Report on Performance

As a Crown corporation, ICBC is continually working to align with government goals and objectives. ICBC fulfilled the expectations outlined in the 2015/16 Mandate Letter (see Appendix C) to which the Corporation must adhere and ensured alignment to the Taxpayer Accountability Principles, and its embedded action plan.

ICBC is committed to providing customers with the best insurance coverage at the lowest possible cost. To support this, the corporate strategy focuses on four key goals: improve value and service for customers, maintain financial stability, focused operational excellence and aligned people and business capabilities.

In alignment with government direction, ICBC recognizes the Taxpayer Accountability Principles, and its embedded action plan, as an overarching government priority and has included the values of cost consciousness (efficiency), accountability, appropriate compensation, service, respect and integrity into the corporate strategy.

The value of cost consciousness (efficiency) can be seen in ICBC's commitment to Operational Excellence. Last year, Operational Excellence tactics delivered benefit to the organization in the form of cost avoidance and revenue generation. Localized improvement events helped employees identify redundancies and address operational optimization. An improvement event at the Surrey Driver Licence Office resulted in a 25 per cent reduction in customer wait times. Through these improvement events, ICBC has reclaimed approximately 39,000 hours of capacity time, which has been repurposed into more meaningful ways to deliver value to customers.

In 2015, ICBC began work with the Ministry of Transportation and Infrastructure to develop an Evaluation Plan which will allow the Corporation to better report its performance against the Taxpayer Accountability Principles. When finalized, the Evaluation Plan will identify specific efficiency and performance measures on which to report.

Goals, Strategies, Measures and Targets

To assess progress against our goals, we rely on a number of financial and non-financial corporate performance measures. We use both International Financial Reporting Standards (IFRS) and non-IFRS measures to assess performance. Non-IFRS measures do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures used by other companies in our industry. Where possible, we use standard industry measures that enable benchmarking with other insurers. Where external sources of data are used, the most current available information is included in this report. In other cases, because of our unique business model, we develop distinct measures relevant to the area of performance.

In January 2016, the ICBC Board of Directors approved a change to the ICBC fiscal year-end to align with government's March fiscal year-end date. To transition to the fiscal year of April 1 to March 31, ICBC's 2016/17 reporting period will be 15 months in duration, from January 1, 2016 to March 31, 2017. Subsequently, ICBC will have a fiscal year of April 1 to March 31. Unless otherwise noted, the forward-looking corporate performance metrics reflect this change.

The data used in the calculation of performance results are derived from the company's financial and operating systems. Management is responsible for ensuring appropriate controls over the financial systems and are regularly reviewing these to ensure they are operating effectively.

Goal 1: Improve Value and Service for Customers

In 2015, ICBC focused on holding controllable operating expenses flat to 2013 levels and delivering consistent, quality service to customers, in ways that customers have told us are important to them. ICBC improved quality, consistency and timeliness of claims handling, while enabling more online and mobility services to help reduce costs, in order to provide the best insurance coverage at the lowest possible cost. ICBC's goal of improving customer service is consistent with the 2015/16 Mandate Letter requirements.

A key priority for ICBC is to help reduce injury and death on B.C. roads, which is why we invest in road safety initiatives and partner with the B.C. government and police on various awareness and enforcement campaigns each year. Fewer crashes and injuries also means lower claims costs which help keep rates as low as possible. This clear focus on positive outcomes for British Columbians aligns with the Taxpayer Accountability Principles of service and respect.

Strategies

- Keep rates as low as possible while moderating rate fluctuations.
- Improve quality, consistency, and timeliness of claims handling.
- Increase online services.

We measure customer service performance based on the percentage of satisfied customers for each major transaction type across our lines of business. The design of our measures and targets reflects the inherent differences of these key transactions. Two independent research firms conduct customer survey interviews throughout the year to monitor transactional satisfaction.

