



Insurance Corporation of British Columbia

Service Plan

2010 – 2012

February 2010



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Service Plan 2010–2012

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Introduction

Purpose

The Insurance Corporation of British Columbia's (ICBC) 2010 – 2012 Service Plan presents an overview of our three-year plan to fulfill responsibilities for providing vehicle insurance, driver licensing, and vehicle licensing and registration services. In this Service Plan, we set out our performance accountability to the public by describing:

- Where we envision ourselves in three years;
- The goals and objectives we need to achieve to realize this vision; and
- How we define and measure progress on achieving these goals and objectives.

In 2011, we will publish our 2010 Annual Report detailing our progress in achieving the goals set out in this Service Plan. The Service Plan and Annual Report are companion documents and central to the broader accountability framework for Crown corporations. In developing the Service Plan, we have relied on guidance from various sources, including the following:

- The Shareholder's Letter of Expectations between ICBC and government, which can be found on www.icbc.com.
- The provincial government's *Crown Corporation Service Plan Guidelines*, November 2009, which can be found on www.gov.bc.ca.
- The Legislative Assembly of BC's Select Standing Committee on Crown Corporations (SSCCC) in *A Guide to Operations*, April 2003, which can be found on www.leg.bc.ca.

Balancing Accountability and Commercial Sensitivity

We are committed to providing customers and the public with information needed to understand our plans and to evaluate our performance against those plans. This is fundamental to the governance of any Crown corporation.

We compete with other insurance companies in the sale of optional vehicle insurance products in BC. Due to commercial concerns, this Service Plan does not provide specific competitive information pertaining to our Optional insurance business.

Letter from the Chair of the Board

The Honourable Kash Heed
Minister of Public Safety and Solicitor General
Government of British Columbia

Dear Minister,

On behalf of ICBC's Board of Directors and employees, I am pleased to present our 2010 – 2012 Service Plan.

We remain committed to our vision of being British Columbians' preferred auto insurer, providing protection and peace of mind. We celebrated our 35th anniversary in 2009; on March 1, 1974 the first Autoplan policy was sold. ICBC was established in 1973 with a mandate to provide universal and affordable compulsory auto insurance to all BC motorists. We are the sole provider of universal compulsory coverage (Basic insurance) in the province and compete with other insurance companies in the sale of Optional vehicle insurance coverages. Since our inception 35 years ago, ICBC has been committed to keeping rates low and stable for our customers. Ten years ago, the Corporation was not in a position of financial strength, and we have had a strong focus on fiscal prudence in managing our business and building our capital base for the benefit of customers, therefore supporting our mandate to provide universal and affordable compulsory auto insurance.

Between 2001 and 2003, ICBC and the BC auto insurance framework underwent the Core Services Review process. It was the intention of the BC government to create a more competitive environment in the BC Optional automobile insurance industry. The outcomes of the Core Services Review process included a new framework in which ICBC was to operate. The responsibility for the setting of Basic rates was put under the authority of an independent, arm's-length regulatory body, the British Columbia Utilities Commission (BCUC). Over the past five years, rate increases on Basic have been below two per cent per year on average, which is below inflationary rates.

The Core Services Review process also required our Optional insurance business to be governed by the Board because we compete with other insurance companies in the sale of Optional vehicle insurance coverages. As such, we now operate within a framework that resembles that of a private sector insurance company. We manage and maintain capital levels in line with industry requirements.

2009 was a successful year at ICBC. We had healthy financial results and as a result have been able to protect our customers and provide greater value by keeping rates low and stable for the policyholders of British Columbia. Our Optional rates were reduced on average by three per cent. We are proud to have reduced Optional rates for our customers by more than three per cent per year on average over the past five years, for a total decrease of 17% since 2005.

