

## Financial Report

For the auditor's report and audited consolidated financial statements, [see Appendix C](#). These can also be found on ICBC's [website](#).

## Discussion of Results

### Highlights

ICBC's 2020/21 fiscal net income was \$1,538 million. The factors contributing to the positive bottom line this fiscal year-end were favourable claims costs and high investment income.

The COVID-19 pandemic had a favourable impact on claims costs. With several province-wide restrictions happening throughout 2020/21, there were fewer vehicles on the road which resulted in fewer crashes and fewer injury claims. Conversely, COVID-19 impacted the revenues negatively as there were more policy cancellations, fewer renewals and reduced coverages. Because of the net benefit (lower claims offset by lower premiums) from COVID-19, two rebates totalling approximately \$950 million were returned to customers.

COVID-19 impacts to claims combined with an observed pre-COVID trend toward lower crash frequency resulted in reduced claims costs. Favourable emergence of bodily injury claims and lower-than-expected large bodily injury severities also contributed to lower claims costs.

Also, the recovery in the financial market since March 2020 led to gains in trading activities and higher dividends. Gains from disposition of real estate were also realized leading to higher investment income. ICBC's higher than expected investment income contributed to the positive financial performance this fiscal year.

## Financial Summary

The table below provides an overview of ICBC's 2020/21 financial performance relative to its 2020/21—2022/23 Service Plan.

\$ millions <sup>1,2</sup>	2019/20 Actual	2020/21 Budget	2020/21 Actual <sup>3</sup>	2020/21 Variance
Premiums earned <sup>3,4</sup>	6,286	6,662	5,377	(1,285)
Service fees and other	148	153	144	(9)
<b>Total earned revenues</b>	<b>6,434</b>	<b>6,815</b>	<b>5,521</b>	<b>(1,294)</b>
Provision for claims occurring in the current year	4,728	5,384	3,708	1,676
Change in estimates for losses occurring in prior years	1,180	44	(367)	411
<b>Net claims incurred</b>	<b>5,908</b>	<b>5,428</b>	<b>3,341</b>	<b>2,087</b>
Claims service and loss management <sup>5</sup>	464	500	446	54
Insurance operations expenses <sup>5</sup>	304	317	284	33
Premium taxes and commissions <sup>5,6</sup>	741	842	787	55
<b>Total expenses</b>	<b>7,417</b>	<b>7,087</b>	<b>4,858</b>	<b>2,229</b>
<b>Underwriting (loss) income</b>	<b>(983)</b>	<b>(272)</b>	<b>663</b>	<b>935</b>
Investment and other income	1,058	498	1,018	520
<b>Income - insurance operations</b>	<b>75</b>	<b>226</b>	<b>1,681</b>	<b>1,455</b>
Non-insurance operations expenses <sup>5</sup>	110	114	107	7
Non-insurance commissions <sup>5</sup>	31	33	34	(1)
Non-insurance - other income	(7)	(7)	(5)	(2)
<b>Net (loss) income before impairment loss</b>	<b>(59)</b>	<b>86</b>	<b>1,545</b>	<b>1,459</b>
Impairment loss	(317)	-	(7)	(7)
<b>Net (loss) income</b>	<b>(376)</b>	<b>86</b>	<b>1,538</b>	<b>1,452</b>
<b>At year end:</b>				
Long-term debt	-	-	-	
Total liabilities	22,119	22,217	22,315	
(Deficit) Equity:				
- (Deficit) Retained earnings	(396)	(25)	1,131	
- Other components of equity	(165)	319	729	
- Non-controlling interest	14	8	7	
Total (deficit) equity	<b>(547)</b>	<b>302</b>	<b>1,867</b>	
<b>Capital Expenditures</b>	62	116	100	
<b>Autoplan policies earned<sup>7</sup></b>	3,971,000		4,011,000	
<b>Average premium (\$) <sup>8</sup></b>	1,544		1,556	
<b>Claims reported during the year<sup>9</sup></b>	983,000		756,000	

<sup>1</sup> Financial information for all years is prepared based on International Financial Reporting Standards (IFRS).

