



ICBC Response as of June 17, 2014.

**The Review
of the
Insurance Corporation of British Columbia
by the
Government of British Columbia,
August 2012**

June 2014



EXECUTIVE SUMMARY

In August 2012, the Government of British Columbia completed an operational review of the Insurance Corporation of British Columbia to ensure it is being well managed and is adhering to its public sector mandate. The review by the Internal Audit and Advisory Services from the Ministry of Finance evaluated the governance, operating costs, compensation, claims management, forecasting, investments, and information technology practices of ICBC and made 24 recommendations for changes.

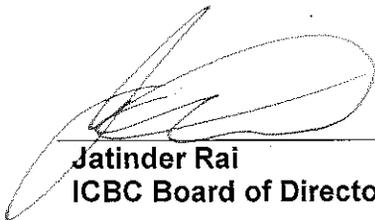
As of June 2014, 19 of the 24 recommendations had been implemented. The recommendation regarding bodily injury claims remains open and on-going as it is a top priority for ICBC. Managing increasing bodily injury costs is critical to offer our customers the best insurance coverage for the lowest possible cost. Three recommendations regarding ICBC's Transformation Program are ongoing; management is in the midst of a re-planning exercise of all major projects, as is common with programs of this size and at this point in the lifecycle. The recommendation regarding replacement of the legacy Driver Licensing systems is considered open as ICBC continues to work in partnership with our shareholder.

The key changes resulting from the Board and management actions as a result of the Government review was a restructuring of the company, involving centralizing support functions into a shared services model and lowering staffing levels to be consistent with 2008. This was largely achieved by significantly reducing senior management ranks, reducing operating costs including limiting discretionary spending, improving procurement practices and eliminating non-essential project work.

Cost control continues to be a key priority for ICBC to ensure claims are fair and operating costs do not grow at an unsustainable pace, with our goal to provide auto insurance at the lowest cost possible.

On a go forward basis the Board of Directors of ICBC will provide timely updates to the Government of British Columbia on the progress underway for the five on-going recommendations.

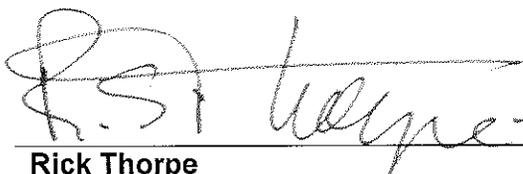
The Board's next report on the 5 recommendations to Government will be based on ICBC's results as of September 30, 2014.



Jatinder Rai
ICBC Board of Directors Interim Chair



Mark Blucher
ICBC President & CEO



Rick Thorpe
ICBC Government Review Committee
Chair



Geri Prior
ICBC Chief Financial Officer

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1) ICBC and the Province of British Columbia should develop a closer and more consistent relationship to improve oversight of ICBC and ensure alignment of priorities.	✓	5
2) ICBC's Board should develop clear expectations on cost containment.	✓	7
3) ICBC should develop and implement an overall strategy to more effectively manage bodily injury claims.	*	8
4) ICBC should review the utilization of internal and external legal resources to maximize cost effectiveness.	✓	8
5) ICBC should reduce total management and confidential staffing to a level more consistent with 2008.	✓	13
6) ICBC should develop action plans, with timelines, for maximizing span of control and reducing management layers across the organization.	✓	13
7) ICBC should reduce total management and confidential compensation to a level more consistent with 2008.	✓	16
8) ICBC should bring their compensation framework more in line with the greater public sector and ensure more consistent compliance with policies.	✓	16
9) ICBC should regularly conduct detailed reviews of the budget to ensure costs are contained and aligned with the Province of British Columbia's priorities.	✓	19
10) ICBC should strengthen their oversight of the corporation's expenses to instill a culture of cost containment and financial discipline.	✓	19
11) ICBC should more clearly demonstrate value for money in procurement, using competitive processes whenever possible.	✓	21
12) ICBC should develop relevant key performance indicators to ensure it can appropriately monitor its procurement process and performance.	✓	23
13) ICBC should strengthen the procurement process through the implementation of a vendor complaint and dispute resolution mechanism and a post-contract evaluation process.	✓	24
14) ICBC should amend their records retention policy to prevent the destruction of documentation for ongoing contracts.	✓	25

LEGEND:

✓ **Completed – June 2014**

* **On-Going – June 2014**

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Recommendation	Status	Page
15) ICBC should ensure that IT policy and procedures are appropriately documented.	✓	26
16) ICBC should ensure that new disaster recovery plans are developed and tested before the new Transformation Program systems are implemented.	✓	27
17) ICBC should ensure the IT Security function has the appropriate reporting relationship and authority in the organization.	✓	28
18) ICBC should prioritize and implement the remaining security initiatives stated in the Technology Alignment Strategy, given the significant risk and impact to the Transformation Program and the new IT environment.	✓	29
19) ICBC should provide interim progress reports to the Province of British Columbia on the costs, scope, benefits and schedule of each Transformation Program phase, along with any variance explanation.	*	30
20) ICBC should formally involve the Province of British Columbia with significant IT projects to leverage public sector experience and lessons learned from other large-scale initiatives.	✓	31
21) ICBC should ensure that key areas identified in the Transformation Program risk assessment are promptly addressed.	*	32
22) ICBC should quantify the additional financial benefits to be realized from the Transformation Program.	*	33
23) ICBC should ensure that comprehensive audits of the Driver Licensing systems are performed regularly, given the sensitivity of information within the Driver Licensing systems.	✓	34
24) ICBC should place a higher priority on replacing the legacy Driver Licensing systems.	*	35

LEGEND:

- ✓ Completed – June 2014
- * On-Going – June 2014

GOVERNANCE

Recommendation:

- 1) ICBC and the Province of British Columbia should develop a closer and more consistent relationship to improve oversight of ICBC and ensure alignment of priorities.

ICBC's Commitment

The Board is committed to having a timely and consistent relationship with the Minister Responsible for ICBC and senior government officials. Since early June, the Board has been fully engaged with our shareholder in addressing issues of mutual concern, including the need to address claims cost increases and operating costs to ensure overall auto insurance rates remain at the lowest cost possible. The Board will ensure there are frequent discussions with our shareholder at all appropriate levels and in a timely manner.