The Government of British Columbia is revising ICBC's legislation to reflect current industry practice with respect to the minimum capital test (MCT), and has determined that Optional capital in excess of the MCT determined by its actuaries in accordance with federal regulatory guidance, and validated by ICBC's independent actuary, less any approved deductions by the Treasury Board, will be transferred to the Government of British Columbia. As a further protection to Basic insurance ratepayers, the revisions will stipulate that distribution of excess capital can only come from Optional capital. This new framework will be in effect beginning in 2010.

We are a proud sponsor of the 2010 Olympic and Paralympic Winter Games, including helping to create awareness of the 2010 Winter Games Homestay Program. Our customers have also enthusiastically taken up the 2010 Winter Games Licence Plate Program, with some 178,000 plates having been purchased across the province, proceeds of which have gone to support the 2010 Olympic and Paralympic Winter Games and Canadian athletes in their bid to put Canada on the podium in 2010.

We continue to evolve as a company to better meet our customers' needs. To reflect this, we have revised our corporate strategy to clearly focus on three objectives: improving customer perception, improving employee experience, and maintaining financial stability. We strive to improve our customers' experiences and perceptions of us through listening to, better meeting the needs of, and trusting our customers. To be successful, employees must be empowered, engaged, and accountable. We must also be financially responsible in order to maintain low and stable insurance rates. This Service Plan outlines how we will achieve these goals and measure our success in doing so.

We will be making much-needed investments in our aging customer service systems as part of a business renewal program called the Transformation Program. In doing so, we will be better able to meet increasing customer expectations regarding product offerings, pricing, and service; better ensure the reliability of our systems and allow more options for customers; and implement more streamlined processes for employees that will improve customer service. Because of our strong financial position, these systems upgrades will have minimal impact on rates over time.

We will also continue to improve our customers' experiences across all touch points: registering and licensing a vehicle, purchasing insurance, handling claims, and driver licensing services. Through underwriting and pricing improvements we are continuing to move in the direction of driver-based pricing where premiums are more reflective of driver risk. Driver-based pricing supports the concept of increased driver accountability, where drivers can have a greater influence on their premiums by their driving behaviour on the road. This will allow us to continue to provide value to our customers and makes rates more reflective of risk.

We will strengthen our relationships with customers and with our partners such as brokers and auto repair shops, which are vital to our customers' experiences. We are also committed to being involved in important programs in the communities we live and work in; our road safety programs are an important element of that involvement.

We are proud to have served the Province for the past 35 years, and our dedicated and capable employees and partners will continue to strive to provide British Columbians with the products and services they expect.

Statement of Accountability

ICBC's 2010 – 2012 Service Plan was prepared under the direction of the Board of Directors in accordance with the Budget Transparency and Accountability Act and the BC Reporting Principles. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported.

All significant assumptions, policy decisions, events, and identified risks, as of February 2, 2010 have been considered in preparing the plan. The performance measures presented are consistent with ICBC's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of ICBC's operating environment, forecast conditions, risk assessment, and past performance.



T. Richard Turner
Chair, Board of Directors

Overview of ICBC

Vision

ICBC will be BC's preferred auto insurer, providing protection and peace of mind.

Mission

We deliver quality auto insurance products and services at competitive prices through a knowledgeable team committed to our customers.

Values

Integrity

- Our business is based on trust. We are honest, ethical, straightforward, and fair.

Dedication to Customers

- We exist to serve our customers. We listen actively and are responsive to their needs.

Accountability

- We hold ourselves, and each other, accountable for our actions and the success of our business.

Caring

- We care about our customers' well-being and ensure they feel supported by treating them with dignity and respect.
- We care about each other's well-being and create an environment that promotes personal growth.
- We care about our communities by supporting road safety programs and being environmentally responsible.

Insurance Services

ICBC is a provincial Crown corporation established in 1973 to provide vehicle insurance to British Columbia's motorists. We are the sole provider of universal compulsory coverage (Basic insurance) in the province, the rates for which are regulated by the BCUC, and compete with other insurance companies in the sale of Optional vehicle insurance coverages.

