincial government, especially the Ministry of Public Safety and Solicitor General (MPSSG) – works closely with ICBC on a number of issues and functions, including those related to the Office of the Superintendent of Motor Vehicles;
- Office of the Superintendent of Motor Vehicles (OSMV) – ICBC is accountable for testing and licensing drivers and administering certain functions on behalf of OSMV;
- Road authorities – e.g., municipalities to share costs on road improvements that decrease the frequency and severity of crashes; and
- Government Agents and Appointed Agents – provide driver and vehicle licensing services to small communities on behalf of ICBC.

<sup>1</sup> As ICBC's 2007 financial statements are not finalized as of December 31, 2007, outlooks for 2007 have been provided. These are the most recent outlooks available at the time the Service Plan was prepared. For final numbers, please consult ICBC's 2007 Annual Report once it is available. Data for the financial information contained in this plan are from ICBC's corporate financial statements, which are audited annually by the Corporation's external auditors.

<sup>2</sup> For more information, please refer to the Business Partners page on [www.icbc.com](http://www.icbc.com)



## Governance

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

### Legislative Framework

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

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

### ICBC as a Regulated Crown Entity

In 2003, government passed the *Insurance Corporation Amendment Act*, which named the British Columbia

Utilities Commission (BCUC) as the independent regulator for ICBC. In this role, the BCUC's mandate is to approve Basic insurance rates and ensure that ICBC's provision of service for its Basic product is adequate, efficient, and reasonable. As ICBC is the sole provider of Basic insurance, this new regulatory environment is important for BC, providing customers with an independent and transparent review of the Corporation's Basic insurance operations and an opportunity to be heard and involved in the review.

The Commission's initial phase of regulation included financial allocation between Basic and Optional insurance businesses, revenue requirements for Basic insurance, and Basic rate design. These elements have now been reviewed. ICBC will work with BCUC to achieve effective and efficient regulation that contributes to an open and transparent regulatory process for the setting of Basic insurance rates and meeting the expectations of its customers.

For more information on BCUC, please refer to their website [www.bcuc.com](http://www.bcuc.com). ICBC's recent submissions to BCUC can be found on [www.icbc.com](http://www.icbc.com) under Inside ICBC.

### Shareholder's Letter of Expectations

The Shareholder's Letter of Expectations is designed to create a common understanding between the shareholder and Crown corporation's Board of Directors on responsibilities and accountabilities, key governance issues, corporate mandate and core services, public policy issues, strategic priorities, and performance expectations. For more specific information, please refer to the section on Alignment with the Shareholder's Letter of Expectations in this Service Plan.

## ICBC Board Governance

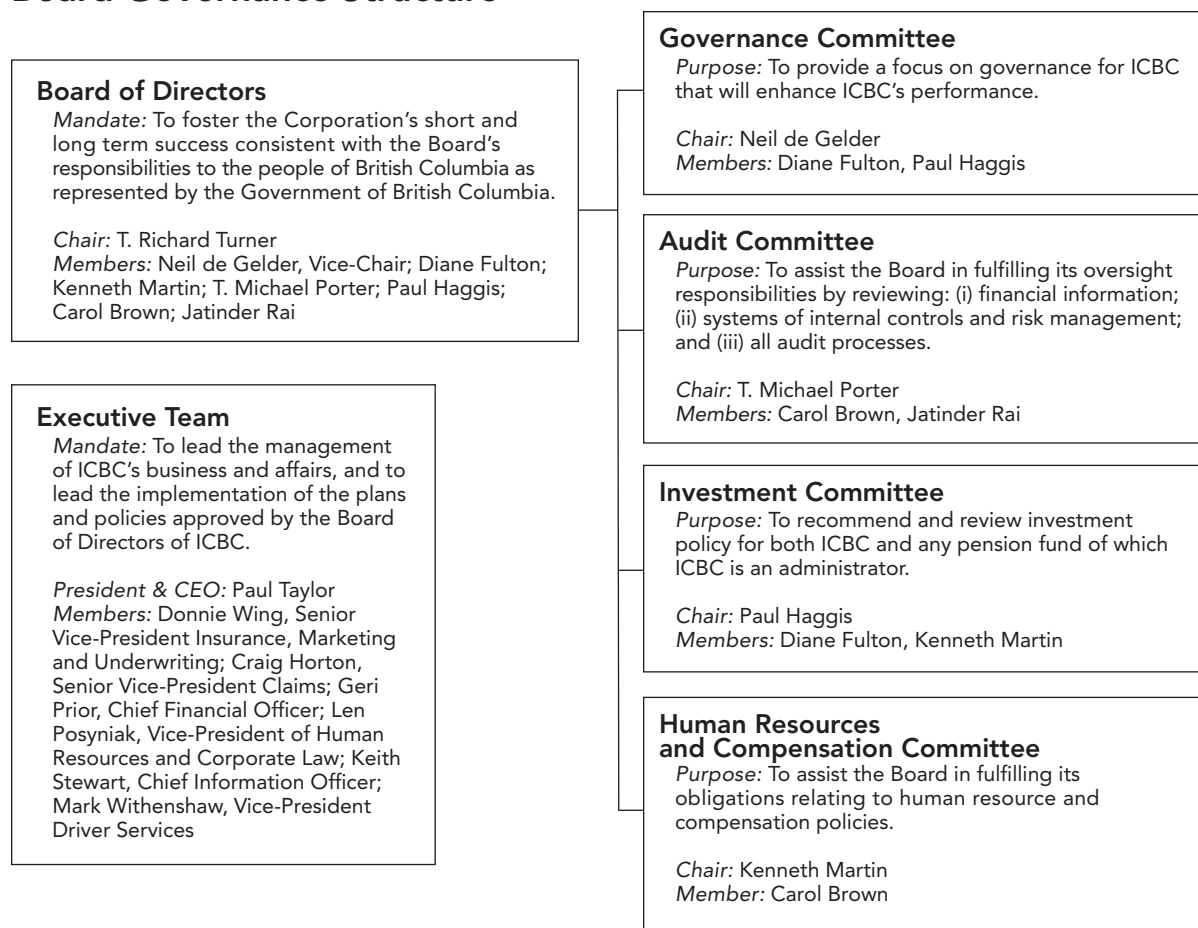
The Board of Directors guides the Corporation in fulfilling its mandate and sets the direction for ICBC. The Board and management approve the corporate vision, mission and values to guide the Corporation. The Board sets goals for corporate performance and these goals and associated objectives are the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

The governance processes and guidelines outlining how the Board will carry out its duties of stewardship and

accountability are set out in the Board Governance Manual, which is updated annually by the Governance Committee. ICBC's Board complies with the Board Resourcing and Development Office Guidelines and has adopted the guiding principles included in the provincial government's "Governance Framework for Crown Corporations: Best Practices Governance and Disclosure Guidelines" ([www.lcs.gov.bc.ca/brdo/governance/corporateguidelines.pdf](http://www.lcs.gov.bc.ca/brdo/governance/corporateguidelines.pdf)). For more detail on these governance principles, please refer to the Annual Report.

