

Insurance Corporation of British Columbia

**2019/20 – 2021/22
SERVICE PLAN**

February 2019



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ICBC's Corporate Service Plans, Annual Reports and Financial reports are available on the ICBC website.

Board Chair Accountability Statement



The 2019/20 - 2021/22 Insurance Corporation of British Columbia (ICBC) Service Plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported. The Board is responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of January 30, 2019 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, ICBC's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of ICBC's operating environment, forecast conditions, risk assessment and past performance.

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

Joy MacPhail
Chair, ICBC Board of Directors

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Strategic Direction and Alignment with Government’s Priorities

ICBC’s mandate, as provided through *the Insurance Corporation Act, Insurance (Vehicle) Act and the Motor Vehicle Act*, is to provide Basic and Optional vehicle insurance for B.C. motorists. The Basic rates are regulated by the British Columbia Utilities Commission (BCUC), an independent regulator. The BCUC approves the Basic insurance rates and ensures the Basic insurance product is adequate, efficient and reasonable. ICBC also sells Optional auto insurance in a competitive marketplace. In addition, ICBC provides driver licensing, vehicle registration and licensing, and violation ticket and government fine collections services on behalf of the Province, under a Service Agreement between government and ICBC. ICBC also implements road safety initiatives to reduce crashes and losses on B.C. roads and to assist in managing claims costs. The organization works closely with the Ministry of Attorney General, as the Ministry Responsible for ICBC (the Ministry), to ensure financial targets and reporting requirements are met.

In line with Government’s commitment to make life more affordable for British Columbians, while delivering services that people can count on, ICBC is dedicated to providing customers with the best insurance coverage and service, at the lowest possible cost. To support this, ICBC’s Corporate Strategy focuses on four key goals: Deliver Value and Service for Customers, Enable Financial Stability, Continuously Improve Our Business and Build a High-Performing Workforce. The items included in the [2019/20 Mandate Letter](#), including environmental initiatives related to greenhouse gas reduction and climate resilience, will help shape ICBC’s operations in the coming year.

ICBC continues to face significant financial pressure as a result of a record-high number of crashes and increasing claims costs that, without action, would result in substantial increases to insurance rates for British Columbians.

Working with government and at the direction of the Attorney General, significant steps have been taken to identify and deliver mitigations and initiatives that will help reduce the pressures on auto insurance rates. The initiatives focus on Basic insurance product reform, Basic rate fairness, road safety and modernized material damage programs. The goal of these initiatives is to create a sustainable auto insurance system, striking the balance between increased care for the injured and managing increased pressures of material damage costs. See the Performance Plan section for more discussion on this topic.

Alignment with Government Priorities

Government Priorities	ICBC aligns with this priority by:
Making life more affordable	<ul style="list-style-type: none"> Deliver fair, affordable and sustainable rates (Strategy under Goal 1)
Delivering the services people count on	<ul style="list-style-type: none"> Working with our shareholder and partners to design and deliver quality products and services in ways that meet customer needs and achieve government priorities (Strategy under Goal 1)

Building a strong stable economy	<ul style="list-style-type: none"> • Deliver fair, affordable and sustainable rates (Strategy under Goal 1)
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Operating Environment

In B.C., auto insurance is based on a tort system, which means that an at-fault driver may be subject to legal action for damages they caused, such as injuries to others or damage to vehicles. Risks in the operating environment could impact future performance and the ability to execute the corporate strategy. Similar to some jurisdictions, B.C. has experienced a rapid increase in the number of motor vehicle crashes. From these crashes, more people are claiming bodily injuries with a shift toward more complex claims that cost more to settle. The growing sophistication of cars is also driving up vehicle repair costs. These trends are putting upward pressure on rates. Managing these costs, along with exaggerated and fraudulent claims and increasing legal representation rates, is critical to offering customers the best insurance coverage for the lowest possible cost.

ICBC will be implementing some of the most significant changes in the organization’s history in an effort to help reduce this pressure. To help manage the increasing costs from injury claims and refocus the system on injury recovery, beginning April 1, 2019, there will be further, substantial increases to accident benefits and a limit on pain and suffering payouts for minor injuries coupled with a new independent claim dispute resolution process. ICBC will also be modernizing its material damage program as a necessary step to reduce material damage cost pressures. While ICBC is expecting a significant reduction in claims costs from product reform, these changes will not address the high number of motor vehicle crashes, nor will they address the ongoing tort exposure (and hence impact on rates) not impacted by these reforms. ICBC and Government are working on road safety initiatives to help prevent crashes in the first place. See Goal 1 (Deliver Value and Service for Customers) for more details on road safety. See Goal 3 (Continually Improve Our Business) for more discussion managing claims costs.

In addition, ICBC is changing the way it sets Basic insurance premiums to ensure they better reflect the risk a driver represents so that lower-risk drivers do not pay the same premiums as high-risk drivers. These rate fairness changes will neither increase nor reduce the overall amount of Basic premiums ICBC needs to collect in any given year. Instead, they are about how ICBC calculates an individual’s Basic premiums.

