

The goal of these and many other ongoing efforts is to make insurance more affordable for British Columbians, by addressing rising claims costs and improving rate fairness.

Report on Performance

As a Crown corporation, ICBC continually works to align with Government goals and objectives. ICBC fulfilled the expectations outlined in the [2017/18 Mandate Letter](#).

Despite ever-increasing financial and business environment challenges in 2017/18, ICBC remained committed to providing customers with the insurance products and services they count on and the coverage they need, while making insurance rates more fair and affordable. To support this, ICBC's corporate strategy remains focused on four key goals: deliver value and service for customers, ensure financial stability, deliver operational excellence, and align people and business capabilities.

ICBC's commitment to containing controllable operating expenses is demonstrated in its continued dedication to operational excellence. Following an operational excellence mandate helped ICBC improve the way the Corporation delivered services to customers, achieved key business objectives and managed controllable operating expense pressures in 2017/18.

Throughout 2017/18, ICBC continually evaluated its performance against the measures set out in its Service Plan. Together, ICBC's executive leadership team, Board members and the Government are actively communicating and working together with a continued focus on stabilizing ICBC's financial position and improving the Corporation's long term sustainability.

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 against other insurers; and when 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.

Unless otherwise noted, the 2017/18 targets included in this report were established in the September [2017/18-2019/20 Service Plan](#), and the targets for future years reflect those in the February [2018/19-2010/21 Service Plan](#).

In 2016, ICBC changed its fiscal year-end date from December 31 to March 31 to align with the B.C. Government's fiscal year-end. As a result of this change, the 2016/17 actuals included in this report reflect a 15-month transitional fiscal period from January 1, 2016 to March 31, 2017. For 2017/18 and thereafter, ICBC's fiscal year is the 12-month period from April 1 to March 31.

The data used in the calculation of performance results are derived from ICBC'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: Deliver Value and Service for Customers

A key part of improving value and service to customers is to deliver the services that they count on, while ensuring fairness in pricing and keeping rates as low as possible.

In 2017/18, ICBC focused on providing consistent, quality products and services to its customers and addressed business needs by cost-effectively serving customers in ways that were convenient for them. For example, ICBC simplified the authentication process for customers using the online claims service, streamlined the collector vehicle plate application process and expanded online driver licensing road test bookings. In addition, much work was completed to move insurance policies for new fleet and garage customers into ICBC's new insurance system. Having all insurance products and customer information in one system improves efficiencies and allows ICBC and its Autoplan brokers to better serve customers.

In 2017/18, ICBC put an even greater focus on its road safety efforts to address distracted driving and intersection crashes to help reduce injury and death on B.C. roads. Distracted driving-related crashes continue to be one of the leading causes of car crash fatalities and serious injuries in B.C., which is why ICBC continues to invest in road safety initiatives and partners with the Province of B.C. and police on various awareness and enforcement campaigns each year.

ICBC and the Provincial Government launched its first distracted driving technology pilot in March 2018. Over 130 ICBC customers volunteered to download an app on their phone, which blocks the use of a handheld device when the telematics device installed in the vehicle senses that the vehicle is being driven. Findings from the pilot will be used to inform future decisions around distracted driving prevention and enforcement, as well as changes to improve the fairness of how insurance rates are set.

ICBC remained committed to the Road Improvement Program and Intersection Safety Camera Program last year and continues to partner with the Provincial Government and police across the province on enhanced traffic enforcement.

In August 2017, ICBC launched a new road safety campaign, Drive Smart, to bring awareness to deteriorating driver behaviour in B.C. and to make a provincial call to action for all B.C. drivers to improve their driving habits.

The following strategies helped ICBC deliver value and service for customers in 2017/18. These strategies are further explained in the discussion section below.

Strategies

- Work with partners and Government to support Government priorities
- Keep rates as low as possible while ensuring fairness in pricing
- Design and deliver quality products and services in ways that meet customer and business needs
- Reduce injury and death on B.C. roads

Performance Measure 1: Customer Service Performance

Performance Measures	2015 Actual	2016/17 Actual (15 months)	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
1.1 Insurance Services Satisfaction	93%	95%	90%	95%	94%	95%
1.2 Driver Licensing Satisfaction ¹	94%	93%	93%	93%	93%	93%
1.3 Claims Services Satisfaction ²	n/a	92%	92%	92%	93%	93%

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 key transactions. Two independent research firms conduct customer survey interviews throughout the year to monitor transactional satisfaction.