Further information on Board members and Board policies is available on ICBC's website, [www.icbc.com](http://www.icbc.com) under Inside ICBC.

## Board Governance Structure



In January 2008, the following Board members retired: Alice Downing, Susan Paish and Bob Quart. ICBC thanks them for their significant contribution to the development and success of the Corporation.

## Strategic Context

### Industry and Competitive Context

Insurance is a complex business affected by external trends, factors, and risks. Understanding these trends and factors, and their implications for ICBC, is an integral part of planning. These external forces can present both significant opportunities and risks for the company, and hence, heighten the importance of planning to capitalize on the opportunities and mitigate risks.

#### ***Profitability of Canadian Property and Casualty Insurance Industry***

The Canadian property and casualty (P&C) market saw a fourth consecutive profitable year in 2006 and the industry has built up \$8 billion in excess capital<sup>3</sup>. Net income for P&C insurers increased to approximately \$6.5 billion, a 34% increase compared to 2005<sup>4</sup>.

It is expected that 2007 will continue to be a healthy year for the industry but early results show some deterioration in profitability, particularly in the auto insurance line. Losses are up and insurers are increasingly relying on investment income to earn profits<sup>5</sup>. Looking ahead, the market is expected to continue to soften with indications of greater price competition, higher expenses, and a possible increase in merger and acquisition activity that will consolidate the market<sup>6</sup>.

#### ***Automobile Insurance***

According to 2006 data, automobile insurance is the largest class of insurance in Canadian P&C, constituting approximately 48% of direct premiums written in the

industry<sup>7</sup>. The auto line has not performed as well as the industry, overall, with deteriorating losses<sup>8</sup> and flat premium growth.

Ontario, which accounts for about half of all auto insurance written in Canada, has seen an increase in bodily injury severity and accident benefit claims. The majority of markets across Canada are experiencing a similar deterioration in loss ratios in the auto line<sup>9</sup>.

#### ***Regulatory Trends***

The auto insurance reforms in Ontario, Alberta, and Atlantic Canada, which began in 2003 to curb a prolonged period of double-digit rate increases, has lowered auto insurance rates. The majority of these reforms reduced or limited coverage (e.g., caps or deductibles on pain and suffering awards), and also introduced new underwriting restrictions<sup>10</sup>.

According to the Insurance Bureau of Canada (IBC), based on the decrease in the annual average auto premiums for the provinces, there have been substantial savings since these reforms were put in place<sup>11</sup>. It is important to note that these premium reductions have been a combined result of insurer rate decreases, reflecting changes in coverage levels, as well as mandated rate rollbacks and freezes.

There have also been unintended consequences as a result of the regulatory reforms<sup>12</sup>. These consequences are now beginning to surface. For example, Alberta's maximum rate grid, which sets the highest premium that can be charged for high-risk drivers, now covers 11.5% of the private passenger market, and less than 40% of the risks covered today are those that it was

<sup>3</sup> MSA/Baron Outlook Report Q4 2006 – NB. \$8 B industry excess capital is based on a Minimum Capital Test (MCT) of 180% (required minimum has been 150%)

<sup>4</sup> MSA Researcher 2007 (Net Income using Benchmark Total Canadian P&C)

<sup>5</sup> MSA/Baron Outlook Report Q1 2007

<sup>6</sup> Thompson's Daily Insurance News Service (October 3, 2007)

<sup>7</sup> Canadian Underwriter 2006 Statistical Issue (June 2007)

<sup>8</sup> A.M. Best Research Canadian Property/Casualty – 2007 Review & Preview Special Report (September 10, 2007)

<sup>9</sup> Thompson's Daily Insurance News Service (October 3, 2007)

<sup>10</sup> For a more detailed breakdown of these reforms, please refer to previous years' Service Plans (particularly 2004-2006 and 2005-2007)

<sup>11</sup> Canadian Insurance E-News & Insurance Canada.ca (Aug 24, 2007) "Auto Insurance Reforms in Ontario, Alberta and Atlantic Canada Deliver \$6.8 billion in savings"

<sup>12</sup> MSA/Baron Outlook Report Q1 2007

designed to cover. There are also early indications of erosion of the caps and deductible levels on pain and suffering implemented across a number of provinces, as they are challenged in the legal system.

Auto insurance systems are complex with many stakeholders and inter-relationships that are not always apparent. The impact of the regulatory reforms will likely continue to evolve as customers and stakeholders go through a period of initial learning while adapting to new systems<sup>13</sup>.

<sup>13</sup> MSA/Baron Outlook Report Q1 2007

## Key Strategic Issues and Risks

Looking ahead to 2008 – 2010, ICBC has identified a number of issues and risks that could impact ICBC's future performance.

### Key Strategic Issues

- **Competition in the Optional Insurance Market** – As indicated earlier, the Canadian P&C insurance industry has been experiencing strong profitability. In 2007, two new insurers entered the BC auto market. One of these new entrants also recently acquired one of the larger private insurers in the BC market.
- **Automobile Crashes** – As vehicle population grows,<sup>14</sup> the risk of automobile crashes rises. Preliminary data for the first three quarters of 2007 shows an increase of about 5% in the crash rate per 10,000 vehicles insured over the comparable period from 2006. Although the crash rate has increased, there has been a slight decrease in the rate of more serious crashes in 2007<sup>15</sup>.
- **High-Risk Drivers** – Bad driving affects everyone's insurance rates. High-risk drivers are a serious concern as they cause a disproportionate number of crashes and these crashes are very costly. There were more than 100 traffic fatalities caused by impaired driving in 2006, and about 200 fatalities caused by other high-risk driving behaviours, such as excessive speed and failing to observe traffic signals. ICBC is taking steps to increase personal accountability for high-risk driving through a combination of underwriting enhancements to better reflect driver risk, and supporting driver licensing strategies.
- **Automobile-Related Crime** – Insurance costs for all British Columbians are impacted by automobile-related crime. It continues to be an area of focus for ICBC even though automobile-related crime rates have declined by almost 50% since 2002. This improved trend is likely the result of a combination of more wide-spread use of anti-theft technology and successful partnership with police and community stakeholders on automobile-related crime prevention.
- **Evolving Business Environment** – A tight BC labour market and legacy business systems are a challenge that ICBC faces, precipitating the need for reinvestment and evolution of service delivery.
- **The BCUC Regulatory Process** – Following its initial phase of regulation which saw the review of a number of important areas, ICBC will work with BCUC to achieve effective and efficient regulation that contributes to an open and transparent regulatory process for the setting of Basic insurance rates.