Combined, all these changes will help prepare ICBC for the future, while supporting the long-term sustainability of the auto insurance system and affordability and rate fairness for British Columbians.

Natural catastrophes, volatility in investment markets and global economic uncertainty continue to be risks for the Property and Casualty industry. Investment income remains a strong and consistent contributor to ICBC’s financial health, helping to partially offset the pressure of rising claims costs. However, in a low interest rate environment, ICBC cannot rely upon investment returns to help offset claims costs and benefit insurance rates to the same extent it did in the past, as claims costs continue to rise at a significantly higher rate than investment returns.

Performance Plan

Goals, Objectives, Strategies and Performance Measures

This section sets out ICBC’s goals, strategies, performance measures and targets for 2019/20-2021/22. ICBC is working closely with government to develop a longer term corporate strategy to help increase financial stability and prepare ICBC for future changes in the insurance industry.

Goal 1: Deliver Value and Service for Customers

ICBC remains committed to delivering value and service for customers by focusing on its customers’ needs and what matters most to them.

Objectives

- 1.1a Maintain or improve current Insurance Services satisfaction score
- 1.1b Maintain or improve current Driver Licensing satisfaction score
- 1.1c Maintain or improve current Claims Services satisfaction score

Strategies

- Work with our shareholder and partners to design and deliver quality products and services in ways that meet customer needs and achieve Government priorities
- Deliver fair, affordable, and sustainable rates
- Reduce injury and death on B.C. roads

Performance Measure 1: Deliver Value and Service for Customers

Performance Measure	2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
1.1a Insurance Services Satisfaction	95% ¹	93%	92% ²	93% ²	95%
1.1b Driver Licensing Satisfaction	93%	93%	93%	94%	95%
1.1c Claims Services Satisfaction	92%	92%	92%	93%	94%

Data Source: An independent firm is retained to conduct ongoing surveys of customers for the purposes of monitoring transactional satisfaction. ¹The Insurance Customer Satisfaction survey was temporarily suspended in 2016 due to constraints to data access following the implementation of the new insurance system. The survey resumed starting with October 2017 transactions. ²With the implementation of the upcoming rate fairness changes, policy transactions will take longer to process as more information will be required to appropriately rate a customer’s policy. This process is expected to affect transactions in 2019/20 and 2020/21.

Linking Performance Measures to Objectives

Measuring feedback is how ICBC knows if it is delivering value and service for customers. ICBC measures customer service performance based on the percentage of satisfied customers for each major transaction type or service it provides: insurance product purchase, driver licensing and claims service. ICBC continues to meet service measures for its Insurance Services, Driver Licensing and Claims Service to ensure customers are receiving consistent, quality service while

interacting with ICBC and brokers. ICBC is reviewing its measurement framework to ensure the right tools, surveys and information are available to evaluate and improve customer experience. ICBC anticipates updates will be incorporated in the 2020/21-2022/23 Service Plan. However, to ensure consistency and a stable baseline during the implementation of the upcoming Basic insurance product reforms and rate fairness changes, ICBC will continue to measure and report on customer satisfaction scores for the current year. Enhancements to the current measurement framework may include the addition of new survey channels and measurement points, modification to questions and shifts in customer insight themes. These updates will uncover more actionable insights to inform future planning.

Insurance Services Satisfaction

Independent insurance brokers process over three million Autoplan policies each year. The insurance services satisfaction measure is typically based on surveys of approximately 5,000 customers over the course of a year.

Driver Licensing Satisfaction

Each year, ICBC conducts approximately 1.6 million transactions relating to the issuance of driver licences and driver exams, including renewing a licence, taking a knowledge test or undergoing a road test. This measure is weighted by the number of transactions for each type of service and is drawn from a sample of over 5,000 customers surveyed throughout the year.

Claims Service Satisfaction

Claims are processed through ICBC's claims call centre, claims centres and specialty departments such as commercial claims and rehabilitation services. In addition to reporting a claim by phone, customers can report a claim and check details online. Claims surveying draws upon personal claims and is based on the average of First Notice of Loss and closed claims. In a typical year, there are over 15,000 completed surveys.

Discussion

Strategy 1: Work with shareholder and partners to design and deliver quality products and services in ways that meet customer needs and achieve Government priorities

ICBC supports the delivery of government-directed initiatives in alignment with government priorities. ICBC will continue to partner with government on priorities such as improvements to the B.C. Services Card, including developing and adopting provincial naming standards to be applied to government issued photo ID where current name mismatches exist. ICBC is also committed to changes to provide for new offences related to the legalization of cannabis and law enforcement initiatives that combat distracted driving and improve intersection safety. (See more details below in Strategy 3: Reducing injury and death on B.C. roads.)