<sup>2</sup> Rounding may affect totals.

<sup>3</sup> 2020/21 actual premiums earned reflect the two COVID-19 rebates totalling \$950 million to ICBC customers.

<sup>4</sup> Premiums earned are net of mid-term changes and cancellation refunds.

<sup>5</sup> See Note 20 of the consolidated financial statements for details of Operating Expenses by Nature.

<sup>6</sup> Premium taxes and commissions include deferred premium acquisition cost adjustments.

<sup>7</sup> Annualized values have been used for policies with a term of less than 12 months. Autoplan policies earned include Basic, storage and temporary operating permit policies.

<sup>8</sup> Average premium is based on Autoplan premiums earned.

<sup>9</sup> Claims reported represent the number of claims reported against purchased insurance coverages.

Insurance Corporation of British Columbia

The table below shows ICBC's 2019/20 and 2020/21 financial performance between the post-April 1, 2019 minor injury cap product and the pre-April 2019 full tort product. As the full tort product is no longer available, written premiums and earned premium revenue are fully attributable to the minor injury cap product.

\$ millions <sup>1</sup>	Minor Injury Cap Product		Full Tort Product		Non-Insurance and Support		Total	
	2019/20	2020/21 <sup>2,3</sup>	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21 <sup>2,3</sup>
<b>Net premiums written<sup>2</sup></b>	6,356	4,819	-	-	-	-	6,356	4,819
<b>Revenues</b>								
<b>Net premiums earned<sup>3</sup></b>	6,286	5,377	-	-	-	-	6,286	5,377
<b>Service fees and other income</b>	148	144	-	-	-	-	148	144
<b>Total earned revenues</b>	6,434	5,521	-	-	-	-	6,434	5,521
<b>Claims and operating expenses</b>								
Provision for claims occurring in the current year	4,728	3,708	-	-	-	-	4,728	3,708
Change in estimates for losses occurring in prior years	-	(332)	1,180	(35)	-	-	1,180	(367)
Claim services, road safety and loss management services	192	221	214	174	58	51	464	446
	4,920	3,597	1,394	139	58	51	6,372	3,787
Operating expenses – insurance	245	243	59	41	-	-	304	284
Premium taxes and commissions – insurance	741	787	-	-	-	-	741	787
	5,906	4,627	1,453	180	58	51	7,417	4,858
<b>Underwriting income (loss)</b>	528	894	(1,453)	(180)	(58)	(51)	(983)	663
Investment income	352	469	706	549	-	-	1,058	1,018
<b>Income (Loss) – insurance operations before impairment loss</b>	880	1,363	(747)	369	(58)	(51)	75	1,681
<b>Loss – non-insurance operations</b>	-	-	-	-	(134)	(136)	(134)	(136)
<b>Net income (loss) before impairment loss</b>	880	1,363	(747)	369	(192)	(187)	(59)	1,545
Impairment loss	(105)	(3)	(212)	(4)	-	-	(317)	(7)
<b>Net income (loss)</b>	775	1,360	(959)	365	(192)	(187)	(376)	1,538

<sup>1</sup> Rounding may affect totals.

<sup>2</sup> 2020/21 net premiums written reflect the two COVID-19 rebates totalling \$950 million and Enhanced Care refund totalling \$597 million to ICBC customers.

<sup>3</sup> 2020/21 net premiums earned reflect the two COVID-19 rebates totalling \$950 million to ICBC customers.