Performance Measure 1.1: Insurance Services Satisfaction

Performance Measure	2012 Actual	2013 Actual	2014 Actual	2015 Target	2015 Actual	2016/17 Target	2017/18 Target
Insurance Services Satisfaction (higher is better)	97%	96%	96%	≥ 95%	93%	≥ 95%	≥ 95%

Data Source: Survey research conducted by independent firm

Discussion

- Our network of independent insurance brokers process more than three million policies each year. This measure represents the percentage of customers satisfied with their recent ICBC insurance transaction, and is based on a survey of approximately 5,000 customers throughout the year.
- While the insurance satisfaction result remains high, the 2015 result (93%) is lower than in prior years and did not achieve the target (95%). ICBC anticipates there could be a further short term drop in the satisfaction score as implementation of its new policy management system goes live later in 2016 and insurance brokers adapt to the new system. The 2016/17 and 2017/18 targets have been set to a customer satisfaction level of 95% or higher.

Performance Measure 1.2: Claims Services Satisfaction

Performance Measure	2012 Actual	2013 Actual	2014 Actual [1]	2015 Target	2015 Actual	2016/17 Target	2017/18 Target
Claims Services Satisfaction (higher is better)	90%	89%	87%	≥ 90%	n/a	≥ 91%	≥ 91%

[1] Claims Services Satisfaction reporting was suspended at the end of May 2014 as we transitioned to our new Claims system. Delivery of the technology to allow for Claims Services Satisfaction measurement took longer than expected. Measurement will resume in 2016.

Data Source: Survey research conducted by independent firm

Discussion

- ICBC processes approximately 900,000 claims each year through our Claims call centre, claims centres and specialty departments such as commercial claims and rehabilitation services. A random sampling of customers whose claim has been recently closed are surveyed to measure satisfaction with the service they received during the claim process.
- As part of ICBC's commitment to modernizing our company and aging technology, the claims management system was replaced in May 2014. ICBC then transitioned into an 18-month stabilization period. During the stabilization period, the technological requirements for collecting data required for customer surveying was not available. As such, claims customer satisfaction reporting was suspended at the end of May 2014 but will be resumed in 2016.
- The target for 2016/17 and 2017/18 is set at 91% or above and to reflect the anticipated benefits of our new claims management system.

Performance Measure 1.3: Driver Licensing Satisfaction

Performance Measure	2012 Actual	2013 Actual	2014 Actual	2015 Target	2015 Actual	2016/17 Target	2017/18 Target
Driver Licensing Satisfaction (higher is better)	95%	94%	94%	≥ 95%	94%	≥ 95%	≥ 95%

Data Source: Survey research conducted by independent firm

Discussion

- We conduct approximately 1.6 million driver licence related transactions each year. This measure is based on a sample of over 3,000 customers surveyed throughout the year and represents the percentage of customers satisfied with a recent driver licensing transaction.
- The 2015 result (94%) is close to the target (95%) and is consistent with prior years' results, due partly to continued service improvements to optimize staffing levels to meet peak service periods. ICBC also increased the number of road test hours available for our customers. The target for 2016/17 and 2017/18 has again been set at 95% or higher.

Goal 2: Maintain Financial Stability

ICBC adheres to the Taxpayer Accountability Principles of efficiency, respect and accountability and has a responsibility to provide customers with the best insurance coverage for the lowest possible cost. To do this, ICBC must adapt to the challenges that face all property and casualty insurance companies, including increased bodily injury and material damage costs as well as a low interest rate environment.

Claims costs are the majority of ICBC's costs – accounting for approximately 98 cents of every premium dollar collected. The most significant pressure on Basic rates continues to be the rising cost of bodily injury claims, resulting from an increase in the average cost of claims (severity), and an increase in the number of injury claims (frequency). Material damage cost pressures, while not as high as the bodily injury cost pressures, are also impacting overall claims costs. In 2015, ICBC continued efforts to mitigate bodily injury claims severity by addressing customers' needs as early as possible and offering fair settlements on a timely basis. ICBC is working with government to develop short and long term strategies to moderate the growth in claims costs. This includes the implementation of fraud analytics tools to augment existing processes and proactively combat fraud. ICBC's mitigation strategies are consistent with the 2014/15 Mandate Letter.

Starting in late 2014, ICBC began to observe a higher-than-anticipated increase in overall claims frequency that continued through 2015. Increased driving by customers, as suggested by higher fuel sales per vehicle and distracted driving could be some of the factors contributing to the higher-than-anticipated frequency. Managing the frequency trend is challenging as it is subject to driver behaviour, weather and other factors beyond ICBC's control. Material damage severity has also increased as a result of the higher cost of labour and parts. Material damage frequency has also increased.