Government has committed to delivering services that British Columbians can count on. Similarly, ICBC is focused on consistently providing the products, services and support to better meet our customers' expectations in a cost-effective manner. Over the coming years, ICBC will continue to leverage online services for customers to help reduce costs, increase customer convenience and enable the organization to operate more efficiently.

In addition, ICBC will continue to provide services across the province through its business partners, including Express Repair facilities, medical service providers, Autoplan brokers, and government agents that offer driver licensing services.

Strategy 2: Deliver fair, affordable, and sustainable rates

A key part of delivering value to customers is to keep insurance rates as low as possible while enhancing fairness in pricing. Insurance rates in B.C. have experienced ongoing pressure from the number and cost of claims in recent years – with the pressure continuing in 2019/20 and the foreseeable future. The planned reforms to Basic insurance support the long-term sustainability of ICBC. They will also include changes to improve rate fairness and accountability for British Columbians, as drivers will pay Basic insurance premiums that better reflect the risk they represent on the road.

Strategy 3: Reduce injury and death on B.C. roads

Road Safety programs are an integral part of ICBC’s overall commitment to supporting programs that contribute to reducing crashes and claims costs.

In B.C., crashes are at an all-time high with almost 960 crashes each day. An increase in funding to the Road Safety Memorandum of Understanding (MOU) in 2019/20 includes an additional \$2 million in one-time funding for visible enforcement during this time of record high crashes.

ICBC is committed to working with Government to make B.C.’s roads safer and is involved in a number of initiatives to reduce crash rates, which in turn offset rate increases and address ICBC’s financial situation.

Following the successful completion of a telematics-supported app pilot, ICBC has developed a telematics strategy for 2019/20 and beyond, including piloting telematics with a limited number of drivers to determine whether technology can improve road safety outcomes and drive behavioural change among inexperienced drivers in B.C.

In B.C., approximately 60 per cent of crashes, excluding those that occur in parking lots, happen at intersections. For this reason, ICBC and Government place a high priority on intersection safety. ICBC and Government have now increased activation levels of B.C.’s Intersection Safety Camera (ISC) program to 24/7. For 2019/20, ICBC is working with Government and police to upgrade the ISC program at key locations to capture the worst speeding offenders.

ICBC has also partnered with the Ministry of Transportation and Infrastructure on a collision reduction program on provincial roadways at locations with a high frequency of rear-end crashes, applying a high-friction surface treatment to help drivers stop faster and prevent crashes.

As part of its commitment to reducing injury and death on B.C. roads, ICBC will continue to partner with law enforcement, local municipalities and government to raise awareness about the risks, consequences and penalties associated with dangerous driving behaviours, including speed, distracted driving, impaired and cannabis-impaired driving.

Goal 2: Enable Financial Stability

ICBC aims to create value for customers by operating in a disciplined and focused manner. ICBC strives to manage operating expenses in a low-cost manner to make life more affordable for British Columbians, while focusing on accountability, service and cost consciousness.

Objectives

- 1.1a Stable Minimum Capital Test (MCT) ratio
- 1.1b Stable or lower combined ratio
- 1.1c Stable or lower loss ratio
- 1.1d Investment return to match the policy benchmark return

Strategies

- Manage increasing bodily injury and material damage claims costs
- Manage operating expenses in a low-cost manner
- Balance risk and return within the investment portfolio

Performance Measure 2: Enable Financial Stability

Performance Measure	2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
1.1a MCT ¹	31%	(24%)	On Hold	On Hold	On Hold
1.1b Combined Ratio	136%	132%	112%	112%	111%
1.1c Loss Ratio	114%	118%	94%	93%	92%
1.1d Investment Return (Market Return)	Benchmark Return +0.35%	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return

Data Source: Financial performance measures are derived from actual financial information, forecasted trends, management targets, and assumptions. ¹ In light of the anticipated changes to the Basic insurance product, Corporate MCT targets for 2019/20 to 2021/22 are subject to review.

Linking performance measures to objectives

Working with Government, ICBC is implementing changes to its Basic insurance product that will help close the gap between the premiums being collected and the cost of the claims being paid out. The changes move ICBC toward a long-term system that is sustainable, affordable, and focused on injury recovery. Operationally, ICBC will continue to manage the costs of bodily injury and material damage claims, and continue to improve how it manages the risks and growth in costs associated with claims.

Minimum Capital Test

MCT is a best practice property and casualty industry measurement framework established by the Office of the Superintendent of Financial Institutions (OSFI). It provides a framework for

measuring the capital adequacy of an insurer to protect policyholders from financial risk and to provide long-term financial stability. It is the ratio of ICBC's capital available to capital required as calculated for specific risks, and is expressed as a percentage.

Combined Ratio

The combined ratio is a key measure of overall profitability from operations within the insurance industry, determined as a ratio of all costs and expenses over premiums (excluding investment income). A ratio below 100 per cent indicates an underwriting profit, while a ratio above 100 per cent indicates an underwriting loss.