## Basic and Optional Comparative Summary Table

\$ millions <sup>1</sup>	Basic - Actual vs. Prior Year			Optional - Actual vs. Prior Year		
	2019/20	2020/21	2020/21	2019/20	2020/21	2020/21
	Actual	Actual <sup>1</sup>	Variance	Actual	Actual <sup>2</sup>	Variance
Premiums earned <sup>2,3</sup>	3,564	2,945	(619)	2,722	2,432	(290)
Service fees and other	87	83	(4)	61	61	-
<b>Total earned revenues</b>	<b>3,651</b>	<b>3,028</b>	<b>(623)</b>	<b>2,783</b>	<b>2,493</b>	<b>(290)</b>
Provision for claims occurring in the current year	2,900	2,172	728	1,828	1,536	292
Change in estimates for losses occurring in prior years	757	(127)	884	423	(240)	663
<b>Net claims incurred</b>	<b>3,657</b>	<b>2,045</b>	<b>1,612</b>	<b>2,251</b>	<b>1,296</b>	<b>955</b>
Claims service and loss management	313	299	14	151	147	4
Insurance operations expenses	132	124	8	172	160	12
Premium taxes and commissions <sup>4</sup>	193	194	(1)	548	593	(45)
<b>Total expenses</b>	<b>4,295</b>	<b>2,662</b>	<b>1,633</b>	<b>3,122</b>	<b>2,196</b>	<b>926</b>
<b>Underwriting (loss) income</b>	<b>(644)</b>	<b>366</b>	<b>1,010</b>	<b>(339)</b>	<b>297</b>	<b>636</b>
Investment and other income	734	701	(33)	324	317	(7)
<b>Income (loss) - insurance operations</b>	<b>90</b>	<b>1,067</b>	<b>977</b>	<b>(15)</b>	<b>614</b>	<b>629</b>
Non-insurance operations expenses	110	107	3	-	-	-
Non-insurance commissions	31	34	(3)	-	-	-
Non-insurance - other income	(7)	(5)	(2)	-	-	-
<b>Net (loss) income before impairment loss</b>	<b>(44)</b>	<b>931</b>	<b>975</b>	<b>(15)</b>	<b>614</b>	<b>629</b>
Impairment loss	(220)	(5)	215	(97)	(2)	95
<b>Net (loss) income</b>	<b>(264)</b>	<b>926</b>	<b>1,190</b>	<b>(112)</b>	<b>612</b>	<b>724</b>
<b>At year end:<sup>5</sup></b>						
Liabilities:						
Unearned premiums	1,651	1,441		1,304	956	
Provisions for unpaid claims	11,318	10,802		4,686	4,718	
(Deficit) Equity:						
- (Deficit) Retained earnings	(198)	720		(198)	411	
- Other components of equity	(112)	503		(53)	226	
- Non-controlling interest	9	4		5	3	
<b>Total (deficit) equity</b>	<b>(301)</b>	<b>1,227</b>		<b>(246)</b>	<b>640</b>	

<sup>1</sup> Rounding may affect totals.

<sup>2</sup> 2020/21 actual premiums earned reflect the two COVID-19 rebates totaling \$950 million to ICBC customers.

<sup>3</sup> Premiums earned are net of mid-term changes and cancellation refunds.

<sup>4</sup> Premium taxes and commissions include deferred premium acquisition cost adjustments.

<sup>5</sup> Balances presented at year end as of March 31, 2020 and March 31, 2021, respectively.

## **Variance and Trend Analysis**

The 2020/21 net income of \$1,538 million was \$1,914 million higher than the \$376 million net loss in 2019/20. The year-over-year improvement was primarily due to lower claims costs as a result of lower frequency of crashes from COVID-19 and a pre-COVID 19 trend as well as impacts of the 2019 product reform. Further, with the equity markets' rebound since March 2020, ICBC did not have as large an impairment loss for financial investments as in the prior year. These favourable impacts were partially offset by the two COVID-19 customer rebates totalling \$950 million and customer policy changes and cancellations, which led to lower premiums earned.

Compared to budget, the current year's net income was \$1,452 million higher than the budgeted net income of \$86 million. This was mainly due to the aforementioned lower claims costs and higher investment income, partially offset by lower premiums earned.

### **Premiums earned**

Premiums earned totalled \$5,377 million in 2020/21, which was \$909 million lower compared to 2019/20 and \$1,285 million lower than budget. This was due to the two COVID-19 customer rebates totalling \$950 million for eligible customers to return the net claim savings resulting from the favourable COVID-19 impacts, as well as the negative impacts of COVID-19 to premiums, which resulted in higher cancellations, lower new submissions, fewer renewals, and reduced coverages.