Status at June, 2014

ICBC and the Government of British Columbia have established the following regular, senior level contact points to improve oversight of ICBC and ensure alignment of priorities:

Government of British Columbia	ICBC	Interaction
Minister Responsible <ul style="list-style-type: none"> Honourable Todd Stone, Minister of Transportation and Infrastructure Deputy Minister of Transportation and Infrastructure 	<ul style="list-style-type: none"> Board Chair CEO 	<ul style="list-style-type: none"> Government Letter of Expectations Direction Letters (Order in Council) Quarterly meetings scheduled for balance of 2014
Deputy Ministers <ul style="list-style-type: none"> Finance Justice Citizen Services Health Government Communication & Public Engagement 	<ul style="list-style-type: none"> CEO VP Communications & Marketing CIO 	<ul style="list-style-type: none"> Project specific meetings to ensure alignment with Government letter of expectations
Ministry of Transportation & Infrastructure Executives and staff Government Communication & Public Engagement	<ul style="list-style-type: none"> CEO and VP Communications & Marketing Director, Government Relations 	<ul style="list-style-type: none"> Regular CEO/ministry executive meetings
Public Sector Employers' Council	<ul style="list-style-type: none"> CEO, VP HR, and Director, Compensation Services and Employee Relations 	<ul style="list-style-type: none"> Contact as required on compensation and bargaining matters



GOVERNANCE

ICBC also reports regularly to the shareholder through the following requirements: Service Plan, Annual Report, monthly and quarterly financial reporting, annual general reporting and Transformation Program (TP) reporting to Treasury Board.

COST CONTAINMENT

Recommendation:

2) ICBC's Board should develop clear expectations on cost containment.

ICBC's Commitment

The Board and ICBC's management team recognize that containing operating cost growth is a key element in the goal of maintaining rates at the lowest cost possible. The Corporation is undertaking steps to reduce operating budgets by \$50 million. The Corporation has already reduced spending, achieving \$26 million in savings in 2011, and expects to reduce budgeted costs by an additional \$15 million in 2012 and a further \$9 million in 2013. These reductions will be achieved by reducing operational costs while ensuring customer service is an ICBC priority.

Status at June, 2014

The Corporation's 2013 operating expenses, as reported in the 2013 annual audited financial statements, of \$580 million include savings of \$83 million compared to the 2011 plan. This exceeds the commitment of \$50 million made in ICBC's response to the Ministry of Finance operational review report.

(\$ Millions)	2011 Plan	2013 Actual ¹	Savings 2011 Plan to 2013 Actual
Total Operating Expenses	\$ 630	\$ 580	\$ 50
Pension Adjustment	0	(30)	30
Bargaining Unit Contractual Compensation	0	(3)	3
Normalized Operating Expenses	\$ 630	\$ 547	\$ 83

* Total corporate operating expenses excluding TP.

The 2013 audited operating expenses are \$580 million and include \$30 million related to pension and post-retirement benefit costs from an accounting change required by International Accounting Standard 19R. Further, there was a net \$3 million increase in bargaining unit contractual compensation costs which was offset by increased revenues and reduced claims costs as per the PSEC bargaining mandate. Excluding these two items, the adjusted 2013 operating expenses would have been \$547 million, which compared to the 2011 plan of \$630 million, results in a \$83 million reduction in operating expenses.

¹ Based on 2013 audited financial statements

BODILY INJURY CLAIMS COSTS

Recommendations:

- 3) ICBC should develop and implement an overall strategy to more effectively manage bodily injury claims.
- 4) ICBC should review the utilization of internal and external legal resources to maximize cost effectiveness.

ICBC's Commitment

ICBC's goal is to maintain overall claims cost growth in line with the 10-year trend so that, on average, insurance rates do not increase more than the rate of inflation. This will sustain our ongoing commitment to providing customers with the best insurance coverage at the lowest possible price. The company strives to provide fair settlements to customers injured in auto crashes while managing bodily injury (BI) claims in a reasonable and timely manner.

ICBC's strategy includes a comprehensive response to the factors impacting BI claims costs and overall basic rates. This includes:

- a focus on establishing lower-cost administrative processes for minor claims
- increasing the use of in-house legal counsel
- expanding ICBC's focus on timely settlements
- improving our interaction with injured customers
- standardizing the tools available to assist adjusters in meeting the needs of customers
- improving prevention programs to reduce auto crashes
- renewing the claims system and business model to improve effectiveness of the claims management system and to address potential fraud issues

Status at June, 2014

Managing BI claims costs is a top corporate priority for ICBC and a key element of ICBC's strategy. ICBC is committing corporate resources, focus and accountability across the corporation to effectively manage rising BI claims costs.

BI claims costs are a function of frequency (the rate of claims on those exposures) and severity (the average cost of those claims). ICBC's initiatives can control or influence some, but not all, of these factors. Accordingly, ICBC's approaches and initiatives to managing BI claims costs have been historically focused on those factors that ICBC can control or influence, and fall into two major categories: loss prevention strategies focused primarily on reducing the frequency of BI claims; and, claims strategies designed to reduce average BI claims severities.



BODILY INJURY CLAIMS COSTS

Frequency

Frequency is affected by a wide range of factors such as the amount of driving, driving behaviour, and weather conditions. ICBC invests in loss prevention strategies such as driver licensing and road safety programs to help prevent traffic-related deaths, injuries, and crashes. These investments help keep people safe and help manage claims costs by contributing to the reduction in the number of crashes and a reduction in the losses associated with those crashes that do occur.

Existing loss prevention strategies were refocused in 2013 to specifically address BI frequency. Road engineering and education and awareness programs were adjusted to increase their focus on rear-end crashes, pedestrians, cyclists, and distractions.

Severity

BI claims severity is affected by factors such as the type and complexity of injury claims, the costs of medical and rehabilitation services, payments for damages, and the costs of litigated claims. The drivers of BI claims severity differ from typical inflationary cost drivers, and there is a constant upward pressure on BI claims severity, which ICBC is committed to managing.

Consistent with the development of the overall corporate strategy for managing BI claims and management’s commitment to continuous improvement, recent claims initiatives have included an increased emphasis and dedicated focus on the management of BI claims costs, and improvements to claims handling designed to provide a more consistent customer experience, ensure a more timely resolution of claims, reduce the need for legal representation, and ultimately reduce BI severities and costs.