In addition to the above, ICBC's risk management framework has identified potential corporate level risks which are actively monitored and mitigated. The framework considers both external and internal environments, and risks and challenges associated with each. Among other factors, capacity and resources are an essential consideration in the development of mitigating strategies. Key risks and their mitigation strategies are listed in the tables on the following pages.

<sup>14</sup> Vehicle population projected to grow by 2.6% in 2008 (ICBC Corporate Actuarial)

<sup>15</sup> As reflected in the injured participant rate, which measures the number of people injured per 10,000 vehicles insured, showing a slight decrease in the rate of more serious crashes (about 3%) from 2006

## Key Strategic Risks

### Claims Costs\*

<p><b>Description of Sensitivities / Risks:</b></p> <ul style="list-style-type: none"> <li>• Increased severity, frequency, litigation of claims and/or fraud results in higher costs.</li> <li>• Claims costs account for approximately 75% of ICBC's total expenditures.</li> <li>• Bodily injury claims costs are rising resulting in a significant impact to claims costs and Basic rates.</li> </ul>	<p><b>Mitigation Strategies:</b></p> <ul style="list-style-type: none"> <li>• ICBC employs a number of strategies to minimize the impact of rising claims costs including road safety activities aimed at reducing crashes, underwriting enhancements that set premiums to better reflect risk, improvements to financial governance throughout the claims handling process and close partnerships with the collision repair and medical industries to address cost pressures on an ongoing basis. ICBC also continues to focus on implementing strategies aimed at controlling bodily injury claims costs.</li> </ul>
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### Access to Personal Information

<p><b>Description of Sensitivities / Risks:</b></p> <ul style="list-style-type: none"> <li>• As part of both Insurance and Non-insurance businesses, ICBC maintains personal information relating to its customers, and deals with business partners and customers over the internet. Access to personal information must be carefully managed and measures must be in place to guard against unauthorized access to this data.</li> </ul>	<p><b>Mitigation Strategies:</b></p> <ul style="list-style-type: none"> <li>• ICBC's Information Security and Privacy Policy Steering Committee provides governance over policies established to ensure the proper collection, use and disclosure of personal information.</li> <li>• ICBC has updated its Code of Ethics to reflect its focus on protecting access to information. The company continues to undertake significant awareness campaigns within the company, as well as with our business partners, to educate them on the importance of understanding our customer's personal privacy.</li> </ul>
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### Financial Markets\*

<p><b>Description of Sensitivities / Risks:</b></p> <ul style="list-style-type: none"> <li>• ICBC manages an investment fund of approximately \$10 billion. Investment income contributes significantly to overall net income and plays an important part in minimizing the cost of insurance by partially offsetting future claims costs. An adverse change in the market value of assets could result in lower-than-expected investment income and/or asset value.</li> </ul>	<p><b>Mitigation Strategies:</b></p> <ul style="list-style-type: none"> <li>• ICBC's investment policy addresses the Corporation's risk tolerance and investment goals, and specifies a long-term investment asset mix and fixed income duration consistent with these objectives. The policy, which is established by the Investment Committee and approved by the Board of Directors, is based on prudence and regulatory requirements, and provides guidelines for balancing the levels of risk and return in ICBC's investment portfolio.</li> <li>• ICBC follows a long-term strategy and diversifies its investment holdings to manage investment return fluctuations.</li> </ul>
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### Business Interruption

<p><b>Description of Sensitivities / Risks:</b></p> <ul style="list-style-type: none"> <li>• Business interruption arising from an event, both physical and/or technical, could potentially disrupt service levels for insurance, driver, and claims services.</li> </ul>	<p><b>Mitigation Strategies:</b></p> <ul style="list-style-type: none"> <li>• ICBC's business interruption risk is managed through three related programs: Emergency Response Program (safe building evacuations, search &amp; rescue, etc.), Business Continuity Planning (continued essential customer services during interruption) and IT Disaster Recovery Planning (ICBC's Data Center).</li> <li>• The company continues to explore partnership opportunities with other BC government entities and Crown corporations to develop more cost effective shared solutions for disaster recovery.</li> </ul>
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\* Please refer to the Summary Financial Outlook for Forecast Risks and Sensitivities

<b>Customer Support</b>	
<p><b>Description of Sensitivities / Risks:</b></p> <ul style="list-style-type: none"> <li>• ICBC’s focus on customers is a key goal of the corporate strategy. Changes in service delivery, product pricing or design, ICBC programs, and evolving customer expectations could negatively influence customer satisfaction.</li> </ul>	<p><b>Mitigation Strategies:</b></p> <ul style="list-style-type: none"> <li>• ICBC monitors customer service performance by measuring the percentage of satisfied customers for each major transaction type – insurance services, driver services, and claims services.</li> <li>• The company communicates with the public and stakeholder groups to raise awareness and inform the public of ICBC’s products and the unique value received.</li> <li>• Policies and procedures have been implemented to support the Corporation’s commitment to fairness in all its dealings with customers, including a FairClaim process to provide customers with additional information about decision-making and financial impacts in the claims process. The Fairness Commissioner also provides a fresh, impartial review where ICBC and the customer cannot agree.</li> </ul>
<b>Catastrophic Loss</b>	
<p><b>Description of Sensitivities / Risks:</b></p> <ul style="list-style-type: none"> <li>• A catastrophic event (e.g., earthquake) or an extraordinarily large claim could lead to unanticipated claims costs.</li> </ul>	<p><b>Mitigation Strategies:</b></p> <ul style="list-style-type: none"> <li>• In the event of losses resulting from catastrophes such as an earthquake, ICBC has financial protection through a reinsurance policy that is reviewed and renewed annually. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits.</li> <li>• In addition to protection against individual catastrophic events, the reinsurance program protects the Corporation against abnormally large losses by limiting the amount for which the Corporation is liable in any single event and in any given year.</li> </ul>
<b>Workforce Planning</b>	
<p><b>Description of Sensitivities / Risks:</b></p> <ul style="list-style-type: none"> <li>• Retention of corporate talent and planning for replacement of key positions are essential in meeting current and future business needs. This is a particular challenge given the competitiveness of the BC labour market. About 30% of ICBC’s current employees are 50 years of age or older. This represents a large number of future potential retirees. Lack of succession planning can result in the loss of skills and knowledge that enable the achievement of corporate goals and objectives.</li> </ul>	<p><b>Mitigation Strategies:</b></p> <ul style="list-style-type: none"> <li>• ICBC’s human capital plan is focused on a multi-faceted approach of recruitment, compensation, training and leadership development to attract, develop and retain talent for the future.</li> <li>• The company is working with its various divisions to determine critical skills and knowledge gaps.</li> </ul>
<b>Reputation</b>	
<p><b>Description of Sensitivities / Risks:</b></p> <ul style="list-style-type: none"> <li>• Given ICBC’s scope of operations, there is a risk that information collected by ICBC may be collected from unauthorized sources, or used for inappropriate purposes, or disclosed to non-authorized users, jeopardizing the protection of the privacy of the collected information both internally and by third-party businesses.</li> <li>• On behalf of the provincial government, ICBC is the sole provider of driver licences in British Columbia. If a licence is fraudulently obtained it could result in public safety or identity-fraud issues.</li> </ul>	<p><b>Mitigation Strategies:</b></p> <ul style="list-style-type: none"> <li>• This risk is mitigated by existing operational processes and management’s continued efforts to improve and clarify the governance framework for ICBC managers, staff and business partners.</li> <li>• ICBC is reviewing enhanced technology options available in the market for driver licences. As part of this process, the company is in discussion with government on options around available technology and the required legislative amendments that would enable enhanced security.</li> </ul>