### **Service fees and other**

Service fees and other are primarily comprised of interest and other fees received from policyholders who have chosen to finance their insurance premiums over the policy period. Service fees and other income were lower than prior year and budget due to lower premium revenues as well as a lower financing fee for payment plan. At the outset of COVID-19, the prime rate was lowered and as a result, ICBC reduced the financing fee for the payment plan.

### **Claims costs**

Claims-incurred costs are affected by the growth in the number of policies, the likelihood of having a claim (frequency) and the average expected costs to settle those claims (severity). Frequency is influenced by factors that include driving and claimant behaviour, driver experience, weather, pandemic events and the effectiveness of road safety and loss management programs as well as the increasing number of new vehicles with advanced safety features. Severity is influenced by factors that include legal representation, litigation, settlement awards, legal fees, medical inflation, vehicle parts/repair inflation and various investigative costs.

The cost of claims incurred accounts for the majority of ICBC's total costs. Claims-incurred costs are comprised of the expected costs to settle claims for all crashes that have occurred during the fiscal period regardless of when the crash was reported to ICBC and the change in estimates for losses that occurred in prior periods. Claims-incurred costs include payments made

to settle claims, adjusters' case reserves and actuarial estimates of the additional costs that will be paid on current claims and future claims.

Estimating claims development involves predicting the future behaviour of incurred claims and considering the closure rates, payment patterns, consistency of ICBC's claims-handling procedures, and information available at the time of the valuation, including the legal representation status of claims and historical delays in claims reporting. In general, the more time required to settle a group of claims, the less certain their estimates will be. Adjustments to the prior periods' claims reserves are due to the re-estimation of future payments for claims incurred in prior periods that are in progress and for those that are not yet reported. As time passes, more claims are paid and more information becomes available, enabling the estimate of the remaining future claims payments to be refined.

The provision for claims occurring in the current year, or current year claims costs, is reflective of claims under the April 1, 2019 minor injury cap product. The changes in the estimates for losses that occurred in prior periods reflect a combination of claims under the April 1, 2019 minor injury cap product and claims under the pre-April 1, 2019 full tort product.

Overall, 2020/21 net claims-incurred costs of \$3,341 million were \$2,567 million lower than the claims costs incurred in 2019/20. A significant contributing factor was the public health emergency declared by the Province of B.C. on March 17, 2020 related to the COVID-19 pandemic. The pandemic resulted in a significant reduction in activities around the province, including vehicle repairs and a decrease in vehicle-related accidents.

Net claims-incurred costs in 2020/21 were \$2,087 million lower than budget of \$5,428 million, with a favourable difference of \$1,676 million in current year claims costs and a favourable difference of \$411 million in prior periods' adjustments.

\$ millions	2016/17 Actual (15 months)	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual
<b>Net Claims-Incurred Costs</b>	<b>5,966</b>	<b>5,647</b>	<b>6,529</b>	<b>5,908</b>	<b>3,341</b>
Injury	3,955	3,902	4,854	4,327	2,002
Material Damage and Other	2,011	1,745	1,675	1,581	1,339

**Data Source:** ICBC financial systems

Current year claims costs are better than budget mainly due to fewer crashes due to the COVID-19 pandemic as discussed above, which is estimated to contribute a favourable \$1,364 million to current year claims costs. The lower-than-anticipated claim frequencies are also impacted by a favourable frequency trend which existed prior to the COVID-19 pandemic and more favourable injury claim frequency under the 2019 minor injury cap product reform than was initially anticipated.

Prior years' claims adjustments are better than budget, mainly due to favourable emergence of bodily injury claims and lower-than-expected bodily injury severities. The favourable adjustment was enhanced by savings from the introduction of Bill 9 – *Evidence Act Amendments*, but

partially offset by the B.C. Supreme Court decision related to the jurisdiction of the CRT over motor vehicle personal injuries.

In February 2021, the Government of British Columbia made regulations under the *Evidence Act* intended to reduce the cost and complexity of lawsuits under the current auto insurance system. Enabled by legislative amendments made to the *Evidence Act* in 2020, the regulations limit the amounts recoverable for disbursements such as expert reports related to motor vehicle personal injury litigation. This is expected to reduce the future cost of bodily injury claims. ICBC has included savings of \$261.4 million to claims costs for both current and prior years' claims.