Status of ICBC’s Bodily Injury Strategy

ICBC has taken the following actions as part of its coordinated, comprehensive response to managing the drivers of BI claims costs: severity and frequency, which impact overall basic rates:

Committed actions	Status
Focus on establishing lower-cost administrative processes for minor claims	<ul style="list-style-type: none"> - The Low Velocity Impact (LVI) program was eliminated. - Streamlined process was introduced which provides claims staff with the authority to pay customers out of pocket expenses immediately, in comparison to delays of up to 30 days previously. This new process provides customers with immediate access to the full cost of medical benefits to which they are entitled as well as enables customers to resolve their claims when they are ready. - The new approach better utilizes resources, reduces additional process and associated costs, and is intended to address escalating claims costs associated with legal representation on that segment of low impact claims.

BODILY INJURY CLAIMS COSTS

Committed actions	Status
Increasing the use of in-house legal counsel	<ul style="list-style-type: none"> - Staff complement increased from 45 counsel at the time of the review (August 2012) to 56 at March 2014. - Additional resourcing and process changes have increased the file claims intake and productivity of staff. The number of files handled by in-house counsel has increased by 24% for the 15 months ended March 31, 2014, in comparison to the same period ending March 31, 2013. - Increased handling of files by ICBC's in-house legal counsel led to \$1.6 million in net savings in 2013.
Expanding ICBC's focus on timely settlements	<p>Focused negotiation strategies have been implemented to provide opportunities for earlier resolution of unrepresented and represented BI claims. More efficient and cost effective settlement processes are expected to reduce overall claims costs and the number of BI pending claims.</p>
Improving our interaction with injured customers	<ul style="list-style-type: none"> - A new Claims job hierarchy and an enhanced BI First Notice of Loss (FNOL) process was implemented in Q1 2013 to improve the triaging, assignment and handling of BI claims. ICBC is making it easier for customers to understand the claims process and their entitlements when they first report their claim. Customers can now get medical treatment immediately after reporting their claim, regardless of liability, and without the delay of having to see an adjuster or physician first. This new streamlined process improves the customer experience through earlier access to treatment, clearer explanation of their entitlements and quicker claims resolution. - The change in approach to Accident Benefits (medical costs and wage loss; regardless of who is at fault), is expected to promote faster recovery for customers and to have a mitigating impact on the rising representation rate for claims. - Comprehensive research and analysis into the specific drivers of BI representation are being conducted. Once completed, the findings from this research will be leveraged to refine current programs and initiatives to manage BI claims costs, and to inform the development of new initiatives. - A public information campaign is focused on both the general population and multicultural segments to help reduce early legal representation.
Standardizing the tools available to assist adjusters in meeting the needs of customers	<ul style="list-style-type: none"> - Implementation of ICBC's new claims management system (described more fully below) will enable customers to have their file promptly assigned to the right adjuster with the skills and experience to manage a particular type of claim. Those adjusters will have standardized work plans and tools to improve consistency and enhance customer's experience through a consistent and timely explanation of benefits and claims resolution. ICBC will leverage improved business indicator reporting to focus claims management oversight and improve claims handling quality.

BODILY INJURY CLAIMS COSTS

Committed actions	Status
<p>Improving prevention programs to reduce auto crashes</p>	<p>Existing programs and initiatives were refocused in late 2013 to specifically address BI frequencies. There has been a slight improvement to BI frequency over 2012. Examples of these initiatives are:</p> <ul style="list-style-type: none"> - Road Engineering solutions were adopted to prevent rear-end crashes (particularly at intersections), to improve signal visibility, and create dedicated turn lanes, as well as to improve safety for pedestrians and cyclists with more countdown timers and dedicated bike lane paint. This has resulted in a return on investment of \$5.60 for every \$1 spent on road engineering solutions over 2 years. - Education and awareness programs were adjusted to increase their focus on distracted driving, rear-end crashes, pedestrians, and cyclists. - Advertising was modified to reflect rear end crash configurations (the most common type of crash resulting in BI) and messaging and tips for pedestrians and cyclists were added in ICBC's provincial awareness campaigns. - In late 2013, ICBC began installing forward crash avoidance and data collection technology in a pilot with taxis in Vancouver to measure the impact of this technology on claims costs. <p>ICBC is exploring options for the development of an enhanced provincial approach to distracted driving, using a 3-pillar strategy combining education/awareness, legislation, and enforcement.</p>
<p>Renewing the claims system and business model to improve effectiveness of the claims management system and to address potential fraud issues</p>	<p>A new functional model began implementation in Q4 2011, with separate reporting streams for injury and non-injury claims to ensure a dedicated focus on BI claims (cost) management.</p> <ul style="list-style-type: none"> - Improved claims segmentation, assignment, and alignment between claims risk/complexity and adjuster skills and experience. - The implementation of a new claims management system to support the new claims business model, streamlines claims handling processes, and improves BI cost management. Implementation of the system will be completed in 2014, and is expected to translate into significant benefits starting in 2015. - The expansion of the proven, call centre-based approach (Centralized Claims Injury Center) and model to a broader mix of unrepresented BI claims. - Building on the successful Litigation Centre model, the extension of a similar counsel alignment and centralized handling strategy to a broader mix of represented BI claims. - The improved management of Third Party costs and disbursements paid on represented claims, in alignment with Supreme Court Civil Rules has resulted in \$10.7 million in savings in 2013. - The future implementation of predictive analytics capabilities leveraging the new claims management system to further optimize BI claims segmentation, assignment and handling, reduce fraud, and improve BI claims cost management.

BODILY INJURY CLAIMS COSTS

Together, these initiatives have helped in reducing the expected ultimate cost of BI claims.

- There has been a noticeable change in claims costs (actual cost of closed claims plus the expected cost to settle open claims) from 2012 to 2013 as a result of customers obtaining legal representation (accelerated level of legal representation). The impact of this accelerated representation could add approximately \$250 million in costs to open claims.
- Management initiatives are offsetting some of the cost pressures from accelerated legal representation by addressing the factors leading to increased representation. We are seeing encouraging signs on claims we have settled to date. The BI paid severity² (amount paid to claimant plus related expenses paid to third parties) for 2013 was 7.0% lower than 2012. The combination of initiatives implemented by management, is expected to offset \$140 million of the \$250 million in expected additional costs.
- BI frequency at December 2013 was 1.49% which is lower than frequency of 1.51% at both 2012 and 2011.

The issue of rising BI claims costs is not new or unique to British Columbia, and is one of the key issues faced by auto insurers across Canada in the last 10 years. Experience across Canada shows there is no simple solution to this issue, and industry responses to escalating BI claims costs have varied from province to province. Whereas ICBC has been able to maintain a full tort product, many other Canadian jurisdictions have resorted to some form of product change to help bring BI cost increases under control.