Under Basic insurance, private passenger and commercial vehicle owners are provided with \$200,000 in third-party liability protection, \$150,000 in no-fault accident benefits, and \$1 million of underinsured motorist protection. Buses, taxis, limousines, and extra-provincial trucking and transport vehicles have higher mandatory levels. Under Optional insurance, the coverages that we offer include, but are not limited to, extended third-party liability, collision, comprehensive coverage for new vehicles, and vehicle storage. For a complete list of our Optional insurance products, please visit www.icbc.com.

Auto insurance in BC is based on a full tort system, which means that an injured party is entitled to take legal action against the at-fault party for damages. In addition, the insured, injured party has access to accident benefits, including up to \$150,000 in medical and rehabilitation expenses and up to \$300 per week for wage loss, through ICBC Basic insurance, regardless of fault. Our coverage level for medical and rehabilitation expenses is considered the highest in Canada when compared to any other province with a tort-based system.

In contrast, in some other provinces in Canada, auto insurance is based on some variant of no-fault or mixed no-fault and tort systems. This means compensation can be based on predetermined benefit schedules, threshold schemes, and/or caps or deductibles on pain and suffering awards, and there may be limited or no ability to sue for additional damages.

ICBC operates as an integrated company that provides significant benefits to customers in terms of costs and convenience. With annual earned premiums of approximately \$3.6 billion,¹ approximately \$12.5 billion in assets, and employing approximately 5,000 people, we are one of the largest property and casualty insurers in Canada. For more information on our products and the auto insurance system in British Columbia, please visit www.icbc.com.

¹ Please refer to the 2009 forecast numbers contained in the Summary Financial Outlook table on page 26

Loss Management Programs

ICBC invests in fraud prevention and road safety initiatives that provide a direct benefit to customers through reduced claims costs. This ultimately assists in keeping premiums low and stable. We work with a network of partners across the province to deliver these programs, including the Ministry of Public Safety and Solicitor General, the enforcement community, the Ministry of Attorney General, the Ministry of Transportation and Infrastructure, municipalities, community groups, and volunteers. For more information, please visit www.icbc.com under Road Safety.

Non-Insurance Services

In addition to the Basic insurance and Optional insurance lines of business, we provide driver licensing services, vehicle licensing and registration services, and fine collection on behalf of the provincial government. We refer to the provision of these services as our non-insurance line of business. These non-insurance services are outlined in the Service Agreement between ICBC and the Province, and their costs are funded through Basic insurance premiums.

There have not been any significant shifts from our last Service Plan (*September 2009 Update*) in relation to our provision of insurance and non-insurance services, and in the delivery of loss management programs.

Key Business Partners and Stakeholders

ICBC delivers its services in partnership with:

- Independent insurance brokers who provide auto insurance products and services to the public and are guided by the agreement with ICBC's broker partners;
- A broad base of suppliers in the collision repair industry – guided by a performance-based agreement;
- The medical community to assist injured customers in getting well;
- Government agents and appointed agents that provide driver and vehicle licensing services in a number of communities where there are no ICBC offices;
- The Office of the Superintendent of Motor Vehicles and Police Services within the Ministry of Public Safety and Solicitor General, with whom we work in a number of areas, including driver licensing and road safety;
- Road authorities – e.g., The Ministry of Transportation and Infrastructure, and municipalities to share costs of road improvements that decrease the frequency and severity of crashes;
- Police and enforcement agencies to increase road safety; and
- A host of diverse community organizations, including business improvement associations and auto crime groups, which support the delivery of our safety and auto crime programs.

For more information, please visit the *Business Partners* page on www.icbc.com.

ICBC Points of Service

ICBC offers insurance products to more than three million policyholders through a province-wide network of approximately 900 independent brokers, government agents, and appointed agents. Our claims-handling services process almost one million claims per year through our 24-hour, 7-days-a-week telephone claims handling facility, our province-wide network of 38 claims servicing locations, and the various Express Glass and Repair facilities across the province, and www.icbc.com.

We also provide driver licensing services through 121 offices, including driver licensing centres, government agents, and appointed agents throughout the province.