¹ This performance measure covers the fiscal year less a month due to the transactional data for the final month not being available in time for reporting purposes.

² Starting in 2017/18 and moving forward, the Claims Services Satisfaction score is the overall average of results from First Notice of Loss and Closed Claims, including Centralized Claims Injury Centre (CCIC) and glass claims. Previously, CCIC and glass claims were excluded.

Discussion*Performance Measure 1.1: Insurance Services Satisfaction*

- Independent insurance brokers process over three million Autoplan policies each year. The insurance services satisfaction measure is typically based on surveys by approximately 5,000 customers over the course of a year. The survey was reinstated in October 2017 after being suspended for 13 months during the stabilization of ICBC's new insurance system.
- Since the survey restarted, satisfaction scores have been consistently above the target of 90 percent. The fiscal year-end score was 95 percent.

Performance Measure 1.2: Driver Licensing Satisfaction

- Each year, ICBC conducts approximately 1.6 million driver licence related key transactions concerning the issuance of driver licences and driver exams. These include renewing a licence, taking a knowledge test or undergoing a road test. This measure is weighted by the number of transactions for each type of service and is drawn from a sample of over 3,000 customers surveyed throughout the year.
- Driver licensing customer satisfaction was slightly lower in the first half of the year, impacted by lower scores in testing transactions. However, changes in the testing process have resulted in a better customer experience, which led to incremental improvement to the satisfaction scores. The fiscal year end score was 93 percent.

Performance Measure 1.3: Claims Services Satisfaction

- Claims are processed through ICBC's claims contact centre, claim offices and specialty departments such as commercial claims and rehabilitation services. Claims surveying draws upon personal claims only and is based on the average of First Notice of Loss and closed claims. In a typical year, there are over 15,000 completed surveys.
- 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.

- Overall, claims customer satisfaction remained stable to maintain a 92 percent level for the 2017/18 fiscal year. Despite pressures from high claims volumes, new processes and training of new staff, the Claims division was still able to deliver a high level of customer service.

Goal 2: Ensure Financial Stability

Basic insurance rates in B.C. have not kept pace with rapidly increasing claims costs in recent years. Claims costs represent the majority of ICBC's costs and exceed the revenue collected in customer premiums. In 2017/18, claims costs accounted for approximately \$1.14 for every premium dollar collected. The two main elements that have an impact on claims costs are frequency (how many claims are made each year per a given number of policies) and severity (the average pay-out for a claim). Managing the frequency of crashes is challenging as it is subject to driver behaviour, weather and other factors largely beyond ICBC's control.

In response to recommendations presented in the PwC Canada and the EY reviews, ICBC, in partnership with the Provincial Government, established a steering committee with a goal of identifying and delivering initiatives to moderate increases in claims costs and restore ICBC's long-term financial stability. To support the steering committee, a number of working groups were established in the areas of road safety, legal and litigation, product, rate fairness and cost effectiveness.

Under Government's lead, ICBC supported consultations with key stakeholder groups to open the dialogue on major improvements to ICBC's accident benefits. These improvements, along with other changes to Basic insurance, were [announced](#) by Government on February 6. Once fully implemented, these changes are expected to shift the focus away from maximizing claim payouts to increasing the care available to anyone injured in a crash.

Investment income has historically been a strong and consistent contributor to ICBC's financial health, helping to offset the pressure on insurance rates from rising claims costs. While the 2017/18 investment portfolio continued to perform well and exceeded industry benchmarks, in the current low-interest rate environment and with lower capital levels, ICBC cannot rely as heavily upon investment income to help offset claims costs as it did in the past.