BI costs remain the number one priority across ICBC to ensure claims and related costs do not grow at an unsustainable pace. Our goal is to offer customers timely service and make every effort to ensure their auto insurance rates are at the lowest cost possible.

ICBC must balance programs and initiatives to contain claims costs, with the consistent delivery of an acceptable level of coverage and service to those customers who suffer a loss, to effectively manage rising BI claims costs associated with legal representation. Through our investment in Claims Transformation and refocusing of corporate priorities to support Claim, we are building an improved structure, system and strategies to more effectively manage rising BI claims costs.

Management will continue to provide quarterly reporting to the Board of Directors on the status of ICBC's bodily injury strategy.

² BI paid severity represents the average amount paid to claimants, including related expenses, and is measured on a calendar year basis.

STAFFING

Recommendations:

- 5) ICBC should reduce total management and confidential staffing to a level more consistent with 2008.
- 6) ICBC should develop action plans, with timelines, for maximizing span of control and reducing management layers across the organization.

ICBC's Commitment

ICBC is committed to reducing its senior management ranks, and will bring its management and confidential complement to a level more consistent with 2008 levels by June of 2014, through the following phases:

- 80 to 90 positions will be eliminated by December 2012 as part of a centralization of functions
- management span of control will be increased and management layers will be removed, resulting in a further reduction of 55 to 65 positions by the end of 2013
- a further 30 to 40 management positions will be eliminated by June of 2014
- approximately 135 of the total reductions will be management positions

In making these changes, the corporation will ensure service to customers remains a priority.

STAFFING

Status at December 2013

Staffing Level

FTES BY EMPLOYEE GROUP					
Employee Type	2008	2011	2013	2013 Vs	2013 Vs
				2008	2011
				Better	Better
				(Worse)	(Worse)
VP/Executive	18	22	16	2	6
Directors	33	44	36	(3)	8
Manager and Confidential	840	987	865	(25)	122
Total Manager and Confidential	891	1,053	917	(26)	136
Bargaining Unit ⁽¹⁾	4,044	3,951	3,703	342	248
Operations without TP	4,935	5,004	4,620	315	384
TP - Manager and Confidential	-	74	54	(54)	20
- Bargaining Unit		98	109	(109)	(11)
	4,935	5,176	4,783	152	393

1) Excludes BC Service Card FTEs

ICBC achieved its commitment to reduce senior management ranks. Senior leadership was reduced by 2 executive vice presidents, 4 vice presidents, and 8³ director positions from 2011 to 2013, as illustrated in the table above. During the restructuring in 2012, the director headcount was reduced from a high of 49 to 36, for a net reduction of 13 positions. At December 31, 2013 there are now 8 executive vice presidents reporting to the CEO, down from 10. No new vice president or director positions were created in 2013.

Further, ICBC reduced total management and confidential (M&C) FTE's by 136 at December 2013 compared to 2011. The M&C complement is consistent with 2008 levels, as evidenced by the highlighted numbers in the table above.

Total FTE's as at 2013 were reduced by 393 FTE compared to 2011.

Managers with specific skills and experience were brought in to support the complex Transformation Program and reduce the overall risk. The inclusion of additional staff for the Transformation Program account for 54 additional M&C FTE's at December 2013. The 26 additional M&C FTE's for the rest of the company were added as a result of changes in span of control to improve claims handling and Driver Licensing service levels, as well as to strengthen ISD capabilities in preparation for the Transformation Program.

³ Annualized FTE reduction

STAFFING

Management Layers

In addition, ICBC implemented an organizational design policy in October 2011 to guide leaders in implementing organization design. The policy describes the maximum number of staff levels that should exist in a division, as well as minimum and maximum span of control ratios, depending on the nature of the work. The policy was implemented to provide guidance to managers as ICBC changes and re-organizes to meet emerging business needs, but is not intended to require an immediate reorganization of business units or reporting lines. Since the policy was implemented, Human Resources has worked with the business to ensure the policy is adhered to in staffing re-organizations.

Span of Control

The Review stated ICBC's span of control (management to bargaining unit employees (BU)) declined from 1:7 in 2007 to 1:5 in 2011. Span of control at March 31, 2014 is 1:7.

COMPENSATION

Recommendations:

- 7) ICBC should reduce total management and confidential compensation to a level more consistent with 2008.
- 8) ICBC should bring their compensation framework more in line with the greater public sector and ensure more consistent compliance with policies.

ICBC's Commitment

ICBC will reduce its overall compensation costs to a level more consistent with 2008 through the adoption of the Public Sector Employer's Council Compensation Guidelines and by undertaking a number of initiatives. The Board is directing revisions to ICBC's current compensation philosophy, including a plan to fully implement the new philosophy within 18 months. The plan, consistent with Government's compensation philosophy announced on July 25, 2012, will be submitted to PSEC by December 31, 2012.

The following initiatives are designed to result in a substantive change to ICBC's compensation program, while respecting employment law and employment contracts:

- ✓ Effective immediately, ICBC has implemented a hiring freeze for all vacancies other than the most critical or those that directly impact services to customers. Any exceptions will require the approval of the President and CEO;
- ✓ Effective immediately, compensation for all management positions, including current ICBC Executives reporting to the CEO, are frozen;
- ✓ Effective immediately, short-term incentives will be eliminated for all new management non-executive staff;
- ✓ Effective immediately, for all new hires or promotions, perquisites will be eliminated for all management positions and replaced on a needs basis for those employees who require a vehicle to perform their duties. Changes for existing staff to be made effective January 1, 2014;
- ✓ Effective January 1, 2013, ICBC will begin implementing a plan to replace short-term incentives for existing Executives with a built-in salary holdback of up to 20%, tied to financial and business results. ICBC will also transition to a compensation program which results in short-term incentive pay not being pensionable; and
- ✓ The Board is committed to an immediate review of overall corporate performance and the Short-Term Incentive Plan (STIP) in the current year, with the view of making significant changes for 2012.

