

Report on Performance

As a Crown corporation, ICBC continually works to align with government goals and objectives. ICBC fulfilled the expectations outlined in the [2016/17 Mandate Letter](#) (see Appendix C) to which the Corporation must adhere and ensured alignment to the [Taxpayer Accountability Principles](#) and its embedded action plan.

Despite ever-increasing challenges in its business environment, ICBC remains 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 incorporated the values of cost consciousness (efficiency), accountability, appropriate compensation, service, respect and integrity into the corporate strategy.

ICBC's commitment to cost consciousness (efficiency) is demonstrated in ICBC's Operational Excellence program. Implementing management practices that facilitate performance focus, negotiating existing contracts, and leveraging technology and automation to reduce human effort under the Operational Excellence mandate improved the way ICBC delivers services to customers, achieved key business objectives, and managed controllable operating cost pressures in 2016.

ICBC continually evaluates its performance against the measures set out in the Taxpayer Accountability Principles. Establishing a feedback mechanism between ICBC and the Ministry of Transportation and Infrastructure continues to be a focus, as demonstrated through the establishment of monthly meetings and active collaboration on government-driven initiatives.

Goals, Strategies, Measures and Targets

To assess progress against our goals, ICBC relies on a number of financial and non-financial corporate performance measures. ICBC uses 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 the industry. Where possible, ICBC uses 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 ICBC's unique business model, it develops distinct measures relevant to the area of performance.

ICBC has changed its fiscal year-end date from December 31 to March 31 to align with its shareholder, the Province of B.C.'s fiscal year-end date. This change was effective immediately after the fiscal calendar year ended December 31, 2015. As a result of this change, 2016/17 is a 15 month transitional fiscal period from January 1, 2016 to March 31, 2017 (2016/17), with comparative financial information for the 12 months ended December 31, 2015. For 2017/18 and thereafter, ICBC's fiscal year will be the 12 month period from April 1 to March 31. Unless otherwise noted, the financial targets and corporate performance metrics reflect this change.

The data used in the calculation of performance results are derived from the Corporation'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

ICBC is supporting government's strategic priorities of a strong economy and a secure tomorrow. Our Corporate Strategy is focused on being a low-cost and operationally excellent company that provides value to our customers by keeping rates as low as possible and delivering consistent quality service. This goal is critical to our strategy and also aligns to the Taxpayer Accountability Principles of cost consciousness and service.

In 2016/17, ICBC focused on providing consistent, quality products and services to our customers, and addressed business needs by cost-effectively serving customers in ways that were convenient for them. In 2016/17, ICBC launched enhanced online claims reporting to help improve customer experience. The portal expands customers' ability to report and track the status of their claims through icbc.com. Claims submitted online are saved directly into ICBC's claims system to further increase claims handling efficiency.

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 Province of B.C. and police on various awareness and enforcement campaigns each year. In 2016/17, government renewed its focus on distracted driving by introducing tougher distracted driving penalties. ICBC is committed to raising awareness about the risks, consequences and penalties associated with distracted driving. 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.

Performance Measure 1.1: Insurance Services Satisfaction

Performance Measure	2013 Actual	2014 Actual	2015 Actual	2016/17 Target	2016/17 Actual ¹	2017/18 Target	2018/19 Target
Insurance Services Satisfaction (higher is better)	96%	96%	93%	≥ 95%	95%	n/a	n/a

Data Source: Customer service performance is measured 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.

¹ In previous years, ICBC has provided an 11-month view of the calendar 12-month fiscal year. This has been the case due to timing in availability of internal data, which prevented capturing customer feedback for the final month of the year in time for reporting purposes. With the transition to a 15-month year, this timing constraint still applies, resulting in a 14-month view of customer satisfaction measurement (January 2016 to February 2017).

Discussion

- The Insurance Services Satisfaction survey target for 2017/18 differs from the 2016/17-2018/19 Service Plan and aligns with the 2017/18-2019/20 Service Plan. Customer measures will be undergoing a planned refresh prior to 2018/19, which will include new performance measures. No targets have been set at this time.
- Our network of independent insurance brokers processes 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.
- The insurance satisfaction result remains high. The 2016/17 result was that 95 per cent of customers surveyed were satisfied, as of August 2016. Due to the introduction of the new policy management system in September 2016, the insurance survey was suspended as planned to allow for the transition to the new platform. Surveying is expected to resume in mid-to-late 2017/18.
- Strong effort and commitment by ICBC staff and our brokers to maintain strong levels of service while preparing for the launch of our new policy administration and sales system, PolicyCenter, allowed insurance satisfaction scores to remain strong in 2016/17.

Performance Measure 1.2: Driver Licensing Satisfaction

Performance Measure	2013 Actual	2014 Actual	2015 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Driver Licensing Satisfaction (higher is better)	94%	94%	94%	≥ 95%	93%	n/a	n/a

Data Source: Customer service performance is measured 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.