## Corporate Strategy

ICBC's Corporate Strategy was updated in 2006.

The updated strategy reflects a multi-year effort to further ICBC's four corporate goals along five key strategies. As management considers the next phases of implementation in 2008 – 2010, a disciplined and focused approach is imperative.

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

For the purposes of the Service Plan, we have focused the discussion at the Goals and Strategies level. Strategies are the themes we are focused around and are a subset of all the work that is underway to achieve our corporate objectives. As such, the strategies themselves do not encompass the full extent of work in the company, but represent the core areas of focus.

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

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



## Customer Focus

Being customer focused is an integral part of ICBC's Corporate Strategy. Throughout 2008 – 2010, ICBC will focus on two strategies that will contribute to the Customer Focus goal: strengthening our underwriting ability and creating an integrated customer experience across all major touch points, focusing on what is important to our customers.

To strengthen underwriting, ICBC is establishing a stronger association between premium rates and risk in a gradual and systematic manner without undermining historical rate stability and predictability. In its Basic Insurance Rate Design Application to the BCUC, some key rate design proposals were made that will make premium costs more reflective of driver risk and also increase driver accountability. One of the proposals, which will be implemented in 2008, is the Driver Risk Premium targeting drivers with convictions for offences that are highly correlated to crashes.

The other proposal will be to charge an additional premium on vehicles that are operated by other operators that have less experience or a worse crash history than the primary driver.

While there is a desire to move to a rating system that is more reflective of risks, the company is also committed to keeping rates low and stable. Therefore, it is anticipated that changes will be transitioned into the marketplace in a phased approach subject to the BCUC's approval and direction.

The company will also continue its effort to understand what customers consider important at each point of interaction. We will continue striving to be trusted to deliver exceptional value, provide hassle-free claims service and be easy to deal with. This involves training staff around our commitment to the customer and setting service standards that are aligned to what is important to the customer and their evolving needs.

### Summary Performance Measures

Strategies	Performance Measures	2006 Actual	2007 Plan	2007 Outlook	2008 Target	2009 Target	2010 Target
<ul style="list-style-type: none"> <li>▪ Strengthen our underwriting ability</li> <li>▪ Create an integrated customer experience around all major touch points, focusing on value attributes important to customers</li> </ul>	Insurance Services Satisfaction	93%	93%	93%	90%	91%	92%
	Driver Services Satisfaction	90%	90%	91%	91%	91%	91%
	Claims Services Satisfaction	81%	82%	84%	83%	83%	83%

## Performance Measures

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

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

### ***Insurance Services Satisfaction***

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

Based on results to date, the 2007 outlook is 93% which is consistent with the target and 2006. In 2008, it is anticipated that the other operator and driver risk premium initiatives will be implemented as a result of ICBC's rate design application to the BCUC. These initiatives are expected to result in additional time spent by the broker discussing the changes, and collecting additional information from impacted customers. As a result, brokers and ICBC are expecting a slight drop in overall customer satisfaction for the insurance transaction.

A return to historical norms is anticipated in 2010 once the implementation of these initiatives has been completed.

### ***Driver Services Satisfaction***

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

The outlook for ICBC's customer satisfaction for driver services is 91%, which is slightly higher than 2006. The score also indicates the target will be achieved.

The 2008 – 2010 targets are consistent with historical results.

### ***Claims Services Satisfaction***

Almost one million claims are processed each year through telephone claims and claims centres throughout the province. This measure represents the percentage of customers satisfied with a recent ICBC claims transaction and is drawn from a sample of approximately 7,000 customers surveyed throughout the year.

The outlook for 2007 is 84%, higher than 2006 and it is anticipated that the target will be exceeded. Claims services satisfaction has been improving throughout the year even though claims volumes have been slightly higher than 2006 levels.

The 2008 – 2010 targets are consistent with historical results.

## Financial Responsibility

ICBC's strong financial performance over the past several years has enabled the company to keep rates low and stable. For the past five years, the combined effect of Basic and Optional rate changes has kept annual increases to an average of 1.1% largely due to our efforts to manage our revenue stream and the growth in claims costs, our continued disciplined approach to managing operating costs and our ability to maximize return on investment. Despite a volatile investments market, the past year has been particularly strong given the one-time gain and reversal of a provision established in an earlier year in the sale of the Central City property located in Surrey, BC.

The company has achieved its capital management targets. Healthy capital levels help protect policyholders by enabling the company to provide stability in the face of significant, externally-driven negative impacts to the business.

A strong financial position also enables the company to renew its business infrastructure and processes to provide continued value to customers for the long-term.

During the past few years, the focus has been on cost reductions and holding the line on spending. This has resulted in the deferral of a number of infrastructure investments which will now need to be made in the next three-year planning horizon.

In addition, there are a number of other upward cost pressures that must be managed, including:

- rising costs of third-party services used to settle claims;
- funding for Loss Management and Non-insurance services; and
- operating expenses.

It appears that the rate of increase on bodily injury costs may be moderating. Trends are still showing an increase on the severity side, while frequencies are predicted to decrease and flatten over the longer term. Claims costs continue to be the most significant challenge. Looking ahead, the company will continue to deliver improved claims handling, targeted crash prevention, underwriting refinements and programs that address high-risk drivers while keeping rates low and stable for safer drivers.