In March 2021, the Chief Justice of the B.C. Supreme Court ruled that the legislation granting CRT the authority to (1) determine whether an injury was a “minor injury” and (2) hear claims for liability and personal injury and property damage up to \$50,000, was unconstitutional. While this decision is being appealed and a partial stay has been granted that allows for disputes to either proceed to CRT or the BCSC, ICBC assumes that such a change will result in more represented and litigated claims. The increase to expected costs to manage and settle these claims is estimated at \$297.1 million, which is included in the claims and related costs for both current and prior years' claims.

## Injury claims

Current year injury claims account for approximately 61 per cent of current year claim-incurred costs in 2020/21 and include bodily injury claims and accident benefit claims. Injury claims include amounts for pain and suffering, future care, past and future wage loss, medical expenses and external claims handling expenses. Overall, the total cost of current year injury claims has decreased in 2020/21 compared to 2019/20 primarily due to lower claims frequency.

Bodily injury claims costs accounted for over 80 per cent of the total current year injury claims costs. With the introduction of product reform and shifting to a care-based model, more costs will be incurred under accident benefits, reducing bodily injury costs, which accounted for over 90 per cent of injury claims costs prior to 2019/20.

\$ millions	2016/17 Actual (15 months)	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual
<b>Current Year Injury Claims Incurred (major categories)</b>	<b>3,570</b>	<b>3,334</b>	<b>3,498</b>	<b>2,986</b>	<b>2,110</b>
Bodily Injury	3,308	3,114	3,162	2,420	1,728
Accident & Death Benefits	262	220	336	566	382

**Data Source:** ICBC financial systems

## Material damage (non-injury) claims

Material damage claims can largely be categorized into property damage, collision, comprehensive and windshield claims. Overall, the total cost of current year material damage claims was lower than 2019/20 as a result of lower claims frequency.

\$ millions	2016/17 Actual (15 months)	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual
<b>Current Year Material Damage Claims Incurred (major categories)</b>	<b>1,755</b>	<b>1,555</b>	<b>1,548</b>	<b>1,495</b>	<b>1,244</b>
Property damage	704	674	643	611	455
Collision	727	583	612	583	492
Comprehensive	222	198	195	202	196
Windshield	102	100	98	99	101

Data Source: ICBC financial systems

## Change in estimates for losses occurred in prior years

In 2020/21, the change in estimates for losses that occurred in prior years was \$411 million lower than budget and had a favourable impact on ICBC's fiscal year financial results. This is mainly due to favourable emergence of bodily injury claims and lower than expected bodily injury claims severities.

## Provision for unpaid claims

The provision for unpaid claims is the largest liability on the consolidated statement of financial position. It is an estimate of future claims payments relating to claims that have already occurred. The adequacy of this unpaid claims liability is reviewed and adjusted periodically throughout the fiscal year based on revised actuarial estimates, which include a provision for adverse deviations (see note 2d to the consolidated financial statements).

The provision for unpaid claims as at March 31, 2021 was \$15,520 million; however, estimates for future payments can change significantly due to the time frame in which certain types of claims are settled, which can be over a number of years. The provision for unpaid bodily injury claims accounts for approximately 90 per cent of total unpaid claims costs. As illustrated in the table below, only a small percentage of bodily injury claims costs are paid and known in the first year of the claim's occurrence, with a greater portion of the costs being an estimate of claims costs payable in future years.



	End of Year 1	End of Year 2	End of Year 3	End of Year 4	End of Year 5	End of Year 6
<b>Breakdown of Bodily Injury Costs (%) (typical accident year)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Paid	4%	9%	16%	29%	50%	70%
Unpaid	96%	91%	84%	71%	50%	30%

**Data Source:** ICBC financial systems

ICBC commissions the services of an external actuary to provide an independent assessment of the provision for unpaid claims and, as part of the annual audit of the financial results, the external auditor's actuary also reviews the adequacy of the unpaid claims reserves in the context of the consolidated financial statements.

