



ICBC Response To:

The Review of the Insurance Corporation of British Columbia

August 2012



August 15, 2012

Honourable Kevin Falcon
Minister of Finance
PO Box 9048 STN Provincial Government
Victoria, BC V8W 9E2

Dear Minister Falcon:

On behalf of the ICBC Board and management team, we are responding to the Government's review of the Insurance Corporation of British Columbia.

The review makes 24 specific recommendations for improvement and we accept all recommendations. As of August 15, 2012, implementation has been completed on 5 recommendations, 8 recommendations are partially implemented, and implementation of the remaining 11 recommendations is underway.

We are striving to improve our customers' experience and the settlement of claims in a fair and responsible manner through the modernization of our overall systems and processes. We want to make it clear that ICBC's goal is to keep overall auto insurance rates at the lowest cost possible.

We are pleased the review highlighted a number of areas where the assessment of the Corporation is positive. These include:

1. **Rates:** In the last 10 years, ICBC has kept overall rate increases down to an average 0.8% per year, with Basic rates increasing 1.3% and Optional rates decreasing by .3% per year.
2. **Investment Management:** The Corporation has achieved better-than-average returns over the last decade, which has helped to keep rates lower. The costs in managing this part of our business have benchmarked well against others.

The review highlights ICBC is not aligned with government objectives and policies on a number of fronts and we are moving in a deliberate and substantive manner to address these concerns.

Specific areas for improvement include claims costs, overall cost containment, staffing and compensation and corporate overhead. Based on these conclusions, we are taking steps in the following areas:



1. **Claims Costs and Rate Increases:** We recognize that an 11.2% increase in basic rates this year is a difficult outcome for our auto insurance customers. That said, when taken into account with a 6% reduction in optional rates, we have been able to reduce the overall rate increase to 2.1% or \$27 for customers who buy our full range of personal insurance products. Our management team has put in place a claims cost strategy with the goal of keeping rates adjustments in line with the rate of inflation. ICBC is implementing a multi-year plan to manage claims costs growth to keep rates as low as possible.
2. **Overall Cost Control:** While the Corporation's operating costs are not in themselves driving the increase in rates, ICBC recognizes operating budgets must be substantially reduced. ICBC achieved a \$26-million savings in 2011 and is targeting further reductions of \$15-million in 2012 and \$9-million in 2013 to achieve a \$50-million reduction in budgeted costs. This will bring overall operating costs more in line with 2008 budget levels.
3. **Management Complement:** ICBC will deal with the management complement concerns identified in the review over the next two years. We will reduce staff by 80 to 90 positions in 2012, a further 55 to 65 positions in 2013, and 30 to 40 more positions by June 2014. Approximately 135 of the total reductions will be management positions.
4. **Compensation Philosophy:** ICBC will be making substantive changes to overall compensation policy as it implements Government review recommendations and will align its executive compensation policy in 2012 and 2013 to the guidelines issued by Government on July 25, 2012.

The Board and management team are moving quickly to implement the review's recommendations and will be providing quarterly reports to Government on our progress.

In summary, a number of positive aspects are highlighted in the report. There are also a number of significant issues of concern. While this can be viewed as a challenging report and set of circumstances, we are confident that working together with Government, our management team and employees, we will manage the implementation of the review recommendations.

We thank you and your staff for your assistance and professionalism in completing this report.

A handwritten signature in black ink, appearing to read "Paul Taylor", is located below the first column of text.

Paul Taylor
Chair, ICBC Board of Directors

A handwritten signature in black ink, appearing to read "Jon Schubert", is located below the second column of text.

Jon Schubert
ICBC President & CEO

GOVERNANCE:

- 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.**

Accepted / Implementation Started:

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 Government 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 Government at all appropriate levels and in a timely manner.

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

Accepted / Implementation Started:

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 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.

BODILY INJURY CLAIMS COSTS:

- 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.**

Accepted / Implementation Started:

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

STAFFING & COMPENSATION:

- 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.**
- 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.**

Accepted / Implementation Started:

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.

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;
- Effective January 1, 2013, for current management positions, including the current ICBC executives reporting to the CEO, ICBC will eliminate all perquisites. A need-based vehicle allowance will be provided to existing management positions that require a vehicle to perform their duties;
- 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.

COST CONTAINMENT:

- 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.**

Accepted / Implementation Started:

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%.

Accepted / Implementation Started:

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.

PROCUREMENT:

- 11. ICBC should more clearly demonstrate value for money in procurement, using competitive processes whenever possible.**
- 12. ICBC should develop relevant key performance indicators to ensure it can appropriately monitor its procurement process and performance.**
- 13. ICBC should strengthen the procurement process through the implementation of a vendor complaint and dispute resolution mechanism and a post-contract evaluation process.**
- 14. ICBC should amend their records retention policy to prevent the destruction of documentation for ongoing contracts.**

Accepted / Implementation Completed:

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, and has implemented related performance indicators. The vendor complaint and resolution process is posted on ICBC.com and is being communicated to vendors. The post contract evaluation process has been implemented and documentation supporting ongoing contracts is being retained for all "live" contracts.

INFORMATION TECHNOLOGY:

- 15. ICBC should ensure that IT policy and procedures are appropriately documented.**
- 16. ICBC should ensure that new disaster recovery plans are developed and tested before the new Transformation Program systems are implemented.**
- 17. ICBC should ensure the IT Security function has the appropriate reporting relationship and authority in the organization.**
- 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.**

Accepted / Implementation Partially Completed:

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.

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.

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.

Accepted / Implementation Started:

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.

TRANSFORMATION PROGRAM (TP)

- 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.**
- 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.**
- 21. ICBC should ensure that key areas identified in the Transformation Program risk assessment are promptly addressed.**
- 22. ICBC should quantify the additional financial benefits to be realized from the Transformation Program.**

Accepted / Implementation Partially Completed:

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.

Accepted / Implementation Partially Completed:

ICBC uses external advisors to ensure ongoing best practices are employed on the project and risks are appropriately quantified and mitigated. ICBC recognizes the Government of British Columbia has significant experience in implementing major projects. As recommended in the Government review report, ICBC will engage with the Province to ensure it fully leverages learnings on large-scale IT projects.

Accepted / Implementation Completed:

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.

DRIVER LICENSING:

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

Accepted / Implementation Partially Completed:

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. 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.

Recommendation Status

Overall Summary

Implementation Completed	5
Implementation Partially Completed	8
Implementation Started	11
Implementation Will Start	0
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Total Recommendations in Review	24
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Status Summary on the 24 Recommendations
“Review of the Insurance Corporation of British Columbia”

Recommendation #	Status as of August 15, 2012	
1.	Accepted	Implementation Started
2.	Accepted	Implementation Started
3.	Accepted	Implementation Started
4.	Accepted	Implementation Started
5.	Accepted	Implementation Started
6.	Accepted	Implementation Started
7.	Accepted	Implementation Started
8.	Accepted	Implementation Started
9.	Accepted	Implementation Started
10.	Accepted	Implementation Started
11.	Accepted	Implementation Completed
12.	Accepted	Implementation Completed
13.	Accepted	Implementation Completed
14.	Accepted	Implementation Completed
15.	Accepted	Implementation Partially Completed
16.	Accepted	Implementation Partially Completed
17.	Accepted	Implementation Started
18.	Accepted	Implementation Partially Completed
19.	Accepted	Implementation Partially Completed
20.	Accepted	Implementation Partially Completed
21.	Accepted	Implementation Completed
22.	Accepted	Implementation Partially Completed
23.	Accepted	Implementation Partially Completed
24.	Accepted	Implementation Partially Completed