### Summary Performance Measures

Strategies	Performance Measures	2006 Actual	2007 Plan	2007 Outlook	2008 Target	2009 Target	2010 Target
Reduce the growth of bodily injury claims with claims handling improvements, targeted crash prevention programs, and product and underwriting refinements	Minimum Capital Test	148%	151%	187.2%*	Min 150%	Min 150%	Min 150%
	Combined Ratio	106.4%	108.0%	101.0%	106.1%	109.0%	111.1%
	Loss Ratio	90.4%	88.9%	83.7%	87.0%	89.0%	90.9%
	Insurance Expense Ratio	15.7%	16.4%	16.0%	16.7%	16.9%	17.1%
	Non-insurance Expense Ratio	3.0%	2.7%	2.6%	2.8%	2.7%	2.7%
	Expense Ratio (excluding DPAC)	18.7%	19.1%	18.6%	19.5%	19.6 %	19.8%
	Investment Return (Market Return) **	Benchmark + 0.34%	Benchmark + 0.268%	Benchmark + 0.268%	Benchmark + 0.268%		

\* As defined by the Office of the Superintendent of Financial Institutions Canada, the change in MCT guidelines reflects the new Financial Instrument accounting standards which were effective January 1, 2007. The 2007 outlook of 187.2% using the pre-2007 guidelines is not available.

\*\* As of September 30, 2007, the four-year annualized average return for ICBC was 6.57% and the benchmark return was 6.20%. ICBC exceeded its target of the benchmark return of plus 0.268%.

## Performance Measures

### **Minimum Capital Test (MCT)**

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

The 2007 outlook MCT of 187.2% is 36.2% higher than the target and results from higher than expected net income and an OSFI-directed change in the MCT guidelines to incorporate the new Financial Instrument accounting standards. (The 2007 outlook using the pre- 2007 guidelines is not available.)

ICBC's target MCT for 2008 – 2010 continues to be a minimum of 150% to meet its capital management plan.

### **Combined Ratio**

The combined ratio is a key measure of overall profitability within the insurance industry. This measure is calculated as the ratio of costs (claims costs, claims-related costs, administrative costs, acquisition costs and non-insurance costs) to insurance premium dollars earned. A ratio below 100% indicates an underwriting profit while a ratio above 100% indicates an underwriting loss.

The 2007 outlook for the combined ratio of 101.0% is better than the target of 108.0%. This is mainly due to a combination of higher than plan premiums earned, lower than plan claims costs and operating costs, and lower than plan acquisition costs due to a positive Deferred Premium Acquisition Cost (DPAC) adjustment.

The targets for 2008 – 2010 are higher, reflecting current expectations around premiums earned and claims, operating, and acquisition costs. Any required adjustments to deferred premium acquisition costs have been reflected in the forecasts.

### **Loss Ratio**

This is a key performance indicator within the insurance industry measuring profitability of the insurance product – the lower the percentage the more profitable the product. This measure is calculated as the ratio of the total of claims costs and claims-related costs, including loss management costs, to insurance premium dollars earned.

The 2007 outlook of 83.7% is lower than plan primarily due to lower claims costs and higher premiums earned. Lower claims costs are due to some moderation of the rate of increase ICBC had been experiencing over the past few years in the cost of injury claims. In addition, some favourable development of injury claims from prior years has also assisted in strengthening this ratio.

The increase of the loss ratio from the 2007 outlook to the 2008 - 2010 targets is due to the expectation that claims costs will revert back to longer term trends starting in 2008 and reflect the current expectations about claims costs trends. In addition, the loss ratio includes an increase in the amounts for business changes in the areas of claims services and road safety and loss management.

### **Expense Ratio**

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

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

The overall P&C industry expense ratio for 2006 was approximately 28.6%<sup>16</sup>. For insurers who predominantly write auto insurance, the ratio was about 27.5%<sup>17</sup>. ICBC's expense ratio is lower than the industry average due to its ability to achieve economies of scale, the benefits of integrated operations, and lower marketing, underwriting and general administration costs.

The 2007 outlook expense ratio of 18.6% is better than the target and 2006, demonstrating ICBC's continued commitment to operating efficiently and the continued prudent management of costs. The 2007 outlook is lower than plan primarily due to higher than plan premiums earned, and lower than plan operating and acquisition costs.

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

The targets for 2008 - 2010 reflect higher operating costs required for compensation changes, increased amounts for business initiatives and general inflationary increases. It also includes expected costs to address internal climate change initiatives. Higher acquisition costs are also included, resulting from the strategic accord with ICBC's broker partners.

### **Investment Return**

At the end of 2007, ICBC's investment portfolio is anticipated to have a carrying value of \$9.6 billion. The portfolio, which is conservatively invested with the majority of assets held in investment grade bonds, is held to cover future claims payments and the investment income generated is used to reduce the premiums that we would otherwise need to collect from our policyholders. Investment returns, which incorporate both change in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard industry benchmarks.

As well, the return of the overall portfolio is measured against a policy benchmark, calculated as the average of individual asset class benchmark returns and weighted according to the portfolio's strategic asset mix. Asset class benchmarks and strategic asset mix are outlined in the ICBC Statement of Investment Policy and Procedures, which is set by the ICBC Board of Directors.

The 2008 – 2010 investment portfolio performance targets are set to outperform the policy benchmark, as described in the ICBC Statement of Investment Policy and Procedures, by 0.268%. For performance measurement purposes, ICBC does not forecast the benchmark return as it is the result of market forces beyond the company's control. In managing the portfolio, ICBC remains vulnerable to a deterioration in equity markets and to currency fluctuations. These risks are not unique to ICBC and are proactively managed by the Investment Department.

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

<sup>16</sup> MSA Benchmark Report, Property & Casualty, Canada 2007 (Expense Ratio for Total Canadian P&C excluding ICBC)

<sup>17</sup> MSA Benchmark Report, Property & Casualty, Canada 2007 (Expense Ratio for Auto Writers excluding ICBC)

## High Performing, Engaged and Capable People

Positioning ICBC to be BC's preferred auto insurer is contingent on the performance of its employees. Our company can best deliver on its commitments to its customers and maintain its financial health by having high performing, capable and engaged employees.

As the company engaged in a thorough examination of its people strategies, four areas of focus were identified that will help position our workforce to effectively support the business strategy. The table below describes these four areas and provides an overview of how the company has progressed and where we are heading.