Investment income has historically been a strong and consistent contributor to ICBC's financial health, helping to offset the pressure of rising claims costs. The ongoing decline in interest rates, however, continued to put pressure on ICBC rates because the premiums paid by our customers

are now invested at a lower interest rate. In the current low-interest environment, we cannot rely as heavily upon our investment income to help offset claims costs as we did in the past.

Strategies

- Manage increasing bodily injury claims costs.

Performance Measure 2.1: Combined Ratio

Performance Measure	2012 Actual	2013 Actual	2014 Actual	2014 Benchmark	2015 Target	2015 Actual	2016/17 Target	2017/18 Target
Combined Ratio (lower is better)	**107.0%**	**109.2%**	**113.8%**[1]	**97.2%**	**107.1%**	**120.0%**	**109.7%**	**106.9%**
Claims, claims-related and insurance expenses	103.8%	106.2%	110.8%	97.2%	104.0%	117.1%	106.9%	104.2%
Non-insurance expense	3.2%	3.0%	3.0%	0.0%	3.1%	2.9%	2.8%	2.7%

[1] The combined ratio for 2014 has been restated to reflect the revenue and expense reclassification in compliance with International Financial Reporting Standards.
Data Source: ICBC financial systems

Discussion

- The combined ratio is a key industry measure for overall profitability and is the ratio of all costs to premium dollars earned. A ratio below 100% indicates an underwriting profit (i.e., premiums are sufficient to cover costs) while a ratio above 100% indicates an underwriting loss (i.e., premiums are not sufficient and investment income is needed to help cover costs). Costs included in the combined ratio are claims-related, operating and acquisition costs.
- Our ratio is higher than typical for the property and casualty industry and reflects the unique nature of our business model. The property and casualty industry benchmark for 2014 was 97.2%[1]. Our Basic premiums are not set to generate underwriting profits; rather, together with investment income, they are set to recover all costs and achieve and maintain capital targets. We deliver non-insurance services on behalf of government; and, in 2015 non-insurance costs represented approximately three percentage points of the combined ratio.
- The 2015 combined ratio result was higher than expected and did not achieve our target (107.1%) A higher than expected claims frequency and a continuing trend of more injury claims per crash resulted in a higher-than expected frequency of bodily injury claims. This was the main driver behind the higher than expected combined ratio. More of these claims are being represented by legal counsel with a shift towards more complex claims, both of which increase total claims costs and severity. There was also an increase in material damage repair costs.
- The combined ratio target for 2016/17 and 2017/18 reflects expected claims cost trends as a result of mitigation initiatives, controllable operating costs that have remained flat and expected increases in premiums earned.

[1] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2015. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and Saskatchewan Auto Fund).*

Performance Measure 2.2: Minimum Capital Test

Performance Measure	2012 Actual	2013 Actual	2014 Actual	2015 Target	2015 Actual	2016/17 [1] Target	2017/18 [1] Target
Minimum Capital Test (Corporate) (higher is better)	**200%**	**204%**	**193%**	**185%**	**157%**	**143%**	**142%**

[1] 2016/17 and 2017/18 MCT targets are estimated based on revised Basic and Optional MCT targets and the phase-in requirement in transitioning to the new MCT Guidelines, effective January 1, 2015. These targets are on a calendar year base and have not been recast to the fiscal year ending March 31.

Data Source: ICBC financial systems

Discussion

- Minimum capital test ratio is an industry measure set by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurance companies across Canada. It is calculated as the ratio of capital available to capital required, and is used to assess whether a company has sufficient capital to protect policyholders from financial risk and provide long-term financial stability. Appropriate levels of capital can help protect customers in the event of significant, externally-driven negative impacts to the business.
- Effective January 1, 2015 OSFI amended the guideline for calculating the minimum capital test ratio. The most significant change from this amendment is to reduce the capital required, the denominator for the minimum capital test calculation. This results in a higher minimum capital test ratio than in previous years. The new OSFI guideline requires this amendment to be phased in over three years on a straight-line basis.
- Our 2015 corporate minimum capital test ratio was 157% (see note 20 in the accompanying consolidated financial statements) and is lower than the management target of 185% primarily due to the increase in claims costs.
- ICBC continued its focus on managing the cost of bodily injury and material damage claims, fine tuning the claims business model and developing ways to better manage and reduce the risks associated with claims. These include focused claims analytics, performance management and hassle-free process initiatives, plus an increased focus on investigating potentially fraudulent and exaggerated claims.