Discussion

- The Driver Licensing Satisfaction survey target for 2017/18 differs from the 2016/17-2018/19 Service Plan and aligns with the 2017/18-2019/20 Service Plan. Customer measures will be undergoing a planned refresh prior to 2018/19, which will include new performance measures.

No targets have been set at this time.

- ICBC conducts approximately 1.6 million driver licence related transactions each year. This measure is based on a random sample of over 3,000 customers surveyed throughout the year and represents the percentage of customers satisfied with a recent driver licensing transaction.
- The 2016/17 result of 93 per cent is close to the target of 95 per cent or above and is consistent with prior years' results, with the variance between the target and the actual result falling within the margin of error. These strong scores have been maintained through continuous improvements to service standards.

Performance Measure 1.3: Claims Services Satisfaction

Performance Measure	2013 Actual	2014 Actual ¹	2015 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Claims Services Satisfaction (higher is better)	89%	87%	n/a	≥ 91%	92%	n/a	n/a

Data Source: Customer service performance is measured 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.

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 resumed in 2016.

Discussion

- The Claims Services Satisfaction survey target for 2017/18 differs from the 2016/17-2018/19 Service Plan and aligns with the 2017/18-2019/20 Service Plan. Customer measures will be undergoing a planned refresh prior to 2018/19, which will include new performance measures. No targets have been set at this time.
- ICBC processes approximately 900,000 claims each year through our Claims call centre, new online portal, 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 the Corporation 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 and resumed in 2016/17.
- For 2016/17, the Claims score is 92 per cent, which indicates the changes in efficiencies processes in Claims service delivery are having a positive impact. This measure is based on a random sample of over 19,000 customers surveyed throughout the year and represents the percentage of customers satisfied with a recent claims transaction.

Goal 2: Maintain Financial Stability

ICBC's approach to business is driven by creating value for customers by operating in a disciplined and focused manner. ICBC continues to strive to be a low-cost operation focusing on accountability, operational excellence and cost control. 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 \$1.06 for every premium dollar collected in the 2016/17 period. The two main elements that have an impact on claims costs are severity (the average pay-out for a claim) and frequency (how many claims are made each year per a given number of policies).

Since late 2014, ICBC has observed a larger-than-anticipated increase in the overall number of claims, due to a higher-than-expected frequency of crashes. Managing the frequency trend is challenging as it is subject to driver behaviour, weather and other factors largely beyond ICBC's control.

Basic insurance rates in B.C. have experienced on-going pressure from the increasing claims costs in recent years. Higher costs are being driven by an increasing number of crashes, with an upward trend that is higher than expected. This increase is resulting in a higher number of claims being reported and higher bodily injury and material damage (e.g. vehicle repair) costs. These trends are exacerbated by an increase in the number of legally represented claims as well as an increase in the number of large and complex claims being reported, which typically result in larger settlements.

Vehicle repair costs also continue to rise due to vehicle reliance on embedded technology. As a result, the hours of labour required to repair vehicles and the cost of replacement parts are increasing, particularly for newer vehicles.

Investment income has been a strong and consistent contributor to ICBC's financial health, helping to offset the pressure on rates from rising claims costs. The current investment portfolio continues to perform well; however, in recent years due to ongoing lower interest rates in Canada, the extent to which investment income is able to support the insurance rates has been decreasing across the country and continues to put pressure on ICBC rates. In the current low-interest rate environment, ICBC cannot rely as heavily upon investment income to help offset claims costs as it did in the past.

ICBC is committed to moderating the increases in claims costs and has introduced initiatives to help mitigate costs. In 2016/17 ICBC increased front-line customer service by hiring additional staff to manage the increasing volume of claims, which resulted in claims cost improvements through the timely resolution of claims. This is in addition to improving customers' access to benefits, including the medical treatments they need immediately after they report their claim.

ICBC also is stepping up efforts against exaggerated and fraudulent claims. Along with a public education campaign, ICBC is starting to use a new fraud analytics tool to help target fraudulent claims more quickly, therefore reducing how much we pay out on claims. In addition, ICBC announced a new windshield repair program, which improves services to customers while also reducing costs, and also announced changes to the way ICBC insures luxury vehicles. ICBC's mitigation strategies are consistent with the 2016/17 Mandate Letter.

Strategies

- Manage increasing bodily injury and material damage claims costs.