### Summary Performance Measures

Strategies	Performance Measures	2006 Actual	2007 Plan	2007 Outlook	2008 Target	2009 Target	2010 Target
Position ICBC's workforce to effectively support business strategy by improving leadership capability and talent management processes and outcomes	Employee Engagement Index	52%	55%	49%	52%	N/A	N/A

## Performance Measures

### ***Employee Engagement Index***

ICBC's goal of High Performing, Engaged and Capable people is currently measured on the basis of the annual Employee Engagement Index against target. Based on industry best practice, the company's approach has been to establish a baseline engagement score, and focus on incremental improvements each year. As a result, this measure is set annually for one year without further forecasting. ICBC has also been advised by its external consultant that, given the uniqueness of each organization, rather than focusing on benchmarking targets against other organizations, we should focus our efforts on the different drivers of engagement within the company.

The Engagement Index is reviewed in context with a number of other internal indicators around performance, recruitment and retention. Looking ahead, work is

underway to automate our data gathering processes to ensure accurate and timely information that will provide a more comprehensive view of our people strategies.

In 2007, 81% of ICBC's employees participated in an annual survey designed to measure the level of employee engagement. Although the company fell 6% short of its 55% engagement target, it's important to note that ICBC's overall engagement score has been moving upward since the company started taking the survey in 2004. This result reinforces our view that building engagement is a long-term process that requires dedicated effort and consistent focus. In keeping with the company's long-term business strategy, ICBC remains committed to building a culture of high-performing, engaged and capable people, and as a result, has set an engagement target of 52% in 2008.

## Operational Excellence

Operational Excellence is about a continued focus on delivering efficient and high quality services. This includes addressing immediate service pressures at different points of customer contact like driver services, implementing ongoing improvements to claims handling, renewing technology, and introducing new business functionality.

It is also about ensuring that we have ongoing internal business capabilities to deliver on the strategies we have committed to over the course of the next three years. In particular, with the planned renewal of business infrastructure and processes over the immediate planning horizon, management is examining ways to improve processes, minimize support costs, and

build value for customers while ensuring success is sustainable as the market and customers' needs change. How the company invests in renewal of its technology and infrastructure is a major component of operational excellence.

Operational excellence is also about a stronger focus on the systematic prioritization and implementation of business improvements and infrastructure spending. A new business transformation unit, which will integrate a number of existing areas, has been formed within the company to ensure implementation discipline and to support the company in building necessary future business capabilities while still meeting immediate needs.

### Summary Performance Measures

Strategies	Performance Measures	2006 Actual	2007 Plan	2007 Outlook	2008 Target	2009 Target	2010 Target
Examine key business processes critical to ICBC's success in the market, and set priorities for investment over the next three years	Insurance Operating Cost Per Policy	\$179	\$187	\$184	\$193	\$196	\$199
	Driver Services Cost Per Transaction	\$10.0	\$9.8	\$9.3	\$9.4	\$9.4	\$9.4



## Performance Measures

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

### ***Insurance Operating Cost Per Policy***

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

The 2007 outlook Insurance Operating Cost Per Policy of \$184 for 2007 is better than plan due to lower operating expenses, lower acquisition costs and higher number of policies. This is partially offset by higher external claims handling costs. The Insurance Operating Cost Per Policy is higher than 2006 mainly due to higher allocated expenses related to legal fees and disbursements outpacing the increase in the number of policies.

The 2008 – 2010 targets reflect higher operating expenses, higher average acquisition costs and higher allocated expenses primarily related to external legal fees and disbursements. The increase in operating expenses reflect compensation changes, increased amounts for business initiatives and general inflationary increases. It also includes expected amounts to address internal climate change initiatives and higher acquisition costs resulting from the renewed Strategic Broker Accord.

### ***Driver Services Cost Per Transaction***

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

The 2007 outlook Driver Services Cost Per Transaction of \$9.3 is better than plan due to higher than planned number of transactions. The decrease from 2006 to 2007 is primarily due to a growth in the volume of transactions outpacing the growth in costs.

A refinement was made for 2008 to exclude the cost of business change initiatives from the driver services operating costs used to calculate this measure. This will reduce some of the volatility in the measure. The 2008 – 2010 targets remain constant at \$9.4 over this period and are marginally higher than the 2007 outlook.

## Strategy Summary

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

Goal	Strategies	Measures	Outlook	Target		
			2007	2008	2009	2010
Customer Focus	<ul style="list-style-type: none"> <li>Strengthen our underwriting ability</li> <li>Create an integrated customer experience around all major touch points, focusing on value attributes important to customers</li> </ul>	Insurance Services Satisfaction	93%	90%	91%	92%
		Driver Services Satisfaction	91%	91%	91%	91%
		Claims Services Satisfaction	84%	83%	83%	83%
Financial Responsibility	<ul style="list-style-type: none"> <li>Reduce the growth of bodily injury claims with claims handling improvements, targeted crash prevention programs, and product and underwriting refinements</li> </ul>	Minimum Capital Test	187.2%	Min 150%	Min 150%	Min 150%
		Combined Ratio	98.4%	103.3%	106.3%	108.4%
		<ul style="list-style-type: none"> <li>Claims &amp; Claims-Related Expenses &amp; Insurance Expenses</li> <li>Non-insurance Expenses</li> </ul>	<u>2.6%</u>	<u>2.8%</u>	<u>2.7%</u>	<u>2.7%</u>
		Total	101.0%	106.1%	109.0%	111.1%
		Loss Ratio	83.7%	87.0%	89.0%	90.9%
		Expense Ratio				
		<ul style="list-style-type: none"> <li>Insurance Expense Ratio</li> <li>Non-insurance Expense Ratio</li> </ul>	16.0%	16.7%	16.9%	17.1%
Total	18.6%	19.5%	19.6%	19.8%		
		Investment Return *	Benchmark + 0.268%	Benchmark + 0.268%	Benchmark + 0.268%	Benchmark + 0.268%
High Performing, Engaged & Capable People	<ul style="list-style-type: none"> <li>Position ICBC's workforce to effectively support business strategy by improving leadership capability and talent management processes and outcomes</li> </ul>	Employee Engagement Index	49%	52%	N/A	N/A
Operational Excellence	<ul style="list-style-type: none"> <li>Examine key business processes critical to ICBC's success in the market, and set priorities for investment over the next three years</li> </ul>	Insurance Operating Cost Per Policy	\$184	\$193	\$196	\$199
		Driver Services Cost Per Transaction	\$9.3	\$9.4 **	\$9.4 **	\$9.4 **

\* As of September 2007, the four-year annualized average return for ICBC was 6.57% and the benchmark return was 6.20%. ICBC exceeded its target of the benchmark return of plus 0.268%.