We deliver our products and services in partnership with businesses and organizations in communities throughout British Columbia, including insurance brokers, auto repair facilities, and health service providers. Our partners are involved in different aspects of the insurance processes such as selling our insurance product, and claims processes, such as repairs to damaged vehicles, rehabilitation services, or loss management programs in partnership with law enforcement agencies.

For further information on our points of service in British Columbia, please visit www.icbc.com.

Operating Structure

ICBC operates using an integrated business model. Although the majority of premium revenues are specifically identifiable as Basic or Optional, certain costs are not tracked separately. For those revenues and costs that are not specifically identified as Basic or Optional, a pro-rata method of allocation is used to allocate the revenues and costs between the two lines of business. This method allocates revenues and costs to each line of business based on the drivers of those revenues and costs, the degree of causality, and any directives from our independent regulator, the BCUC, which are applied on a prospective basis. More on the role of BCUC can be found in the next section, *Governance*.

A breakdown of actual revenues and allocated costs can be found in the *Notes to Consolidated Financial Statements* section in our Annual Report, which can be found at www.icbc.com. Information on the allocation methodology can be found in the BCUC's decisions on our submissions, which can be viewed at www.bcuc.com.

We continue to operate our business through an integrated business model. There have not been any significant shifts or changes in our business areas, program delivery or internal operating environment from the previous year.

Governance

ICBC's governance is defined through legislation applicable to all Crown corporations and legislation specific to the company itself. ICBC's corporate governance is further defined by the Shareholder's Letter of Expectations between the minister responsible for ICBC as a representative of the Government of British Columbia, and the chair of ICBC's Board of Directors as a representative of ICBC. The Honourable Kash Heed, Minister of Public Safety and Solicitor General, is the minister responsible for ICBC.

Legislative Framework

As a Crown corporation, ICBC is subject to the *Budget Transparency and Accountability Act (BTAA)*, the *Financial Information Act*, the *Financial Administration Act*, and the *Freedom of Information and Protection of Privacy Act*. Under these provincial laws, we are accountable for making public our strategic plan (i.e., Service Plan) and performance against the plan (i.e., Annual Report). In addition, we are required to provide financial and other information in accordance with the requirements of applicable legislation. In terms of providing Basic and Optional insurance and non-insurance services on behalf of government, ICBC must adhere to a number of acts, including:

- *Insurance (Vehicle) Act*
- *Insurance Corporation Act*
- *Motor Vehicle Act*
- *Commercial Transport Act*
- *Motor Vehicle (All Terrain) Act*
- *Sales Tax Act (of BC)*
- *Offence Act*

ICBC as a Regulated Crown Entity

The BCUC, as the independent regulator for ICBC, approves Basic insurance rates and ensures that our provision of service for our Basic product is adequate, efficient, and reasonable. As we are the sole provider of Basic insurance, this regulatory environment is important for BC, providing customers with an independent and transparent review of our Basic insurance operations and an opportunity to be heard and involved in the review.

The BCUC's initial phase of regulation included financial allocation between Basic and Optional insurance lines of business, revenue requirements for Basic insurance, and Basic rate design. These elements have now been reviewed. We continue to work with the BCUC to achieve effective and efficient regulation that contributes to an open and transparent regulatory process for the setting of Basic insurance rates and meeting the expectations of our customers. More information on BCUC is available on its website: www.bcuc.com. ICBC's current regulatory proceedings can be found on www.icbc.com under *About ICBC*.

Shareholder's Letter of Expectations

The Shareholder's Letter of Expectations between the Government of British Columbia and the Corporation is an agreement on their respective roles and responsibilities, and on the corporate mandate including high-level strategic priorities, public policy issues, and performance expectations. It is reviewed and updated annually. For specific information, please refer to the section on *Alignment with Shareholder's Letter of Expectations* in this Service Plan.