Performance Measure 2.3: Investment Return

Performance Measure	2012 Actual	2013 Actual	2014 Actual	2015 Target	2015 Actual	2016/17 Target	2017/18 Target
Investment Return (four year annualized)							
ICBC Portfolio	**5.16%**	**5.00%**	**4.85%**	**Policy Market Benchmark Return**	**5.26%**	**Policy Market Benchmark Return**	**Policy Market Benchmark Return**
Policy benchmark	**4.95%**	**4.66%**	**4.64%**		**4.83%**		
Excess	**0.21%**	**0.34%**	**0.21%**		**0.43%**		

Investment return is measured gross of management fees.
Data Source: ICBC financial systems

Discussion

- ICBC manages an investment portfolio with a carrying value of $14.7 billion at the end of 2015. The portfolio is conservatively invested with the majority of assets held in

investment grade bonds, primarily to provide for future claims payments, unearned premiums and total equity. The income earned on these investments also helps to reduce the amount of premiums paid by policyholders. Equities, mortgages, real estate and high yield bonds are held in the investment portfolio to generate an added return over bonds.

- Investment returns, which incorporate both changes in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard market benchmarks. In addition, the return of the overall portfolio is measured against a policy market benchmark calculated as the average of individual asset class market benchmark returns weighted according to the portfolio's strategic asset mix.
- Investment returns over the last four years have benefited from small allocations to equity, real estate and mortgages, all of which have provided an added return over bonds.
- ICBC's investment returns continue to compare favourably to market returns. The 2016/17 – 2018/19 investment portfolio performance targets are set at the policy market benchmark four year annualized return. For performance measurement purposes, ICBC does not forecast the policy market benchmark return as it is the result of market forces beyond the company's control.
- For 2015, ICBC's four year annualized return at 5.26% was 0.43 percentage points higher than the comparable policy market benchmark of 4.83%[2]. Based on average portfolio values over this period, the estimated impact of this is about $58 million annually or about $231 million over the 4 years. Comparatively, the four year annualized return for 2014 was 4.85%, or 0.21 percentage points higher than the policy market benchmark.

Goal 3: Focused Operational Excellence

Providing customers with the best insurance at the lowest possible cost requires us to operate in an efficient, low cost manner, while continuously improving our business practices. In 2015, Operational Excellence tactics delivered benefit to the organization in the form of cost avoidance, revenue generation and operational efficiency. To date, building more internal capacity for ongoing improvement has been a key goal of Operational Excellence. Moving forward, the business will leverage Operational Excellence and make continuous efforts to streamline processes, focus on value added work, remove duplication and redundancy and deliver sustained cost transformations. Operational Excellence is consistent with the Taxpayer Accountability Principles of cost consciousness (efficiency), service and respect.

With the Transformation Program nearing completion, ICBC will be looking for ways to leverage the new technology from the program in order to streamline business processes while improving value and service for customers.

Strategies

- Operate the Corporation in a low-cost manner.
- Focus our ability to make continuous business improvements more efficiently.

[2] *Sources: FTSE TMX Debt Market Indices; Bank of America Merrill Lynch BB/B High Yield Index;S&P/TSX Capped Composite Index; Morgan Stanley Capital International (MSCI) EAFE Index & World Index ex Canada S&P 500; Customized REAL/pac IPD Canadian Property Index; (REAL/pac IPD = Real Property Association of Canada Investment Property Databank) & Canadian Consumer Price Index.*

Performance Measure 3.1: Gross Expense (Insurance Business) Per Policy

Performance Measure	2012 Actual	2013 Actual	2014[1] Actual	2014 Benchmark	2015 Target	2015 Actual	2016/17 Target	2017/18 Target
Gross Expense per Policy [2] (lower is better)	**$ 343**	**$ 339**	**$ 349**	**$ 388**	**$ 354**	**$ 345**	**$ 365**	**n/a**

[1] 2014 measure reflects the revenue and expense reclassifications.