Loss Ratio

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

Investment Return

ICBC collects premiums, which are invested prior to being paid out in claims. These funds are invested in accordance with ICBC's investment policy. Investment income is important and is used to reduce the cost of insurance to policyholders. Investment performance is evaluated against a benchmark return calculated using the strategic asset mix which is set in the investment policy.

Discussion

Minimum Capital Test

While ICBC is not federally regulated by OSFI, *Special Direction IC2* has required ICBC to have a minimum of 100 per cent MCT ratio for Basic insurance. ICBC has established separate MCT targets for the Basic and Optional lines of business, based on the risk profile of the separate businesses. Pursuant to Order in Council 614, August 24, 2016, *Special Direction IC2* was amended directing the exclusion of capital build and capital maintenance components in the calculation of the Basic rate to cover costs, for policy year 2016 through policy year 2020. In addition, Order in Council 067, February 26, 2018, *Special Direction IC2* was amended, temporarily suspending ICBC's requirement to meet the Basic business MCT regulatory minimum of 100 per cent for the policy years 2018 through 2021. These amendments temporarily suspend the aforesaid capital level requirements until the full extent of the impact of product reform and various road safety and other initiatives become known. These exclusions allow ICBC, in consultation with Government, more time to develop a fulsome long term capital plan, on which future targets will be based.

The MCT 2017/18 Actuals and 2018/19 forecast shown represents a combination of the Basic and Optional MCT. In light of the anticipated changes to the Basic insurance product, as well as benefits from road safety and other initiatives, MCT targets for 2019/20 to 2021/22 are subject to review.

Combined Ratio

ICBC's combined ratio is typically higher than the industry average. This is partially due to the unique nature of ICBC's business model, where Basic insurance premiums are not set to generate underwriting profits and, together with investment income, are expected to be set to recover costs and to achieve and maintain capital targets (except for the period when capital maintenance and capital build requirements were suspended as discussed above). ICBC also delivers non-insurance services on behalf of Government and these costs are reflected in the combined ratio.

Loss Ratio

ICBC's loss ratio is typically higher than the industry average. This is partially due to the unique nature of ICBC's business model, where Basic insurance premiums are not set to generate underwriting profits and, together with investment income, are expected to be set to recover costs and to achieve and maintain capital targets (except for the period when capital maintenance and capital build requirements were suspended as discussed above).

Investment Return

The benchmark return is calculated as the average of individual asset class benchmark returns, weighted according to the portfolio's strategic asset mix. Individual asset class benchmarks are market indexes designed to track the performance of a representative asset class. Consequently, the benchmark return provides an indication of the performance that can be expected from a diversified portfolio of assets. The benchmark contributes to ICBC's financial stability by measuring management's ability to achieve the returns that are available in the market.

Strategy 1: Manage increasing bodily injury and material damage claims costs

Claims costs are the vast majority of ICBC's costs and can be divided into injury costs and material damage costs. Frequency (how many claims are made each year per a given number of policies) and severity (the average payout for a claim) are the two main elements that impact claims costs. ICBC is seeing crash frequency flatten in 2018/19, but expects it to continue increasing in the future, along with an increasing number of injury claims being reported.

Despite the fact that vehicles and roads today are safer, the frequency of bodily injury claims and the number of injury claims per crash continues to steadily increase. Bodily injury severity has also followed an upward trend, with minor or soft tissue injuries and associated claims costs accounting for the majority of injury claim costs. More people are also claiming bodily injury with a shift toward more complex claims that cost more to settle. In the lead up to product reform, some claimants or plaintiff counsel may be reluctant to settle as quickly or at the same amount as usual which puts pressure on claims costs.

To help address claims costs associated with bodily injury, starting April 1, 2019, ICBC will be implementing legislative and regulatory changes including limiting pain and suffering payouts for minor injury claims and improving accident benefits to increase the care available for anyone injured in a crash. In addition, Government is establishing an independent dispute resolution process which will make decisions on classification of an injury as a minor injury, entitlement to receive accident benefits claimed, and disputes about who is at-fault in a crash. Together, these changes will reduce the amount ICBC spends on legal fees and expenses which will, when coupled with other planned initiatives, significantly reduce claims costs and contribute to a lower

Basic rate requirement for customers. In spite of these cost reduction initiatives, growing crash frequency and upward pressure on claims severities will continue to put pressure on rates.

The costs of vehicle repairs are driving sustained and significant annual increases in material damage claim severity. Vehicles today are more reliant on technology and expensive materials than ever before, while the hours of labour required to repair vehicles and the cost of replacement parts are also increasing, particularly for newer vehicles. As part of the changes underway to create a sustainable insurance system, ICBC is modernizing its material damage programs and will develop new tiering models for collision repair and glass suppliers that will focus on performance standards, operational efficiencies and customer experience. When complete, these program designs will better reflect industry standards, evolving vehicle technologies and the role of original equipment manufacturer (OEM) parts in the repair process.