Strategies

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

Performance Measure 2: Ensure Financial Stability

Performance Measures	2015 Actual	2016/17 Actual (15 months)	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
2.1 MCT	157%	112%	TBD ¹	31%	TBD ¹	TBD ¹
2.2 Combined Ratio	120%	128%	116%	136%	124%	112%
2.3 Investment Return ² (Market Return)	Benchmark +0.43%	Benchmark +0.31%	Benchmark or better	Benchmark +0.35%	Benchmark or better	Benchmark or better

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

¹ Management is working collaboratively with government to develop capital management targets for 2018/19-2019/20 and beyond. The long-term MCT target was 175%.

² Actual and benchmark investment returns are measured gross of management fees. ICBC's management fees and operating costs are 9 bps. Overall benchmark return is determined by the weighted average of the respective benchmark returns of the asset class in the same period. The actual result shown is the performance relative to the benchmark return.

Discussion*Performance Measure 2.1: Minimal Capital Test*

- 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.
- The 2017/18 corporate MCT ratio was 31 percent, primarily due to lower capital available as a result of ICBC's net loss for the year caused by rapidly increasing claims costs and not being able to set Basic insurance rates to cover costs.
- On February 26, 2018, Government issued direction to temporarily suspend the *Special Direction IC2* (IC2) requirement to maintain Basic MCT at 100 percent and requirement for capital maintenance. This suspension is effective until March 31, 2022.
- Legislative changes have been made to ICBC's Basic insurance product that are intended to mitigate rising claims costs and support the long-term sustainability of the Corporation.

Performance Measure 2.2: Combined Ratio

- 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 percent indicates an underwriting profit (i.e. premiums are sufficient to cover costs), while a ratio above 100 percent indicates an underwriting loss (i.e. premiums are not sufficient and investment income is needed to help cover costs). Expenses included in the combined ratio are claims related operating expenses and acquisition (e.g., broker commission) costs.
- ICBC's 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 2017 was 96 percent.¹ Basic insurance premiums, which make up approximately 60 percent of our total premiums earned, are not set to generate underwriting profits. ICBC delivers non-

¹ MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2017. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and Saskatchewan Auto Fund).

insurance services on behalf of Government; in 2017/18, non-insurance costs represented approximately three percentage points of the combined ratio.

- The combined ratio targets for 2018/19 and 2019/20 differ from the 2017/18-2019/20 Service Plan, and align with the 2018/19-2020/21 Service Plan. The target changes reflect the expected increases in claims and claims related costs.
- The 2017/18 combined ratio result did not achieve our target of 116 percent mainly due to rapidly increasing claims costs and not being able to set Basic insurance rates to cover costs.

Performance Measure 2.3: Investment Return

- ICBC manages an investment portfolio with a carrying value of \$15,796 million at the end of 2017/18. The portfolio is conservatively invested, with the majority of assets held in investment grade bonds, primarily to provide for future claims payments and unearned premiums. Investment income helps to reduce the amount of premiums needed from policyholders. Equities, mortgages and real estate 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 based on 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, mortgages and real estate, all of which have provided an added return over bonds.
- ICBC's investment returns continue to compare favourably to market returns. The 2017/18–2019/20 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, 2018, ICBC's four year annualized return at 3.42 percent was 0.35 percentage points higher than the comparable policy market benchmark of 3.07 percent.² Based on average portfolio values over this period, the estimated impact of this is about \$52 million annually or about \$208 million over four years.
- ICBC's one year return of 1.68 percent was 0.61 percentage points higher than the comparable policy market benchmark of 1.07 percent. 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 \$96 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: Deliver Operational Excellence

In striving toward more affordable and fair rates, ICBC employees are doing what is in their control to manage operating expenses and deliver quality services.

ICBC achieves this balance through a culture of operational excellence and continuous improvement, along with a focus on expanding the capability of employees, business systems and practices.

In 2017/18, ICBC continued to leverage operational excellence principles in its day-to-day operations through the expansion of team check-in meetings to keep teams focused on quality and performance. ICBC continued to pursue cost savings through ongoing negotiation of existing contracts, avoiding activities that do not provide a return on investment, and encouraging customer-facing teams to be more self-sufficient in applying operational excellence principles to find business improvements and solve problems.