COMPENSATION

Status at June, 2014

(\$ Millions)	2008 Actual	2013 Actual
Net Compensation	\$ 379	\$ 430
Pension Adjustment	-	(44)
Adjusted Net Compensation	\$ 379	\$ 390

ICBC has reduced net compensation to a level more consistent with 2008. Adjusted net compensation cost at 2013 of \$390 million is comparable to net compensation cost for 2008 of \$379 million. The adjustment of \$44 million is for the change in accounting standards for pension and post-retirement benefits effective in 2010 and 2013. Adjusted net compensation at 2013 is \$11 million or 2.9% higher than 2008. During the five-year period from 2008 to 2013 there were compensation increases arising from the collective agreement as well as management and confidential increases.

Compensation Framework Adjustments

1) Management Compensation Plan Amendments

Board changes to the Management Compensation Plan approved as of November 2013 include:

- ICBC's labour market comparators for total compensation purposes changed effective January 1, 2014, to confine the general industry participants to those with revenue of \$4B or less, and add Manitoba Public Insurance, Saskatchewan Government Insurance, and the BC Public Service to be more in line with the public sector.
- ICBC adopted a Holdback Incentive Pay (HIP) model effective January 1, 2014. A financial trigger (achievement of net income targets) remains in place for the HIP plan.
- Perquisite allowances were eliminated for ICBC executives, vice presidents and directors as of December 31, 2013; resulting in annual savings of \$882K.
- New employees hired on or after September 1, 2013 are (i) ineligible as pensionable earnings for Incentive payouts (including any 2013 STIP rewards earned); and (ii) ineligible for post-employment health benefits.
- ICBC is aligned to government guidelines with respect to Executive level compensation, including a one-time 10% reduction in salary for any new Executive to a vacated role.

COMPENSATION

2) Salary Adjustments

- Salary for all Management and Confidential employees, including executives, remains frozen; no salary structure movement or performance-based annual increase granted in 2013 and 2014.

3) Management Incentive Pay Plan- amended and re-titled Short-Term Incentive Pay (STIP) to Holdback Incentive Pay (HIP) plan effective January 1, 2014:

- Reduced incentive potential payout % at all job levels.
- Incentive payments are capped at 100% payout of target (i.e. no more escalation to pay out beyond target).
- 2014 HIP (to be paid in 2015) maximum payout achievable estimated at \$11 million compared to \$12.4 million 2008 actual payout (11% decrease).
- The threshold for the holdback plan's financial trigger is set at 50% of planned net income. If actual net income is below 50% of plan, there will be no holdback payout to any employee. If net income is above 50% of plan, the HIP plan goes "live" and employees are eligible for a reduced amount of HIP. If actual net income achieves at or above 100% of plan, holdback will be paid out in accordance with the HIP plan with no further discount.

4) Signing Bonus

- ICBC no longer offers any signing bonuses to new hires effective September 1, 2012.

5) Relocation

- ICBC's relocation policy aligned to the Government of British Columbia policy effective September 1, 2012.

6) Other Benefits

- ICBC is currently in review of the short-term sick leave plan for bargaining unit employees, and this is subject to collective bargaining.

The result of all these changes, in addition to the FTE changes due to the restructuring, will be a reduction to compensation cost on a go-forward basis.

COST CONTAINMENT

Recommendations:

- 9) ICBC should regularly conduct detailed reviews of the budget to ensure costs are contained and aligned with the Province of British Columbia's priorities.
- 10) ICBC should strengthen their oversight of the corporation's expenses to instill a culture of cost containment and financial discipline.

ICBC's Commitment

The Board and ICBC's management team recognize that containing operating cost growth is a key element in the goal of maintaining rates at the lowest cost possible. The Corporation is undertaking steps to reduce operating budgets by about \$50 million. The Corporation has already reduced spending, achieving \$26 million in savings last year, and expects to reduce budgeted costs by an additional \$15 million in 2012 and a further \$9 million in 2013. These reductions will be achieved by reducing operational costs while ensuring customer service is an ICBC priority.

To ensure these savings are achieved and sustainable, ICBC is revamping its budget process to incorporate a more stringent approach to achieving expected outcomes. In addition, ICBC will immediately undertake a functional review where corporate functions will be centralized to gain efficiencies. Zero-based budgeting will be implemented and reviews will be conducted to ensure alignment to the Province of British Columbia's priorities. The corporation will also focus on reducing costs by limiting travel and conference attendance, increasing web-based training, and tightening other corporate spending. In addition, effective immediately, the Board of Directors has agreed to reduce their meeting Per Diems by 10%.

The President and CEO has communicated effective immediately, that new expectations related to fiscal discipline will be applied across the organization. Employees will be held accountable for operating in a fiscally responsible manner and making prudent business decisions that are consistent with the goal of controlling costs and maintaining auto insurance rates at the lowest cost possible. ICBC has also implemented a stricter discretionary spending policy as part of its cost containment program.

Effective October 1, 2012, ICBC Executives reporting to the CEO will be subject to the same expense reimbursement policy and rates as Government executives. Effective January 1, 2013, ICBC will implement, company-wide, the same expense reimbursement policy and rates as Government.

Status at June, 2014

Since 2011 and the commencement of ICBC's cost containment program, ICBC is aggressively fostering a culture of cost containment and financial discipline through the following actions:

- ICBC managed staffing vacancies, wherein Executive approval is required to ensure new staff is only hired to address operational requirements or in response to business demands.

COST CONTAINMENT

- ICBC implemented a stricter discretionary spending policy to reduce employee-related and discretionary costs. For example, limiting travel and conference attendance, increasing web-based training, and tightening other corporate spending.
- The Board of Directors agreed to reduce their meeting per diems by 10% for 15 months.
- ICBC prioritized and re-scoped projects to reduce the number of projects, to manage scope, and to control the associated costs.
- ICBC conducted detailed budget reviews, applying zero-based budgeting to specific areas, to ensure costs are aligned with the shareholder's priorities.
- ICBC reviewed divisional budgets to limit operating cost increases, to align to corporate policy, and to identify potential operational efficiencies such as the centralization of key functions within ICBC. For example, the corporate budgeting and financial analysis function was centralized within the Finance Division at the end of 2012. This centralization allows for a more consistent budgeting approach across ICBC.
- ICBC challenged its divisions with lower budget targets and to offset potential budget increases through either savings or efficiencies from within the division.

An audit of discretionary spending was conducted in 2013 for all divisions to ensure the discretionary spending guidelines were being adhered to. The majority of the expenditures reviewed indicate a general compliance with the Policy. Management will continue to closely monitor discretionary expenditures as part of its continued focus on cost containment for controllable operating costs.

The efforts above have resulted in a decrease in operating expenses of \$83 million, which exceeds ICBC's commitment of a \$50 million reduction.