ICBC earns investment income on funds set aside for unpaid claims from the premiums that are collected for the related policies. Investment income is earned until the claims is ultimately paid. In accordance with accepted actuarial practice in Canada, ICBC reports the provision for unpaid claims on a discounted basis to reflect the time value of money. The discounted amount takes into account the expected timing of future payments related to unpaid claims (see note 16 to the consolidated financial statements). The discount rate is based on the expected return of ICBC's current investment portfolio. An increase in the discount rate applied to claims costs will reduce the unpaid claims balance while a decrease in the discount rate will increase the unpaid claims balance. As of March 31, 2021, the discount rate of 2.5 per cent decreased by 44 basis points from the prior period's discount rate of 2.9 per cent, resulting in an increase to the unpaid claims balance.

## Road safety and loss management

In 2020/21, ICBC invested \$51 million in road safety initiatives and loss management programs, which include auto crime and fraud prevention, investigation and detection to help reduce claims costs.

Using a safe systems approach, ICBC targets its road safety investments on the major risks that impact customers and costs in the business, including distractions, high-risk driving, impaired driving and vulnerable road users. Over the past year, ICBC worked with a network of partners throughout the province to deliver road safety programs that help protect customers from risks on the road by reducing the frequency and impact of crashes and crime.

ICBC continued to support enhanced enforcement initiatives through a funding agreement with the Ministry of Public Safety and Solicitor General. In 2020/21, ICBC invested approximately \$24 million in enhanced enforcement such as CounterAttack, distracted driving, speed enforcement and seat belt checks. ICBC also invested in public education and awareness and community initiatives to help change driver behaviours. ICBC combats fraud through its deterrence, detection, enforcement and prevention efforts. ICBC continues to work to improve and refine processes to ensure fraudulent and exaggerated claims are detected in a timely manner

and managed appropriately. Process changes have led to greater collaboration between all business areas that identify and investigate fraudulent and exaggerated claims to be able to reduce overall claims costs.

## Operating expenses

Operating expenses include compensation and other expenses required to operate the insurance and non-insurance businesses (which consist of expenses for administering driver licenses, vehicle registration and licensing) with the exception of claims payments, commissions and premium taxes. In 2020/21, ICBC continued to manage its controllable operating expenses, while making the necessary investments to ensure a successful transition to Enhanced Care coverage on May 1, 2021.

In 2020/21, operating expenses of \$837 million were lower than 2019/20 and budget, primarily in claims and insurance-related costs. This is mainly due to lower pension expenses resulting from a higher discount rate and the impact of COVID-19 resulting in lower claims volumes and thus lower average full-time equivalents and related costs. Additionally, 2019/20 included a one-time write-off of \$7 million for Master Data Management software and related components.

Included in total operating expenses are non-insurance operating expenses of \$107 million primarily funded from Basic insurance premiums.

\$ millions	2019/20 Actual	2020/21 Budget	2020/21 Actual
<b>Operating Expenses</b>	<b>878</b>	<b>931</b>	<b>837</b>
Claims related costs	464	500	446
Insurance	304	317	284
Non-Insurance	110	114	107

Below is a table of total operating expenses by nature:

\$ millions	2019/20 Actual	2020/21 Budget	2020/21 Actual
<b>Operating Expenses by Nature</b>	<b>878</b>	<b>931</b>	<b>837</b>
Employee benefit expense	553	586	525
Professional, administrative and other	219	229	202
Depreciation & amortization	73	84	79
Road improvements and other traffic safety programs	33	32	31

## Acquisition costs

Acquisition costs represent the amounts paid to brokers and appointed agents for the sale of ICBC's insurance products and the administration of driver and vehicle licensing transactions. Acquisition costs also include premium taxes (4.4 per cent of premiums) collected and paid to the provincial government.

Consistent with the recognition of premium revenue earned over the duration of the policy, premium acquisition costs are deferred and amortized as expense on a similar basis. When future claims and related expenses, after consideration of investment income, are expected to exceed unearned premiums, the deferred premiums acquisition costs (DPAC) are written down and a premium deficiency liability is recognized. Conversely, where there has been a previous premium deficiency, a positive adjustment is made to eliminate the premium deficiency when unearned premiums are expected to exceed future claims and related expenses. As at March 31, 2021, the net Corporate DPAC asset was \$341 million (see notes 20 and 21 in the accompanying consolidated financial statements).