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 in 2017/18. Quality programs have been expanded and there is continued emphasis on coaching and training managers and employees to provide consistent quality services to customers.

Strategies

- Continuously improve the business by leveraging operational excellence principles
- Develop organizational flexibility to respond to a changing environment

Performance Measure 3: Deliver Operational Excellence

Performance Measure	2015 Actual	2016/17 Actual (15 months)	2017/18 Target ¹	2017/18 Actual	2018/19 Target	2019/20 Target
3.1 Loss Adjustment Ratio	N/A	16.6%	15.9%	15.7%	TBD ²	TBD ²
3.2 Insurance Expense Ratio	N/A	17.3%	17.0%	16.8%	17.0%	16.8%

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

¹ Fiscal 2017/18 target was developed subsequent to tabling the September 2017/18-2019/20 Service Plan.

² In light of the anticipated changes to the Basic insurance product, targets are subject to review.

Discussion

To better monitor and measure how ICBC is leveraging Operational Excellence to manage claims costs, the loss adjustment ratio and the insurance expense ratio were introduced in the *2017/18-2019/20 Service Plan*.

Performance Measure 3.1: Loss Adjustment Ratio

- The loss adjustment ratio is the percentage of claims handling costs per dollar of claims paid. It is calculated as the sum of claims services costs, external expenses and loss management expenses divided by claims paid net of external expenses.
- The 2017/18 result of 15.7 percent was lower than the 2017/18 target due to a focus on settling large bodily injury claims, which led to higher claims paid. ICBC anticipated the loss adjustment ratio to be stable or decreasing in the current environment of increasing claims costs.

Performance Measure 3.2: Insurance Expense Ratio

- The insurance expense ratio is a standard industry measure to assess the operational efficiency of an insurer. It is calculated as a ratio of insurance operating expenses (excluding claims, claims related costs, and non-insurance expenses) to insurance premium dollars earned.
- The property and casualty industry benchmark for 2017 was 32.2 percent.³
- The 2017/18 result of 16.8 percent was slightly better than the 2017/18 target and is lower than that of the property and casualty industry.

³ MSA Research Inc., *MSA Benchmark Report, Property and Casualty, Canada, 2017. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and Saskatchewan Auto Fund)*.

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. ICBC continues to build its people capabilities through the implementation of human resource initiatives, including leadership development and ICBC's recently launched employee commitments.

In 2017/18, ICBC leveraged its technical investments to continuously improve and enhance business operations in the Claims and Insurance business areas, for example, by delivering more services to customers online and providing more ways for customers to interact with ICBC. This was achieved through business updates that focused on improving customer experience, such as checking key information about a claim online, and equipping employees and business partners with the right information to make data driven decisions.

Strategies

- Develop accountable, aligned, enabled and motivated leaders and employees
- Leverage people, technology and practices to build business value

Performance Measure 4: Aligned People and Business Capabilities

Performance Measures	2014 Actual	2015 Actual	2016/17 Actual <i>(15 months)</i>	2017/18 Target ¹	2017/18 Actual	2018/19 Target ¹	2019/20 Target
Employee Opinion Indices							
Aligned	77	76	78	≥81	81	≥81	Index scores will be maintained or increased.
Enabled	63	63	66	≥69	70	≥70	
Motivated	60	59	64	≥67	67	≥67	
Accountable	87	82	87	≥87	86	≥86	
Leadership ²	67	n/a	70	n/a	n/a	≥70	

Data Source: Employee Opinion Survey conducted by an independent firm.

¹ Fiscal 2017/18 targets were presented as numerical values subsequent to tabling the September 2017/18 – 2019/20 Service Plan.

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

Discussion

Employee Opinion Survey

- 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 in-between years. In 2017/18, ICBC conducted a pulse check survey involving a random sample of 20 percent of employees, representing all divisions.
- Results of the 2017/18 pulse check indicate that the Corporation has met or surpassed target scores in three of the four EOS indices. The fourth index, “accountable,” remains in the “extremely positive” zone and is still the highest scoring index. Significant progress was also noted in the “Enabled” index score, which for the first time was higher than the desired target.