PROCUREMENT MANAGEMENT

Recommendation:

11) ICBC should more clearly demonstrate value for money in procurement, using competitive processes whenever possible.

ICBC's Commitment

In July 2012, ICBC amended its procurement process and is now formally documenting the value-for-money assessment and increasing the use of competitive processes, especially for lower value contracts. ICBC has issued a revised Corporate Acquisition Policy and procedures that incorporate recommendations from the Government Review.

Status at June, 2014

Procurement processes and supporting documentation have been updated to accentuate the importance of cost and value for money during the evaluation process. In addition, negotiations led by ICBC's procurement team resulted in cost avoidance of approximately \$26.3 million.

Since the Government Review, ICBC has made the following changes in its procurement processes to ensure we are receiving value for money and fewer suppliers are exempted from the procurement process:

- All sourcing tools used by ICBC and the posting of the information on the government's electronic tendering system, BC Bid, are intended to ensure all suppliers capable of providing goods and services are aware of the opportunities and can provide proposals to ICBC for those business opportunities.
- Introduced two new sourcing mechanisms – Notice of Intent (NOI) and Negotiated Request for Proposal (NRFP).
- Increased use of Request for Proposal and Request for Quotation tools.
- Reduced reliance on the Expression of Interest (EOI) sourcing tool (this tool involves multiple phases to the supplier selection process and is normally used on complex service arrangements where information related to potential solutions and supplier approaches to implementation of the solutions is required).
- For those situations where the EOI sourcing tool is most appropriate, ICBC updated the EOI sourcing tool in late 2012 to give more weight to price as a key factor in the supplier selection process.
- Participate in collaborative sourcing activities with other Public Sector Entities.
- Introduced cost savings/cost avoidance targets for the procurement team (see key performance indicator section below).

PROCUREMENT MANAGEMENT

The Notice of Intent and Negotiated Request for Proposal were new sourcing processes introduced after the review. ICBC has placed a heavier reliance on these sourcing tools, when appropriate, price is a key evaluation factor used by those tools in the supplier selection process. Today, 84% of the sourcing initiatives used by ICBC employ commonly used public sector sourcing tools (e.g., NOI, RFP, RFQ and NRFP). The EOI is only used for high-risk, complex service requirements. Prior to the review, the EOI was used 70% of the time and other sourcing tools were used 30% of the time.

ICBC's Supply Management team also participates in regular meetings with broader public sector entities (Shared Services, BC Lottery Corporation, BC Hydro, Metro Vancouver, Translink, and WorkSafe BC) to determine if and when collaborative sourcing activities would be beneficial.

In order to reduce the number of direct awards, the Corporate Acquisition Policy was changed to require approval of the business justification at a more senior level – exemption requests now require approval at the Executive Committee level.

These amendments improve the transparency of ICBC's procurement processes, consistent with our duty as a Crown corporation.

PROCUREMENT MANAGEMENT

Recommendation:

12) ICBC should develop relevant key performance indicators to ensure it can appropriately monitor its procurement process and performance.

ICBC's Commitment

ICBC has issued a revised Corporate Acquisition Policy and procedures that incorporate recommendations from the Government Review and has implemented related performance indicators. The post contract evaluation process has also been implemented.

Status at June, 2014

ICBC has implemented a revised Corporate Acquisition Policy and procedures incorporating recommendations from the Government Review. In 2013, ICBC implemented the following key performance indicators to monitor compliance with procurement policies:

- Cost savings/avoidance targets (the difference between the supplier's initial proposal price and the final price achieved after a negotiation process) were established for the Procurement team to highlight the importance of value for money. This process was established to identify a cost savings/avoidance target for new contractual agreements and/or for re-negotiations/extension of existing contractual relationships. As a result of this process, we achieved cost savings/avoidance of 7%. Most suppliers have a list price and it is common procurement practice to negotiate down from the list price. In 2013, negotiations led by ICBC's procurement team resulted in cost avoidance of approximately \$26.3 million.
- Compliance audits on the 3 quote process indicated that 99% of the total procurement amounts audited were in accordance with the Corporate Acquisition Policy requirement to conduct a competitive process.

In addition to our existing processes to monitor supplier performance and value for money throughout the term of their contracts, subsequent to the review, ICBC established a process for post contract evaluation of suppliers to determine whether the expected value for money was received from our top 50 suppliers. Prior to the expiration of a contract, whenever there is an option to renew, performance and other factors are considered because ICBC is always trying to renew a contract on more favourable terms (e.g., cost reduction whenever possible).

PROCUREMENT MANAGEMENT

Recommendation:

13) ICBC should strengthen the procurement process through the implementation of a vendor complaint and dispute resolution mechanism, and a post-contract evaluation process.

ICBC's Commitment

The vendor complaint and resolution process is posted on icbc.com and communicated to vendors.

Status at June, 2014

Following industry best practices, ICBC implemented a supplier complaint and dispute resolution mechanism in August 2012, to provide suppliers with an opportunity to raise concerns related to supply management processes and to request a review of those processes they deem to be inappropriate. The Corporate Acquisition Policy was revised to clarify the requirement that all contractual relationships are to contain dispute resolution processes, and to clearly identify the roles and responsibilities between Supply Management and the business area. ICBC's vendor complaint and dispute resolution mechanism is posted on ICBC's main website:

<http://icbc.com/about-ICBC/Company-information/supplier-complaint.pdf>.

Recently there have been system modifications to allow suppliers even easier access to send complaints via icbc.com. Supply Management regularly monitors the e-mail box connected to the supplier complaint and dispute resolution process. A process is in place to share with ICBC executives any major outstanding supplier complaints, regardless of the manner in which those complaints were provided to ICBC. To date no complaints have been received.

PROCUREMENT MANAGEMENT

Recommendation:

- 14) ICBC should amend their records retention policy to prevent the destruction of documentation for ongoing contracts.

ICBC's Commitment

Documentation supporting ongoing contracts is being retained for all "live" contracts.

Status at June, 2014

Prior to the Review, the ICBC policy for records retention allowed for the destruction of all supporting documentation seven years after the procurement process was completed.

In August 2012, Supply Management began using two separate sections of the records retention policy dealing with procurement sourcing and contracting documentation. Documentation related to sourcing and selection processes will be destroyed seven years after conclusion of selection process. Documentation related to negotiation and contracting processes and the contractual documentation will not be destroyed until seven years after the end of the contractual arrangement terminates.