Strategy 2: Manage operating expenses in a low-cost manner

ICBC's objective is keeping controllable operating expenses as low as possible while still ensuring it is adequately staffed to maintain appropriate service levels and manage claims costs. ICBC expects to continue hiring additional claims and claims-related staff, which includes support staff, in-house legal counsel and Special Investigation Unit (SIU) employees, in fiscal 2019/20 to continue to manage the volume and complexity of claims, as well as provide a smooth transition to the new product. This increase in claims and claims-related staff is expected to be temporary and, once the transition to the new insurance product is completed, the staffing levels are expected to gradually decrease.

Strategy 3: Balance risk and return within the investment portfolio

ICBC earns investment income that partially offsets the cost of rising insurance rates to policyholders and aims to balance risk and return within its investment portfolio, specifically the ability to generate an investment return against a need to control risk. Historically, investment income has been a strong contributor to ICBC's financial health. The current investment portfolio continues to perform well, exceeding industry benchmark returns. However, ICBC cannot rely upon investment return to help offset claims costs to the same extent it did in the past, as increases in claims costs have been significantly higher rate than investment returns.

Goal 3: Continuously improve our business

Providing customers with the best insurance coverage at the lowest possible cost requires operating ICBC in a cost efficient manner. ICBC will continue to embed lean thinking in its business practices and apply tools, standards and technology to improve quality and streamline processes. This includes continuously improving our business so that we can actively control spending, avoid unnecessary costs and deliver a consistent, quality experience and value for customers.

Objectives

- 1.1a Stable or lower Loss Adjustment Ratio; and
- 1.1b Stable or lower Insurance Expense Ratio

Strategies

- Evolve our ability to leverage technology, tools and standards to operate efficiently and deliver consistent quality service
- Develop organizational agility to be responsive to a changing environment

Performance Measure 3: Continuously Improve our Business

Performance Measure	2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
1.1a Loss Adjustment Ratio ¹	15.7%	15.9%	On Hold	On Hold	On Hold
1.1b Insurance Expense Ratio	16.8%	17.0%	16.8%	16.5%	16.4%

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

¹ In light of the anticipated changes to the Basic insurance product, targets for 2019/20 to 2021/22 are subject to review.

Linking performance measures to objectives

To monitor and measure how ICBC is continuously improving its business, ICBC is using the following two measures: Loss Adjustment Ratio and Insurance Expense Ratio.

Loss Adjustment Ratio

The Loss Adjustment Ratio is the percentage of claims handling costs per dollar of claims paid. It is calculated as the sum of claims services costs, external expenses and loss management expenses divided by claims paid net of external expenses.

Insurance Expense Ratio

The Insurance Expense ratio is a standard industry measure to assess operational efficiency of an insurer. The Insurance Expense Ratio is calculated as a ratio of insurance operating expenses (excluding claims, claims related costs, and non-insurance expenses) to insurance premium dollars earned.

Discussion

To ensure ICBC continues to effectively manage the increasing frequency and complexity of claims and the smooth transition to the new insurance product, additional claims and claims related staff are needed in the near term. Other operating costs such as corporate support costs are expected to be relatively stable regardless of claims volume and complexity.

Loss Adjustment Ratio

Claims services costs consist of salaries, benefits and operating expenses while external expenses consist primarily of costs for outside legal counsel, medical and dental reports, private investigators, independent adjusters and towing services. Loss management expenses include ICBC's SIU, which covers fraud prevention, investigation and detection to help reduce claims costs. In light of the upcoming product reform changes and other initiatives, Loss Adjustment Ratio targets are currently on hold.

Insurance Expense Ratio

ICBC anticipates the Insurance Expense Ratio to be stable or lower.

Strategy 1: Evolve our ability to leverage technology, tools and standards to operate efficiently and deliver consistent quality service

ICBC will maintain a strong focus on managing costs and evolve service delivery to the next level with a stronger emphasis on technology. ICBC is committed to continuously improving the business by leveraging operational excellence principles and methodologies. This includes reviewing business processes to meet the changing digital and service expectations of customers, find and remove operational inefficiencies, use other technology to stabilize change and accelerate gains, and build internal capacity and capability in our people to successfully lead and sustain the benefits of these changes.

Strategy 2: Develop organizational agility to be responsive to a changing environment

With the implementation of product changes and other reforms, ICBC will continue to develop skills, operationalize management practices and process standards that enable organizational agility to stabilize and realize gains from the transformational changes. This includes using lean management practices to track performance of changes and to quickly escalate opportunities for improvement.

Goal 4: Build a High-Performing Workforce

Critical to achieving the corporate strategy is having the right people with the right business capabilities and tools to provide more information, improved services and better access for customers. ICBC will continue to build the skills and capabilities of its people through implementation of human resource initiatives and workforce plans, which will include leadership development, succession planning and various employee experience programs.