Performance Measure 2.1: Minimum Capital Test

Performance Measure	2013 Actual	2014 Actual	2015 Actual	2016/17 Target	2016/17 Actual	2017/18 Target ¹	2018/19 Target ¹
Minimum Capital Test (Corporate) (higher is better)	204%	193%	157%	143%	112%	TBD	TBD

Data Source: ICBC financial systems

¹ Minimum Capital Test (Corporate) ratio is comprised of ICBC's Basic and Optional insurance business target Minimum Capital Test ratios. In light of the current claims trends, Corporate MCT targets for 2017/18 to 2019/20 are subject to review.

Discussion

- The Minimum Capital Test (MCT) 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 financial risk and long-term financial stability.
- Our 2016/17 corporate MCT ratio was 112 per cent and is lower than the 2016/17 target of 143 per cent primarily due to lower capital available as a result of higher than expected claims costs.
- ICBC continued its focus on managing the cost of bodily injury and material damage claims, 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 2.2: Combined Ratio

Performance Measure	2013 Actual	2014 Actual ¹	2015 Actual	2016 Benchmark	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Combined Ratio (lower is better)	109.2%	113.8%	120.0%	99.0%	109.7%	127.5%	113.9%	112.1%
Claims, claims-related and insurance expenses	106.2%	110.8%	117.1%	99.0%	106.9%	124.8%	111.4%	109.8%
Non-insurance expense	3.0%	3.0%	2.9%	0.0%	2.8%	2.7%	2.5%	2.3%

Data Source: ICBC financial systems

¹ The combined ratio for 2014 has been restated to reflect the revenue and expense reclassification in compliance with International Financial Reporting Standards.

Discussion

- The Combined Ratio targets differ from the 2016/17-2018/19 Service Plan, and align with the 2017/18-2019/20 Service Plan. The target changes reflect the expected increases in claims and claims related costs.
- 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 per cent indicates an underwriting profit (i.e. premiums are sufficient to cover costs) while a ratio above 100 per cent 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 (e.g., broker commission) 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 2016 was 99.0 per cent¹. Our Basic insurance premiums, which make up approximately 60 per cent of our total premiums earned, are subject to short-term rate smoothing measures and are not set to generate underwriting profits. We deliver non-insurance services on behalf of government; and in 2016/17, non-insurance costs represented approximately three percentage points of the combined ratio.

- The 2016/17 combined ratio result did not achieve our target of 109.7 per cent mainly due to rising claims costs. Higher than expected crash frequency has resulted in higher vehicle repair costs, and along with an increasing rate of bodily injury claims per crash, has also produced a higher frequency of bodily injury claims. In addition, significant increases in legally represented claims and the greater emergence of large and complex claims have contributed to the growth in claims costs. ICBC is focused on moderating the increases in claims costs through the hiring of additional claims handling staff to manage the increasing volume of claims. This is achieved through timely resolution of claims, which improves the severity results. In addition, counter fraud initiatives, and improving customer access to benefits, including medical treatments needed immediately after a claim is reported, as well as strategic sourcing initiatives and supply chain model improvements are also a focus to mitigate the increases in claims costs.

Performance Measure 2.3: Investment Return

Performance Measure	2013 Actual	2014 Actual	2015 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Investment Return¹ (four year annualized)							
ICBC Portfolio	5.00%	4.85%	5.26%	Policy Market	4.81%	Policy Market	Policy Market
Policy benchmark	<u>4.66%</u>	<u>4.64%</u>	<u>4.83%</u>	Benchmark Return	<u>4.50%</u>	Benchmark Return	Benchmark Return
Excess	0.34%	0.21%	0.43%		0.31%		

Data Source: ICBC financial systems

¹ Investment return is measured gross of management fees.

Discussion

- ICBC manages an investment portfolio with a carrying value of \$15.5 billion at the end of 2016/17. 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 expected to be earned on these investments also helps to reduce the amount of premiums needed from 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

¹ MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2016. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and Saskatchewan Auto Fund).

- 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, mortgages and, more recently, high yield bonds, 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 Corporation's control.
 - As of March 31, 2017, ICBC's four year annualized return at 4.81 per cent was 0.31 percentage points higher than the comparable policy market benchmark of 4.50 per cent². Based on average portfolio values over this period, the estimated impact of this is about \$44 million annually or about \$176 million over four years. Comparatively, the four year annualized return for 2015 was 5.26 per cent, or 0.43 percentage points higher than the policy market benchmark.
 - ICBC's one year return of 5.24 per cent was 0.36 percentage points higher than the comparable policy market benchmark of 4.88 per cent. This excess return was generated almost entirely on internally-managed low-risk Canadian bond, mortgage, and real estate assets, representing value to ICBC of approximately \$55 million.

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.

Goal 3: Focused Operational Excellence

Providing customers with the best insurance coverage at the lowest possible cost requires us to operate the corporation in a low-cost manner. This means actively controlling spending, avoiding unnecessary costs and improving our ability to deliver a consistent, quality experience and value for our customers.