INFORMATION TECHNOLOGY

Recommendation:

15) ICBC should ensure that IT processes are appropriately documented.

ICBC's Commitment

ICBC is committed to ensuring the integrity of our systems and the security of the personal information with which we are entrusted on behalf of our customers. The renewal of our insurance business systems and processes is an important element of our Transformation Program.

The Corporation is committed to taking steps to improve the governance framework for its IT Division, to be completed by November 30, 2012. In addition, the documentation of IT policies and procedures is underway with planned completion by March 2013.

Status at June, 2014

In September 2012, work was undertaken to inventory existing IT policies and procedures, conduct a gap analysis, and address critical gaps to align operational activities and the IT strategic planning process over the long-term. Documenting procedures helps to standardize operations and minimizes the risks around knowledge transfers and single points of dependency when people leave the company or during re-organizations.

During the project, Information Services Division (ISD) met with representatives from the Government Review team (in October 2012 and again in February 2013) to review the project status and to receive the Ministry's feedback of ICBC's overall approach. The Review team commended ICBC on the involvement of all stakeholders, the shared responsibility across ISD and the immediate focus on sensitive (critical) gaps, as well as encouraging ICBC to develop an ongoing process to ensure a continued focus on appropriate efforts on documentation.

Since the project to document IT processes completed, a continuous improvement approach has been adopted. The CIO is responsible for creating / revising policies and procedures as the technology environment changes and new gaps are identified. To ensure the inventory is kept up to date, all items have been assigned to various department managers and a quarterly update and reporting cycle has been put in place.

INFORMATION TECHNOLOGY

Recommendation:

16) ICBC should ensure that new disaster recovery plans are developed and tested before the new Transformation Program systems are implemented.

ICBC's Commitment

ICBC established a new disaster recovery site and successfully completed a first Disaster Recovery Plan test. End state procedures for rolling new systems into the design, testing and disaster recovery are under development and will be complete by December 2012. ICBC has engaged a third party to enhance development of its plan and assessment of testing.

Status at June, 2014

To prepare for the implementation of Transformation Program (TP) systems, a new project was initiated in September 2011 and completed in February 2013, which resulted in the creation of a second data centre site similar to the model used by the Province of British Columbia to fulfill ICBC's existing and future state disaster recovery (DR) requirements. The new second data centre site in Canada is being utilized to enroll all new critical systems, including those delivered by TP.

During 2012, all existing critical systems and initial TP systems (e.g., new rating and underwriting engine, enterprise service bus) were tested once in June and again in December. The recovery time was 43 hours, which is well within ICBC's 72 hour objective. In 2013, TP began implementation of the new Claims system. The new Claims system was enrolled in this disaster recovery process and tested in December 2013, recovering within the 72 hour objective.

The test in December 2013 was monitored by an external observer who identified learning opportunities and provided suggestions for improvement. The next full test will be conducted in Q2 of 2014 to coincide with the rollout of the new Broker Portal.

INFORMATION TECHNOLOGY

Recommendation:

17) ICBC should ensure the IT security function has the appropriate reporting relationship and authority in the organization.

ICBC's Commitment

ICBC will review the reporting relationship and authority for the IT Security function and strengthen it by October 2012, ensuring direct access of IT security to the Chief Information Officer.

Status at June, 2014

In September 2012 the reporting relationship for the Information Risk Management (IRM) department was amended to include a dotted line relationship directly to the CIO.

Since establishment of the new reporting relationship, the manager of IRM meets with the CIO quarterly to review the status of the Information Security Program ensuring appropriate strategic direction and support is provided with respect to progress and priority of initiatives, and to identify any barriers encountered.

These meetings are an opportunity to discuss the health of the program, as well as escalate any serious security incident or concern directly to the CIO. The manager has been authorized to escalate - at any time - any serious security incident or concern to the CIO or the Director, Risk Management.

This approach has been endorsed by Internal Audit and Advisory Services (IAAS).

INFORMATION TECHNOLOGY

Recommendation:

18) ICBC should prioritize and implement the remaining security initiatives stated in the Technology Alignment Strategy, given the significant risk and impact to the Transformation Program and new IT environment.

ICBC's Commitment

ICBC has developed a Security Technology Roadmap for all security initiatives and has prioritized and is in the process of implementing the changes to minimize security risks as new modernized systems are implemented. This roadmap will be reviewed and updated by October 2012.

Status at June, 2014

The Review acknowledged that the new IT infrastructure and systems being delivered through TP require a more robust information security function. The recommendation was to prioritize and implement the remaining security initiatives in the Technology Alignment Strategy (TAS), given the impact to TP and the new IT environment.

ICBC has developed a multi-year Security Technology Roadmap capturing all security initiatives, including those that were included in the Technology Alignment Strategy. This roadmap is updated and reviewed quarterly by the CIO to ensure it continues to reflect changing priorities and threats.

Further, ICBC's Information Security Strategy⁴ was refreshed in 2013, with assistance from a third party. The strategy, as presented to the Audit Committee in October 2013, is on par or slightly ahead of peers with respect to the scope and completeness of ICBC's information security program. The strategy provides six key recommendations to be implemented over the next four years, which will ensure ICBC continues to maintain information security practices that are appropriate to the risk profile of ICBC's operations and risk tolerance, in a cost-prudent manner. Implementation of these recommendations is underway.

⁴ Information Security Strategy is refreshed every four years.

TRANSFORMATION PROGRAM

Recommendation:

19) ICBC should provide interim progress reports to the Province of British Columbia on the costs, scope, benefits and schedule of each Transformation Program phase, along with any variance explanation.

ICBC's Commitment

ICBC is committed to ensuring that the Transformation Program achieves its goals within the approved cost structure and timeline, so as to achieve measurable benefits, including improved service to customers. ICBC will provide Treasury Board with more details of the governance structure in place, including:

- funding gates used
- the way critical interdependencies are managed between projects
- risk mitigation strategies
- the key milestone and decision points within each of the main program streams

In addition, management will provide an updated Business Case by November 2012 and regular ongoing progress reports will continue to be provided detailing costs, scope and the schedule for each phase of the Transformation Program.