[2] Operating cost targets are not planned in detail for 2017/18 and beyond, therefore no target available.

Data Source: ICBC financial systems

Discussion

- This measure provides the average cost per policy to run ICBC's insurance business and is calculated as the insurance costs divided by the number of Basic policies. Gross expenses include costs to service claims (staffing and external costs), administrative costs, broker commission and fees, premium taxes, and investment in new systems and investment management fees. It excludes costs incurred to deliver non-insurance services.
- The 2015 result of $345 was lower than the industry benchmark of $388[3] due to our ability to achieve economies of scale, the benefits of integrated operations and lower marketing, underwriting, acquisition and general administration costs.
- The 2015 result decreased from 2014 and plan due to our continued focus on the prudent management of operating costs, which is dispersed over a greater number of Basic policies written in 2015.
- The 2016/17 plan number is $20 higher than the 2015 actual of $345 primarily due to anticipated increases in commission and premium taxes, an increase in claims related costs and a return to plan levels for operating costs in 2016/17.

Goal 4: Aligned People and Business Capabilities

Developing and sustaining accountable, aligned, enabled and motivated leaders and employees and leveraging business value from technology investments are critical to the achievement of our strategic objectives. In 2015, ICBC continued to build people capabilities through the implementation of human resource initiatives, including leadership development and succession planning.

ICBC is in the final stages of the Transformation Program, a major business renewal which lays the foundation for ICBC to leverage new technology and increase use of online services so we can be more nimble and provide more convenient service options for customers in communities across British Columbia. This year marked the first full year operating the new ClaimCenter system – and it's already delivering benefits, including streamlined processes.

ICBC continued to work with the Ministry to support government's non-insurance priorities within the context of government's overall strategic priorities. See Appendix C for additional information.

[3] *Source: Ward Group - 2014 Property-Casualty Benchmarking Report, Canadian Personal Auto Group*

Strategies

- Develop accountable, aligned, enabled and motivated leaders and employees.
- Leverage business value from technology investments.
- Align with our shareholder to support government priorities.

Performance Measure 4.1: Employee Engagement

Performance Measures	2012 Actual	2013 Actual	2014 Actual	2015 Target	2015 Actual	2016/17 Target	2017/18 [1] Target	2018/19 [1] Target
Employee Opinion Indices								
Aligned	n/a	n/a	77	Indices ≤79 to increase a minimum of 3 points	76	≥80	Indices ≤79 to increase a minimum of 3 points	Indices ≤79 to increase a minimum of 3 points
Enabled	n/a	n/a	63		63	≥66		
Motivated	n/a	n/a	60	Indices ≥80 to maintain ≥80 or increase	59	≥63	Indices ≥80 to maintain ≥80 or increase	Indices ≥80 to maintain ≥80 or increase
Accountable	n/a	n/a	87		82	≥87		
Leadership	n/a	n/a	67		n/a [2]	≥70		

[1] Targets will be reviewed once the 2016/17 results are in and may be revised.

[2] 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

Data Source: Survey research conducted by independent firm

Discussion

- In 2014, ICBC adopted a new customized Employee Opinion Survey framework aligned with our corporate objectives. Overall, the 2014 results were good, with all dimensions scoring in the "moderately positive" to "extremely positive" range.
- ICBC's current approach to the Employee Opinion Survey calls for a biennial running of the full Survey and a shortened and focused "Pulse Check" survey in the intervening years. As a full survey was run in 2014, a Pulse Check was conducted in September 2015 with a representative sample of approximately 20% of ICBC employees.
- Overall scores in the four key Employee Opinion Survey dimensions (aligned, enabled, motivated and accountable) were down slightly from our 2014 results. Despite the downward trend, three indices remain in the moderately positive to extremely positive range of our Employee Opinion index.
- In light of ongoing changes to ICBC's operational structure in 2015, it's understandable and even expected that leaders and employees are still adapting to changes in individual roles and reporting structures. These changes are a key driver of the moderate decline in Employee Opinion Survey index scores.
- The organization will continue to focus its efforts on executing on its annual Employee Opinion Survey action plans. The 2016/17 Employee Opinion Survey corporate priorities are unchanged from 2015: improving understanding of the corporate strategy and building a culture of recognition.