Acquisition costs (including non-insurance commissions) of \$821 million were higher than the prior year. This was mainly due to higher commission costs as a result of a transition payment made to brokers in consideration of the impact of the transition to Enhanced Care coverage, higher Optional commission per Optional premium revenue as a result of the mix in listed drivers, as well as higher cancellation and coverage reductions due to COVID-19, which reduces net premium written but does not result in a corresponding refund of commission. The year-over-year unfavourable DPAC variance is primarily because 2019/20 reflected a positive DPAC adjustment from improved profitability.

Acquisition costs were lower than budget mainly due to lower premium taxes. Because premium taxes are a function of premiums earned, the lower premiums resulted in lower premium taxes. Profitability that was higher than anticipated led to a favourable DPAC adjustment compared to budget, partially offset by higher commissions. ICBC's acquisition costs as a percentage of revenue continues to be lower than industry standards.

## Investments

ICBC has an investment portfolio with a carrying value of \$21.2 billion, which represented 88 per cent of the Corporation's total assets as at March 31, 2021.

Funds available for investment purposes come primarily from the premiums collected and set aside for unpaid claims. ICBC maintains a conservative investment portfolio with significant allocation to high-quality fixed income securities.

As at March 31, 2021, 64 per cent of the carrying value of the portfolio took the form of high-grade corporate and government bonds, money market securities and mortgage instruments, while 36 per cent of the portfolio was invested in equity and alternative investments (real estate, mezzanine debt and infrastructure investments).

## Investment income and impairment loss

In 2020/21, total investment income, net of impairment loss, was \$1,011 million. This was higher than the total investment income in the prior year mainly due to higher equity dividends and bond gains, which were partially offset by lower equity gains due to one-time equity gains realized in 2019/20 as a result of transition of the management of legacy equity investments. Also, the prior fiscal year included an equity impairment loss of \$298 million from the global market downturn in March 2020 due to the COVID-19 pandemic. Overall, these results equated to an accounting investment return of 5.1 per cent in 2020/21, compared to 4.1 per cent in 2019/20, based on the average investment balance during the period on a cost basis.

Total investment income was higher than budget primarily due to higher bond and equity gains from trading activities, real estate gains from dispositions and equity dividends. This is partially offset by lower than anticipated bond interest primarily due to lower interest rates as a result of the COVID-19 pandemic.

\$ millions	2019/20 Actual	2020/21 Budget	2020/21 Actual
<b>Total Investment Income</b>	741	498	1,011
<b>Investment Income</b>	1,058	498	1,018
Interest, dividends & other income	429	493	680
Gains on sale of investments	629	5	338
<b>Impairment Loss on Financial Instruments</b>	(317)	-	(7)

## Equity (Deficit)

At March 31, 2021, ICBC's total equity was \$1,867 million, which is a significant improvement from a deficit of \$547 million as at March 31, 2020. Equity has historically helped to absorb significant unexpected increases in claims costs and volatility in the financial markets. However, given the impact of several consecutive years of recurring losses prior to 2020/21, the capital base has been diminished. Despite the lower capital, ICBC holds an investment portfolio that fully covers the claims liability. Further, ICBC has sufficient cash flows to meet current obligations as cash flows from operating activities was \$1,712 million at March 31, 2021.

As at March 31, 2021, ICBC had net unrealized gains of \$720 million in other components of equity that comprised of \$860 million in unrealized gains and \$140 million in unrealized losses. The unrealized gains and losses included in other components of equity reflect the changes in fair value for bonds and equities and the realization of gains and losses during the year.