Objectives

1.1a Maintain or improve scores across all employee opinion indices

Strategies

- Align our culture to drive a better customer experience
- Inspire accountable, aligned, enabled, and motivated leaders and employees; and
- Strengthen the skills and capabilities of our people to enable them to be successful.

Performance Measure 4: Build a High-Performing Workforce

Performance Measure	2017/18 Actual	2018/19 Actual	2019/20 Target	2020/21 Target	2021/22 Target
Employee Opinion Indices					
<i>Aligned</i>	81	82	82	82	82
<i>Enabled</i>	70	73	76	82	82
<i>Motivated</i>	67	72	75	81	81
<i>Accountable</i>	86	90	90	90	90
<i>Leadership</i>	N/A	76	79	N/A	82

Data Source: Employee Opinion Survey conducted by an independent firm. ¹ The leadership index can only be updated in a full survey year. **Score Legend:** 80-100 = extremely positive. 60-79 = moderately positive. 40-59 = moderately negative. 0-39 extremely negative.

Linking Performance Measures to Objectives

ICBC's Employee Opinion Survey (EOS) scores have progressively increased over the years. The organization will maintain its focus on continuous improvement of the employee experience, but has adjusted its EOS targets to reflect that either a score increase or maintenance of existing scores is a satisfactory outcome.

Discussion

Employee Opinion Survey

Over the past four years, the period covering the introduction of ICBC's new employee opinion survey format, the percentage of employees who have participated in the survey (response rate) has remained consistently high, from 70 per cent in 2014, 77 per cent in 2016, to 75 per cent in 2018/19. Fundamentally, the strength of these response rates mean that these EOS results are truly representative of the opinions of ICBC employees.

Results showed that ICBC reached or exceeded its index targets in all five indices.

Improvements in the Enabled and Motivated indices saw substantial increases. This indicates ICBC's focus on ensuring employees have the tools necessary to do their jobs and to give employees a sense of belonging in the workplace have been effective. The Leadership index is only measured in full survey years, no score can be generated in the intervening years, however, the survey results identify opportunities for improvement and indicate that ICBC can focus its attention on linking the organization's strategy to individual roles, providing more feedback and coaching and providing more opportunities for formal and informal learning and development. Management is addressing this through tactics including a Diversity and Inclusion program, employee and leadership development initiatives and job-related training programs. ICBC's EOS scores have gradually improved to the point that all indices are currently scoring within the "Moderately Positive" (60-79) or "Extremely Positive" categories. As specified in targets set for future surveys, maintenance of Extremely Positive scores represents a significant achievement, though the organization will also still continue to work to continuously improve.

An EOS “pulse check” will be conducted in fall 2019.

Strategy 1: Align our culture to drive a better customer experience ICBC is working to create a sustainable auto insurance system which strikes the balance between increased care for the injured, more affordable and fair rates for all and less spend on legal and vehicle repair costs. With these changes comes a fundamental shift in our business model and in the way ICBC employees interact with customers to ensure a better experience. Workforce and cultural shifts at ICBC will support the successful delivery and sustained implementation of auto insurance changes in B.C.

Strategy 2: Inspire accountable, aligned, enabled, and motivated leaders and employees One of the key strategies within this goal is to inspire accountable, aligned, enabled and motivated leaders and employees. ICBC’s Employee Opinion Survey captures employees’ opinions regarding the tools and processes through which they execute their work, their understanding of how their efforts align to the corporate strategy, their personal motivation and their individual accountability for delivering business results. All ICBC employees are invited to participate in a full EOS every two years; in the intervening years, a shorter Pulse Check survey is provided to a representative sample of employees (20%). The Pulse Check helps ICBC’s leadership teams understand if corporate, divisional and departmental action plans are addressing the feedback provided by employees in full surveys.

Strategy 3: Strengthen the skills and capabilities of our people to enable them to be successful ICBC employees are critical to the successful implementation of the Basic insurance product reform and rate fairness changes, and that success depends on employees having the skills and tool necessary to perform new work functions. Significant training initiatives, and the development of new resources that will enable employees to develop specific skills including business process changes and/or changes to day-to-day role responsibilities are underway. ICBC is putting a particular focus on critical skills, including data analytics, to provide greater access to data in the claims and insurance systems and equipping employees with the right information to make fact driven decisions. ICBC is committed to supporting training to ensure process discipline and high customer service are sustained and continue past implementation of the new Basic rate and product modernizations.