\*\* Refinement to calculation introduced in 2008 to exclude costs for business change initiatives, which could vary significantly from year to year.

## Performance Management Systems

ICBC's financial performance measures are derived from actual financial information and forecasted trends and assumptions. ICBC maintains and relies on management, system, and financial controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. The controls include written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors who independently review and evaluate these controls. ICBC continually monitors these internal accounting controls, modifying and improving them as business conditions and operations change. Policies that require employees to maintain the highest ethical standards have also been instituted.

ICBC recognizes the inherent limitations in all control frameworks and believes the current framework provides an appropriate balance between costs and benefits desired. ICBC believes that the systems of internal

accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

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

ICBC's non-financial performance measures are generated by external sources. Independent firms are retained to conduct ongoing surveys of customers for the purpose of monitoring satisfaction and an annual survey for the purpose of monitoring employee engagement.

## Alignment with Shareholder's Letter of Expectations

The 2007 Shareholder's Letter of Expectations affirms the Corporation's mandate to provide Basic and Optional vehicle insurance, and to provide driver licensing and vehicle licensing and registration on behalf of the province. The 2008 Shareholder's Letter of Expectations is under review and in the process of being finalized.

In addition to outlining the general government reporting framework and general directions, the 2008 letter is also expected to lay out the specific direction to the Corporation, including the following:

<b>Shareholder's Letter of Expectations</b>	<b>ICBC Alignment</b>
<b>Climate Change</b>	
<ul style="list-style-type: none"> <li>Contribute to the BC Provincial Government's climate action objectives and comply with requirement for Crown agencies to achieve carbon neutrality by 2010.</li> </ul>	<ul style="list-style-type: none"> <li>ICBC is working with government and is developing a measurement framework for, and baseline of, the company's carbon footprint in order to develop measures to comply with government direction.</li> </ul>
<b>Driver Licensing</b>	
<ul style="list-style-type: none"> <li>Continue to address driver licensing priorities, including commitments under the Canadian Driver Licensing Agreement (CDLA) and the use of an enhanced driver's licence as an alternative to a passport for land and sea border crossings between Canada and the United States.</li> </ul>	<ul style="list-style-type: none"> <li>ICBC is working with government on a number of measures to improve driver licensing security and service, including changes to meet CDLA standards, and with the federal and provincial governments on cross-border identification requirements.</li> </ul>
<b>Road Safety</b>	
<ul style="list-style-type: none"> <li>Work with the Shareholder on initiatives that can complement the Shareholder's road safety objectives.</li> </ul>	<ul style="list-style-type: none"> <li>ICBC is working with government on a number of road safety initiatives.</li> </ul>
<b>Legislative Framework</b>	
<ul style="list-style-type: none"> <li>Comply with the Optional insurance framework under the <i>Insurance (Vehicle) Act</i>, and data-sharing provisions authorised by the Minister under that Act.</li> <li>Comply with direction from the BCUC direction in its regulation of ICBC's Basic insurance rates.</li> </ul>	<ul style="list-style-type: none"> <li>ICBC is in compliance with the Optional insurance framework and is working with the Insurance Bureau of Canada and the General Insurance Statistical Agency on data-sharing provisions.</li> <li>ICBC continues to comply with BCUC direction on Basic insurance rates.</li> </ul>

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

## Summary Financial Outlook

\$ millions	2006 (Actual)	2007 (Outlook)	2008 (Forecast)	2009 (Forecast)	2010 (Forecast)
Premiums earned	3,257	3,482	3,613	3,687	3,764
Service Fees	47	66	66	66	67
Investment income	512	611	425	496	547
<b>Total revenue</b>	<b>3,816</b>	<b>4,159</b>	<b>4,104</b>	<b>4,249</b>	<b>4,378</b>
Claims incurred (including prior years' claims adjustments)	2,643	2,613	2,829	2,956	3,094
Claims services & loss management	301	302	313	325	327
Insurance operations expenses	133	149	168	171	178
Acquisition costs (including DPAC adjustment)	292	381	420	467	482
Non-insurance expenses	97	91	102	99	102
<b>Total expenses</b>	<b>3,466</b>	<b>3,536</b>	<b>3,832</b>	<b>4,018</b>	<b>4,183</b>
<b>Net income before the following</b>	<b>350</b>	<b>623</b>	<b>272</b>	<b>231</b>	<b>195</b>
Gain on sale of property	–	19	–	–	–
<b>Net income</b>	<b>350</b>	<b>642</b>	<b>272</b>	<b>231</b>	<b>195</b>
<b>Retained earnings – beginning of year</b>	<b>1,157</b>	<b>1,512*</b>	<b>2,154</b>	<b>2,426</b>	<b>2,657</b>
<b>Retained earnings – end of year</b>	<b>1,507</b>	<b>2,154</b>	<b>2,426</b>	<b>2,657</b>	<b>2,852</b>
<b>Accumulated other comprehensive income</b>	<b>–</b>	<b>277</b>	<b>259</b>	<b>332</b>	<b>393</b>
<b>Total equity – end of year</b>	<b>1,507</b>	<b>2,431</b>	<b>2,685</b>	<b>2,989</b>	<b>3,245</b>
<b>Number of employees**</b>	<b>4,961</b>	<b>5,000</b>	<b>5,100</b>	<b>5,100</b>	<b>5,100</b>
<b>Capital expenditures***</b>	<b>12</b>	<b>15</b>	<b>30</b>	<b>45</b>	<b>55</b>
<b>Long-term debt</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

### Key Assumptions

- The sale of Central City Mall closed on August 1, 2007, and the gain on sale and reversal of provision are included in investment income for 2007.
- Prior years' claims reflect changes in the discounted value of unpaid claims.
- Deferred premium acquisition cost adjustments are reflected for 2007 to 2010.
- The outlook is based on the status quo business model and existing cost structures.
- For policy year 2007, a 3.3% interim rate increase on Basic, effective May 1, 2007, has been approved by BCUC. Optional rates were reduced by about 3.8% in May 2007. For policy years 2008 to 2010, required rate changes are assumed for both the Basic and Optional insurance businesses. Any proposed changes to Basic insurance rates are subject to regulatory approval.
- Investment income as shown includes the expected interest, dividends, other income and realized gains/losses from the investment portfolio.
- The outlook is based on current generally accepted accounting principles.
- These results reflect the overall operations of the business including Basic and Optional insurance and Non-insurance activities.
- Claims incurred reflects current claims trends, vehicle population growth, inflation and an improving BC economy.