The adequacy of equity or capital base is an important factor in assessing the financial stability of an insurance company and is closely monitored by regulators. For federally regulated insurance companies, the common industry method used to measure financial stability is the Minimum Capital Test (MCT) ratio, an Office of the Superintendent of Financial Institutions

(OSFI) risk-based capital adequacy framework, which assesses assets, policy liabilities and other potential liabilities to determine appropriate capital levels. Although ICBC is not federally regulated, prior to fiscal 2021, legislation and regulation required ICBC to use the OSFI MCT framework to set capital targets. During fiscal 2021, government passed legislation to remove ICBC's requirements to set the Optional insurance management target and to transfer excess optional capital to Government, thereby retaining capital for the benefit of customers. As such, ICBC is only required to set the Basic insurance capital target using OSFI's MCT framework.

As at March 31, 2021, ICBC's corporate MCT level of 51 per cent was higher than the prior year primarily due to the significant improvement in net income and the rebound of the equity markets since March 2020. However, the MCT level is still lower than the approved targets mainly due to cumulative net losses from prior fiscal years. For further information on the Basic insurance and Optional insurance capital framework, please refer to notes 11, 23 and 25 in the accompanying consolidated financial statements.

### **Basic and Optional insurance operations**

ICBC operates as an integrated company providing Basic and Optional insurance products and services. Integrated operations provide benefits to ICBC's customers, such as ease of service and savings achieved through economies of scale.

The majority of premium revenues and claims costs are specifically identifiable as Basic or Optional; however, certain costs are not tracked separately. For those costs that are not specifically identified as Basic or Optional, a financial allocation methodology, as approved by the BCUC, is used to allocate costs between these two lines of business. Detailed financial information on Basic and Optional lines of business is included in note 25 in the accompanying consolidated financial statements. The following paragraphs provide a high-level summary of results for Basic and Optional lines of business, while the balance of the annual report discusses results of integrated operations.

The Basic insurance business this fiscal year recorded a net income of \$926 million. The Basic net income was higher than in the prior year due to lower claims costs and a smaller impairment charge, which were partially offset by lower premiums earned.

In 2020/21, the Optional insurance business net income was \$612 million, which was higher than the prior year for reasons as stated above.

### **Risks and Uncertainties**

ICBC has a well-established risk management process in place, using the ISO 31000 framework to identify and evaluate the impact that significant risks could have on the achievement of corporate objectives and to identify controls in place to mitigate residual risk to acceptable levels, in order to protect ICBC against financial and reputational harm. In order to identify, evaluate and treat its strategic and operating risks, ICBC periodically assesses its risk management processes and continues to evolve them. Identified risks are captured in a corporate risk register for periodic monitoring and reporting. Risks are categorized in accordance with

COSO ERM<sup>1</sup> definitions and are aggregated for quarterly reporting to ICBC’s executives and the Board of Directors.

As a provider of vehicle insurance products, a sub-set of the risks ICBC is exposed to include industry and financial risks, which may have an impact on ICBC’s financial results. Refer to note 11 in the accompanying consolidated financial statements for further details on ICBC’s management of these industry and financial risks. For more information on ICBC’s significant accounting estimates and judgments, refer to note 3 in the accompanying consolidated financial statements.

<sup>1</sup> COSO (Committee of Sponsoring Organizations of the Treadway Commission) ERM (Enterprise Risk Management) is a widely accepted framework used by management to enhance an organization’s ability to manage uncertainty, consider how much risk to accept, and improve understanding of opportunities as it strives to increase and preserve stakeholder value.

### Major Capital Projects

Major Capital Projects (over \$50 million)	Targeted Year of Completion	Project Cost to March 31, 2021 (\$m)	Estimated Cost to Complete (\$m)	Anticipated Total Cost (\$m)
<b>Enhanced Care Coverage program</b>	2021/22	77	22	99
Description: This new way of providing auto insurance in B.C. will build on the reforms to date but will also help to address the outstanding issue of high legal costs, in order to achieve affordable insurance premiums for British Columbians. Among the suite of changes, Enhanced Care coverage will dramatically expand care and treatment coverage for anyone injured in a crash by providing access to comprehensive accident benefits designed to cover all of the injured parties’ needs; expand coverage to all B.C. residents involved in accidents that arise from the use of a vehicle in B.C., Canada, or the US; and introduce direct compensation for property damage to align with the move away from a modified tort system.				