Financial Plan

Summary Financial Outlook

(\$m)	2017/18 Actual	2018/19 Forecast	2019/20 Budget	2020/21 Budget	2021/22 Budget
Premiums earned	5,329	5,826	6,404	6,967	7,569
Service fees and other	113	119	135	144	152
Total earned revenues	5,442	5,945	6,539	7,111	7,721
Provision for claims occurring in the current period	5,084	5,416	5,499	5,986	6,497
Change in estimates for losses occurring in prior periods	563	1,021	29	11	3
Net claims incurred	5,647	6,437	5,528	5,997	6,500
Claims service and loss management	402	425	472	468	466
Insurance operations expenses	231	262	267	271	285
Transformation Program	30	31	29	26	26
Premium taxes and commissions	792	386	748	876	961
Total expenses	7,102	7,541	7,044	7,638	8,238
Underwriting loss	(1,660)	(1,596)	(505)	(527)	(517)
Investment and other income	462	544	587	748	804
Income (loss) - insurance operations	(1,198)	(1,052)	82	221	287
Non-insurance operations expenses	102	102	107	109	112
Non-insurance commissions	31	32	32	33	34
Non-insurance - other income	(6)	(6)	(7)	(7)	(7)
Net income (loss)	(1,325)	(1,180)	(50)	86	148
Other comprehensive income					
Pension and post-retirement benefits remeasurements	134	94	-	-	-
Net change in available for sale financial assets and change in non controlling interest	(264)	(174)	93	139	135
Total comprehensive income (loss)	(1,455)	(1,260)	43	225	283
Total liabilities	16,999	19,103	20,252	21,115	22,163
Retained earnings	1,133	(47)	(97)	(11)	137
Other components of equity	(161)	(241)	(148)	(9)	126
Non-controlling interest	15	15	15	15	15
Total equity	987	(273)	(230)	(5)	278
Capital Expenditures¹	54	72	92	40	40

¹ Major categories of capital expenditure include: facilities (land, building, leasehold), furniture and equipment, IT systems (computer equipment and software). Looking ahead, ICBC expects capital expenditures will change in the planning period as the company maintains or replaces aging infrastructure, including replacement or upgrade facilities, and as critical business systems are renewed.

Operating Costs by Nature

(\$m)	2017/18 Actual	2018/19 Forecast	2019/20 Budget	2020/21 Budget ¹	2021/22 Budget ¹
Premium taxes and commission expense	667	728	814	882	964
Premium deficiency adjustments	157	(310)	(34)	27	31
Compensation and other employee benefits	401	436	487	874	889
Pension and post-retirement benefits	89	78	75		
Professional and other services	41	55	26		
Road improvements and other traffic safety programs	30	31	33		
Building operating expenses	28	30	22		
Merchant and bank fees	39	44	46		
Office supplies and postage	23	22	23		
Computer costs	28	31	29		
Depreciation and amortization	55	59	74		
Other	31	34	60		
Total operating costs	1,589	1,238	1,655		

¹ Operating cost targets are not planned in detail beyond the current year.

Key Forecast Assumptions, Risks and Sensitivities

Financial forecasts take into consideration ICBC's plans to address the key strategic risks facing the organization and changes in the external environment. Typical of other property and casualty insurance companies, ICBC faces material risks in the execution of its strategy and conduct of operations. The Board of Directors, the Board Committees and the Executive Leadership Team review these material risks, including financial market risk, as part of their governance and oversight function. ICBC will continuously address these material risks. This includes strengthening information security system controls to protect against evolving cybersecurity threats and continuing to leverage the use of core operational systems. Leadership development and succession planning also continue to support the business model.

Based on these plans, the following assumptions were developed and incorporated into the financial forecasts on page 18.

- The summary financial outlook reflects the overall operations of the business, including Basic and Optional insurance and non-insurance activities. It has been prepared based on current legislative, regulatory, accounting and judicial frameworks.
- The Service Plan assumes that certain legislation and regulation will be enacted.
- The forecast reflects a number of financial and behavioural assumptions relating to the implementation of changes to the Basic insurance product, and actual results could vary from these projections, depending on actual implementation, actual behavioural changes, and associated impacts.
- The financial information was prepared based on International Financial Reporting Standards (IFRS), including IFRS 16 (Leases), effective April 1, 2019. The forecasts do not include any

changes from IFRS 9 (Financial Instruments) or IFRS 17 (Insurance Contracts), which will be effective April 1, 2022.

- For the 2019/20 – 2021/22 period, rate changes are assumed for both the Basic and Optional insurance businesses. Any proposed changes to Basic insurance rates are subject to BCUC regulatory approval.
- Investment income, as shown, includes the expected interest, dividends, other income, and realized gains/losses from the investment portfolio, as well as foreign exchange gains/losses.
- Claims incurred reflect current claims trends, vehicle population growth and inflation; and the impact of estimated savings from changes to the Basic insurance product, material damage and road safety initiatives beginning in 2019/20.
- Prior years' claims reflect changes in the discounted value of unpaid claims.
- Changes in unrealized gains and losses impact Other Components of Equity but may be subject to change when new accounting standards take effect.