To help leverage our Transformation Program investment, ICBC has introduced operating methodology to support focused Operational Excellence. Operational Excellence is ICBC's philosophy of leadership, teamwork and problem solving that focuses on our customer needs, empowering our employees and optimizing existing activities so that we, as an organization, operate more efficiently and avoid unnecessary costs.

In 2016/17, Operational Excellence tactics delivered benefits to the organization by streamlining claims handling processes, implementing management practices that facilitate performance focus and problem solving. Other examples include cost savings through negotiating existing contracts, identifying opportunities to cease activities that do not provide a return on investment and leveraging technology and automation to reduce human effort and processing errors.

At the same time, building internal capability to support a culture of continuous improvement has been a key goal of Operational Excellence, especially in the areas of Claims and Driver Licensing. Significant effort has been placed in refreshing workforce capacity and capability. The adoption of Lean management practices such as visual management, information centres and coaching is an example of how ICBC is helping managers and teams perform better and be as efficient as possible. These changes may be as simple as how best to input information into systems, how to arrange signage and seating in Driver Licensing Offices, to more significant process changes such as improving fraud handling and workflow between investigators and adjusters.

Strategies

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

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

Performance Measure	2013 Actual	2014 Actual ¹	2015 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Gross Expense per Policy (lower is better)	\$ 339	\$ 349	\$ 345	\$ 365	\$ 368	n/a	n/a

Data Source: ICBC financial systems

¹ 2014 measure reflects the revenue and expense reclassifications.**Discussion**

- To better monitor and measure how ICBC is leveraging operational excellence to manage claims trends, the Gross Expense per Policy performance measure will be replaced for 2017/18 and beyond with the Loss Adjustment Ratio and the Insurance Expense Ratio, which were introduced in the 2017/18-2019/20 Service Plan.
- 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 insurance 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 2016/17 result worsened from 2015 and target due to the higher than expected claims related costs. In response to rising claims costs, ICBC has hired additional claims handling staff to manage the increases in volume, complexity of claims and to manage the growth in pending claims. While the addition of these claims staff has increased the gross expense per policy, we are seeing significant positive impacts from achieving claims closure targets as a result of this hiring practice. Timely resolution of claims is beneficial to the claimant and improves severity results. Other initiatives include stepping up efforts to combat fraud through fraud analytics tools, continuing the fight against distracted driving and modernizing supply management practices for professional services.

Goal 4: Aligned People and Business Capabilities

Critical to achieving the Corporate Strategy is having the right people and the right business capabilities in place so that ICBC may provide more information and services to customers online and more ways for customers to interact with ICBC. ICBC is working to improve customer service across the province so that it can better respond to changing needs and provide customers better service where they are, and in ways that they value. ICBC continues to build its people capabilities through the implementation of human resource initiatives, which include leadership development and succession planning.

In 2016/17, ICBC continued to build people capabilities through the implementation of human resource people and cultural initiatives, including leadership development and succession planning.

In 2016/17, ICBC completed the final stage of its multi-year business transformation efforts, the Transformation Program, which has greatly modernized the business. The transformation has included the implementation of a new claims system and a new insurance system which brings improvements to the way brokers serve customers by automating and streamlining a number of processes. It sets the stage for ongoing business enhancements in future years. It's one of the largest and most complex system renewal initiatives to date, both at ICBC and in the industry.

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.

Strategies

To improve business capabilities and better align people, we have developed the following 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	2013	2014	2015	2016/17	2016/17	2017/18	2018/19
	Actual	Actual	Actual	Target	Actual	Target	Target
Employee Opinion Indices							
Aligned	n/a	77	76	≥80	78	Indices ≤ 80 will maintain as current level at threshold to a target of an increase of 3 points	Indices ≤ 80 will maintain as current level at threshold to a target of an increase of 3 points
Enabled	n/a	63	63	≥66	66		
Motivated	n/a	60	59	≥63	64	Indices >80 will maintain at a minimum as a target	Indices >80 will maintain at a minimum as a target
Accountable	n/a	87	82	≥87	87		
Leadership ¹	n/a	67	n/a	≥70	70		

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

Discussion

- ICBC’s current approach to the Employee Opinion Survey (EOS) calls for a biennial running of the full survey and a shortened focused “Pulse Check” survey in the intervening years. In 2016/17, ICBC conducted a full EOS survey, achieving an organization-wide participation rate of 77 per cent, an increase of seven points over the previous survey.
- Results of the 2016/17 EOS indicate that the Corporation has made progress across all index areas now scoring ‘moderately positive’ or ‘extremely positive’ in all indices.
- In comparison to 2014, we have met or exceeded the 2014 scores in 4 out of 5 indices (Enabled, Aligned, Motivated and Leadership) and maintained the already extremely positive score of 87 on the fifth index (Accountable).