Status at June, 2014

ICBC has provided Treasury Board regular updates on TP costs since 2011. In early 2013, Treasury Board was also provided with a Board approved TP Business case and supplementary information. Together, the updates to the Treasury Board report and the TP Business Case documents illustrate the progress on costs, scope and benefits in addition to:

- Original business objectives
- Description of governance process
- Identification of strategic alignment to corporate strategy
- Critical interdependencies managed between projects
- Risk management process
- Key milestones and decision points within each of the main program streams

Management continues to provide progress reports on costs, benefits, and major scope changes to the shareholder.

The inherent nature of a program with the size, complexity and duration of TP means re-planning takes place periodically. A re-planning exercise of all major projects in progress at ICBC, including TP, was underway at June 2014. The results, including any recommended changes will be presented to the Board and our Ministry.

TRANSFORMATION PROGRAM

Recommendation:

20) ICBC should formally involve the Province of British Columbia with significant IT projects to leverage public sector experience and lessons learned from other large-scale initiatives.

ICBC's Commitment

ICBC recognizes the Government of British Columbia has significant experience in implementing major projects. As recommended in the Review report, ICBC will engage with the Province to ensure it fully leverages learnings on large-scale IT projects.

Status at June, 2014

ICBC is a member of the Committee of the CIO (CCIO) together with 18 Crowns and Ministries. The Committee is led by the Provincial CIO from the Ministry of Technology, Innovation, and Citizens' Services (MTIC). The committee meets quarterly (or more frequently if needed) and the mandate includes sharing common information, governing shared contracts, and sponsoring common initiatives.

In the past this has led to ICBC's participation, along with the Province of British Columbia, in contracted services as:

- Telecom Service Master Agreement for voice/data network services across British Columbia.
- Broader public Sector Services agreement to manage ICBC's data centre in Kamloops (which is co-located with other Government of British Columbia entities).
- While not a jointly-held contract, ICBC's contract with Microsoft also allows ICBC access to Government rates.

Since the Review, ICBC's CIO has met with the Provincial CIO three times, in addition to other government agencies, to gain insights into large projects they have conducted.

Currently the group is conducting an interagency review of how recent device industry changes will impact government parties (e.g., smartphone, tablets, card readers) and how to evolve the Data Centre Services agreement in order to capitalize on new and improved ways of hosting IT systems.

TRANSFORMATION PROGRAM

Recommendation:

21) ICBC should ensure that key areas identified in the Transformation Program risk assessment are promptly addressed.

ICBC's Commitment

ICBC is committed to ensuring that the Transformation Program achieves its goals within the approved cost structure and timeline, so as to achieve measurable benefits, including improved service to customers. ICBC uses external advisors to ensure ongoing best practices are employed on the project and risks are appropriately quantified and mitigated. All current, known risks have been addressed and reported to the Board. A framework, using third party expertise, is in place to assess emerging risks and ensure they are dealt with in an appropriate manner.

Status at June, 2014

The Review referenced a risk management process had been established for TP to assess project management practices, deliverables and activities.

An independent External Risk Advisor is retained by the Board's TP Committee to provide an unbiased risk assessment of the program and its progress. The quarterly assessments recommend corrective action and concerns.

The Committee of the Board directs the work and requests "deep dives" into program or project areas as needed. The Risk Advisor conducts fieldwork and interviews, and reviews a large volume of program-related documentation each quarter to inform their risk assessment reporting. In addition to the quarterly reporting, the Risk Advisor provides monthly monitoring reports on high priority projects.

The Risk Advisor reviews ICBC's internal risk assessment for the Program. The identified risks and related recommendations are communicated within the program governance structure, to ICBC's Executive Committee and to the TP Committee of the Board. This is coordinated with risk information prepared by ICBC's Risk Management Department and reported to the Executive Committee and TP Committee.

All current, known risks have been addressed by management and reported to the Committee. The Committee Chair further informs the full Board with updates. A framework is in place to assess emerging risks and ensure they are dealt with in an appropriate manner.

The inherent nature of a program with the size, complexity and duration of TP means re-planning takes place periodically. A re-planning exercise of all major projects in progress at ICBC, including TP, was underway at June 2014 and involves consultation with our External Risk Advisor. The results, including any recommended changes will be presented to the Board and our Ministry.

TRANSFORMATION PROGRAM

Recommendation:

22) ICBC should quantify the additional financial benefits to be realized from the Transformation Program.

ICBC's Commitment

Management will provide an updated Business Case by November 2012.

Status at June, 2014

In early 2013, ICBC provided Treasury Board with a copy of the Board approved TP Business case detailing the financial benefits to be realized from TP. Direct financial benefits from TP come in the form of claims cost savings, efficiency gains, and premium improvements. These benefits build up over time and the full annual benefit of \$89 million (as stated in the 2013 TP Business Case) is expected to be realized starting in 2017.

The TP savings from 2014 are reflected in the 2014 forecast net income reported in the 2014-2016 Service Plan. The re-planning exercise of all major projects in progress at ICBC, including TP, will update the expected TP savings included in the 2014 forecast net income. Any significant changes to the 2014 forecast net income will be reported to our Ministry via the Q2 2014 Multi-Year Outlook.

DRIVER LICENSING

Recommendation

23) ICBC should ensure that comprehensive audits of the Driver Licensing systems are performed regularly, given the sensitivity of the information within the Driver Licensing systems.

ICBC Commitment

ICBC is committed to ensuring the integrity of our systems and the security of the personal information with which we are entrusted on behalf of our customers. Audits over the protection of sensitive information will be incorporated immediately into the 2012 audit plans and the Corporation will monitor and test this aspect of controls on a more frequent basis.

Status at June, 2014

Corporate Audit Services (CAS) increased the frequency of Driver Licensing (DL) audits completed and planned for the period 2012 to 2016. The plans were approved by the Audit Committee. The CAS audits examine different aspects of DL operations, e.g., assessing the adequacy and effectiveness of controls over direct access to DL systems and personal information accessible by ICBC staff and business partners (i.e., Appointed Agents and Service BC employees), governance over processes to mitigate the risk of identity fraud when ICBC issues identification cards, etc. The results of these audits are reported to the Audit Committee upon completion.



DRIVER LICENSING

Recommendation

24) ICBC should place a higher priority on replacing the legacy Driver Licensing systems.

ICBC Commitment

The Corporation recognizes the priority of replacing the legacy driver licensing systems as soon as possible and in conjunction with the Ministries of Finance and Justice and has begun the planning phase for this work, which will be completed by mid-2013.

Status at June, 2014

Work on the planning phase of the DL Legacy Systems Replacement has been completed. ICBC and the shareholder are working in partnership on developing plans for future work.