Sensitivity Analysis

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

Premiums

- 1 percentage point fluctuation represents approximately \$58 - \$76 million in net premiums (Basic and Optional combined)

Claims

- 1 per cent change in current year claims costs represents approximately \$54 - \$65 million in current year claims costs
- 1 per cent fluctuation in the unpaid claims balance represents approximately \$119 - \$154 million in claims costs
- 1 percentage point fluctuation in the rate used to discount claims represents approximately \$330 - \$340 million in claims costs

Investments

- 1 per cent fluctuation in investment return represents approximately \$158 - \$192 million in investment return
- 1 per cent change in the investment portfolio represents approximately \$5 - \$8 million in investment return
- 1 percentage point change in interest rate would result in a change of approximately \$406 million in the fair value in ICBC's fixed income portfolio and a corresponding impact of \$360 million to Other Comprehensive Income (OCI)
- A 10 per cent change in equity prices would result in an estimated corresponding change to OCI of approximately \$362 million

- A 10% change in Canadian dollar exchange rate would change the fair value of the non-Canadian equity fund investments and results in a change to OCI of approximately \$238 million

Market Share

- 1 percentage point change in market share represents approximately \$10 - \$15 million impact on net income

Pension

- 1 percentage point change in discount rate represents approximately \$460 million impact to the defined benefit obligation
- 1 percentage point change in discount rate represents approximately \$40 million impact to pension expense

Management's Perspective on the Financial Outlook

The net loss for fiscal 2018/19 is forecast to be \$1,180 million as compared to a net loss of \$1,325 million for fiscal 2017/18. The net loss for 2018/19 is primarily due to claims costs that are higher than in 2017/18 from higher average costs to settle bodily injury claims, including a continued high rate of large and complex bodily injury claims; an extension in the time required to resolve injury claims; and an increase in material damage claim severity. In the lead up to product reform, some claimants or plaintiff counsel may be reluctant to settle as quickly or at the same amount as usual. Claims that remain open longer will cost ICBC more, on average, than claims that are resolved sooner. Management anticipated that settling legally represented claims would be more challenging in 2018/19, being the last year before product reform, but the observed experience of higher paid settlements and lower claims closure rates has been more challenging than expected. ICBC will not be able to settle as many represented bodily injury claims in 2018/19 as it did in 2017/18. This decline in closures comes despite a substantial increase in the number of such claims being handled.

The fiscal years 2019/20 to 2021/22 reflect an improvement to the forecast primarily as a result of anticipated changes to the Basic insurance product. The implementation of product reform initiatives are expected to significantly reduce claims costs beginning in 2019/20. Product reform will have the most significant impact on the Basic bodily injury severity (cost per claim) by introducing a limit on payouts for minor injury claims. However, product reform does not impact the rising crash frequency (crashes per policy) and vehicle repair cost trends. ICBC has initiated certain road safety measures aimed at reducing crashes at high speed intersections and material damage initiatives aimed at cost effectiveness. These initiatives will not be enough to materially impact crash frequency (crashes per policy) and vehicle repair trends which continue to put pressure on increasing claims costs.

ICBC maintains ongoing efforts to identify and moderate the factors of higher claims costs that are within its control. ICBC, with the support of Government, pursues short and long-term strategies to help moderate increases in claims costs and the impact of higher claims costs on future Basic insurance rates. ICBC's initiatives emphasize continuous operational improvement

and consistent quality and fair handling of claims. ICBC is focused on reducing the increase in claims costs by managing higher claims volumes and providing fair and reasonable offers in an effort to settle claims. In addition, ICBC remains focused on improving management of procurement processes and initiatives to combat exaggerated and fraudulent claims. Cost saving opportunities and initiatives in a number of areas, including claims costs management and road safety initiatives have been endorsed and are included in the forecast. Further savings from additional initiatives will be included in future budgets.

ICBC earns investment income that partially offsets the cost of rising insurance rates to policyholders and aims to balance risk and return within its investment portfolio.

Despite the financial benefits of changes to the Basic insurance product, the corporation's capital levels are forecast to be well below regulatory and management targets. ICBC is working with Government on solutions to support the financial sustainability of ICBC.

Appendix A: Hyperlinks to Additional Information

Corporate Governance

ICBC's governance is defined through legislation applicable to all Crown corporations, and legislation specific to ICBC itself.

The Board of Directors guides ICBC in fulfilling its mandate and sets the corporate direction. The Board, with input from the Executive Team, approves the vision and values that guide ICBC, and the goals and strategies upon which accountability and performance are evaluated. Information on the role and membership of the Board members and Board committees is available on ICBC's website, <http://www.icbc.com/about-icbc/company-info/Pages/Corporate-governance.aspx>. Also available via this link is information regarding ICBC's Executive Committee and Governance Principles.

ICBC's Board complies with the Crown Agencies and Board Resourcing Office Guidelines (<https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/public-sector-management/cabro/best-practice-guidelines-for-board-appointees-bc.pdf>).

Organizational Overview

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

Appendix B: Nominee Companies

Nominee Companies

ICBC does not have any active operating subsidiary companies.

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