ICBC Board Governance

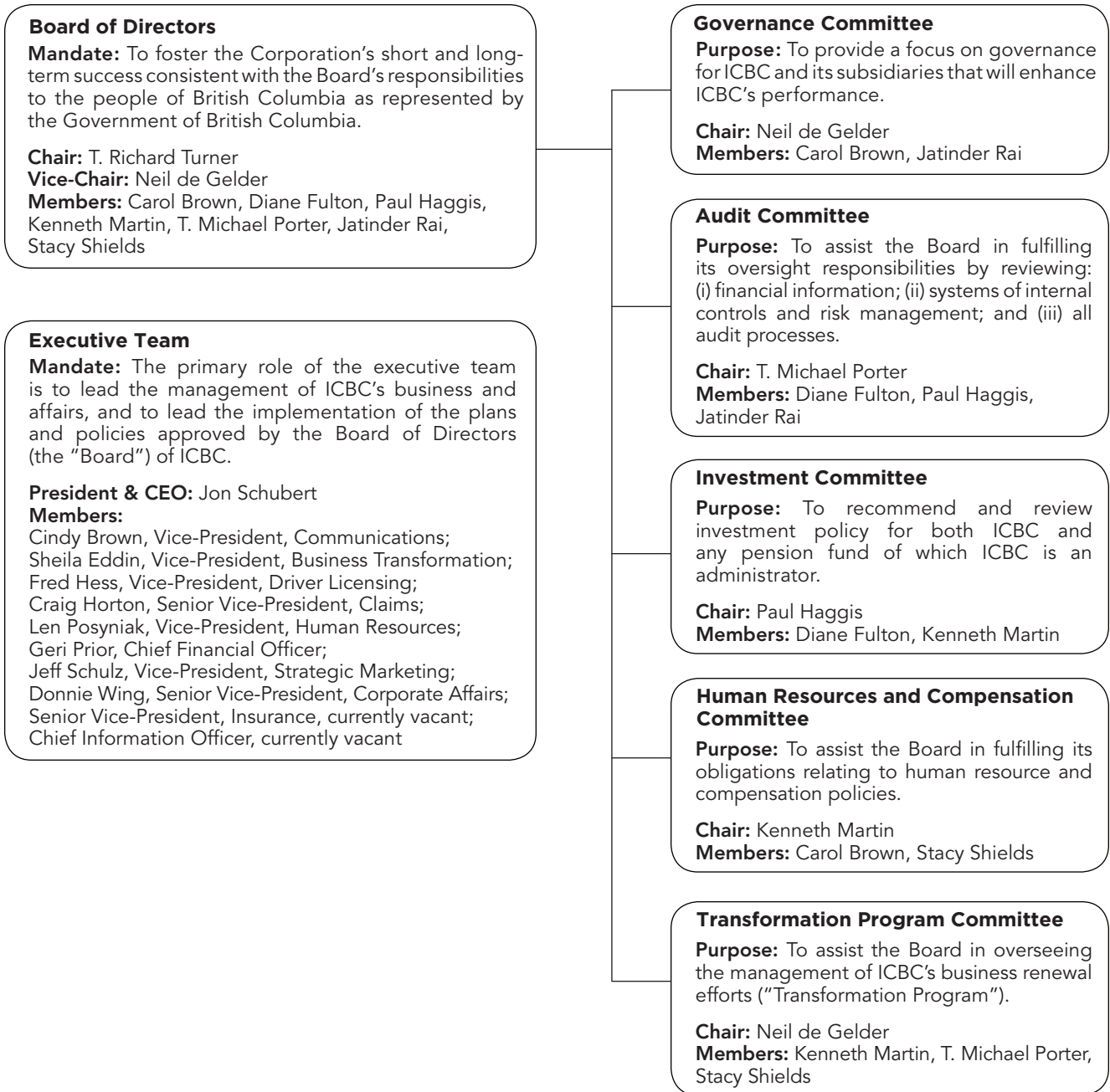
The Board of Directors guides ICBC in fulfilling its mandate and sets our corporate direction. The Board and management approve our vision, mission, and values that guide us. The Board sets goals for our performance and these goals and associated objectives are the basis upon which accountability and performance are evaluated. Performance against these goals and objectives is reviewed and reported regularly.