### Forecast Risks and Sensitivities

- Premiums 1 % fluctuation means \$33 – \$38 million in net premiums.
- Claims 1 % fluctuation means \$26 – \$31 million impact in claims costs.  
1 % fluctuation in the unpaid claims balance means \$54 – \$64 million in claims costs.
- Investments 1 % fluctuation in return means \$77 – \$100 million in investment income.  
1 % change in investment balance means \$4 – \$6 million in investment income.
- Market share 1 % change in market share represents a \$4 – \$6 million impact on net income.

\* Includes transitional adjustment of \$4.7 million on adoption of new accounting standards on January 1, 2007.

\*\* For 2006, year-to-date average full-time equivalent employees by line of business were: Claims Services & Loss Management 2,922; Administration & Other 1,149 (includes Finance, ISD, HR and Communications); Insurance Services 375; Driver Services 515.

\*\*\* Major categories of capital expenditure include: Facilities (Land, Building, and Leasehold), Vehicles, Furniture & Equipment, IT Systems (Computer Equipment and Software). Looking ahead, ICBC expects an increase in capital expenditure in the facilities category, as the company maintains or replaces aging infrastructure, including replacement or upgrade of facilities, and in the IT systems category, as critical business systems are renewed. For a more detailed breakdown of forecasted IT capital expenditures, please refer to ICBC's Revenue Requirement filing to the BCUC available on [www.icbc.com](http://www.icbc.com)

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## Operating Subsidiaries

The Central City development in Surrey, British Columbia, was sold to Blackwood Partners Inc., on behalf of a consortium of Canadian pension funds, for \$245.75 million on August 1, 2007.

The Surrey City Centre Mall Ltd. (SCCM) subsidiary has ceased active operations.

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## Operating Segments

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

A breakdown of actual revenues and allocated costs can be found in the Notes to Consolidated Financial Statements in the Annual Report, which can be accessed on [www.icbc.com](http://www.icbc.com). Allocation methodology can be found in ICBC's submissions to BCUC, accessible on [www.bcuc.com](http://www.bcuc.com).

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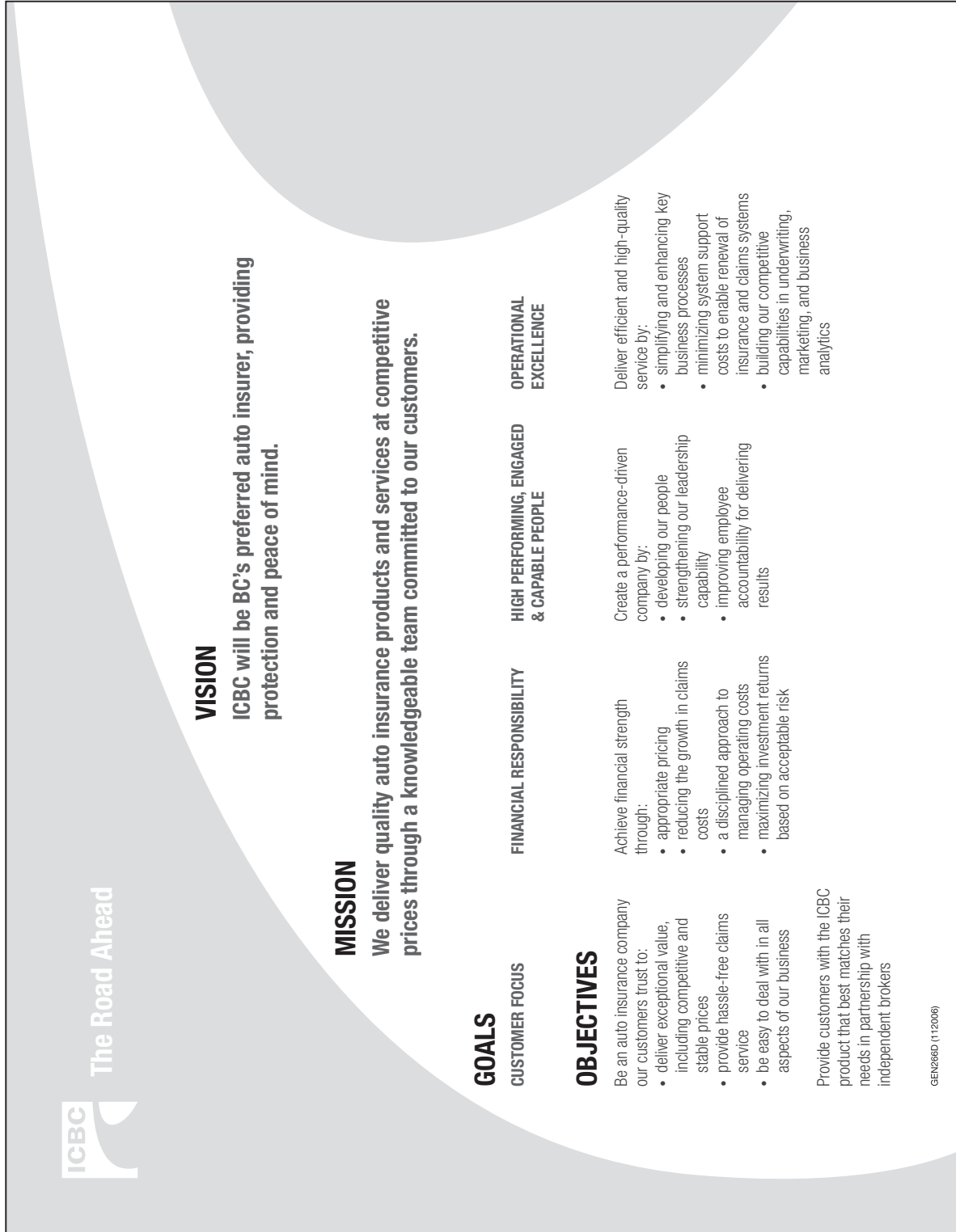
## ICBC Points of Service

ICBC offers insurance products to more than three million policyholders through a network of approximately 900 brokers, government agents and appointed agents. ICBC's claims-handling services process approximately 990,000 claims per year through our 24-hour telephone claims handling facility (which operates seven days a week), our province-wide network of over 39 claims service locations and [www.icbc.com](http://www.icbc.com).

ICBC also provides licensing services through approximately 120 offices including Driver Services Centres, Government Agents and Appointed Agents throughout the province.

For further information on ICBC's products and the auto insurance system in BC, please refer to Corporate Information, under Inside ICBC, on [www.icbc.com](http://www.icbc.com).

# Appendix Corporate Strategy – The Road Ahead



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**ADDITIONAL INFORMATION**

Additional information about ICBC is available at [www.icbc.com](http://www.icbc.com)

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