The governance processes and guidelines outlining how the Board will carry out its duties of stewardship and accountability are set out in the *Board Governance Manual*, which is

updated annually by the Board's Governance Committee. ICBC's Board complies with the *Board Resourcing and Development Office Guidelines* and has adopted the guiding principles included in the provincial government's *Governance Framework for Crown Corporations: Best Practices Governance and Disclosure Guidelines* (www.lcs.gov.bc.ca/brdo/governance/corporateguidelines.pdf). For more detail on these governance principles, please refer to the Annual Report.

Further information on Board policies and members is available on our website, www.icbc.com under *About ICBC*.

Board Governance Structure



Strategic Context

Industry and Competitive Context

The insurance industry is affected by external factors, risks, and regulatory trends which impact profitability and rate stability. The following section provides an overview of recent events that may pose risks to the insurance industry and consumers.

Profitability of Canadian Property and Casualty Insurance Industry

The Canadian property and casualty (P&C) market experienced a year of instability in 2008. Net income for P&C insurers decreased by 60.2% over 2007 to \$1.7 billion.² Return on equity for the industry significantly decreased to 5.75% in 2008 compared to 14.75% in 2007.³

During 2008, the industry experienced a significant deterioration in most regions and lines. In particular, the automobile line has experienced an increase in loss ratios due to the rise in claims costs. These results were especially evident in Ontario and Alberta, the two largest insurance markets in Canada.

The credit crisis created significant instability in the financial markets, eroding the capital levels that have been built up by insurers. Deteriorating performance was further exacerbated by low investment yields, which decreased investment income and created a stronger reliance on underwriting income.

2009 continued to be a challenging year for the industry due to increasing claims costs and the continuing impacts of an unstable global economy. In the third quarter of 2009, net premiums written were \$19.1 billion, up from \$18.2 billion in the same period in 2008. However, net income for Canadian P&C insurers was \$1.42 billion as of the end of the third quarter, down from \$2.15 billion from the same period in 2008. Net investment income was \$1.66 billion in the third quarter of 2009 compared to \$1.7 billion for the same period in 2008. Third quarter results show that the industry is still coping with declining industry performance, largely due to the increasing losses experienced in the automobile lines.⁴

Despite the volatility in financial markets and instability in the Canadian P&C market, ICBC's position is sound and we continue to fare well relative to the industry. We continue to have a conservative investment philosophy and are managing our insurance operations prudently, which is allowing us to continue working to keep rates low and stable over the long term for our customers.

Automobile Insurance

Automobile insurance is the largest class of insurance in the Canadian P&C industry, accounting for approximately 50% of direct premiums written within the industry.⁵ The automobile insurance product offered in each province differs. Where BC is a tort system, some other provinces in Canada have an automobile insurance product that is based on some variant of no-fault or mixed no-fault and tort systems. No-fault systems are characterized by compensation that is based on predetermined benefit schedules regardless of who is at fault and there may be little or no ability to sue for further damages.

The auto insurance line in Canada has been negatively affected by increased loss ratios, especially for personal accident benefits, which have deteriorated to 115.2%⁶ in 2008 compared to 94.4%⁷ in 2007. The auto insurance market continued to show instability and deterioration through 2008 and early 2009. As of the end of the third quarter of 2009, the personal accident loss ratio for the industry was 120.5%, up from 98.8% for the same period in 2008.⁸

Ontario is the largest auto insurance market in Canada, and is based on a threshold no-fault system. It continued to face instability in 2008 and through to 2009 as insurers continued to experience weak results in their accident benefits loss ratios due to increases in severities over the past three years.⁹ Approved rate increases that have been filed by insurers may be insufficient to offset the escalating claims costs.¹⁰ To help stabilize rates and ensure affordability, the Ontario government announced a package of automobile insurance reforms that focus on protecting consumers, increasing consumer choice, streamlining the auto insurance

² MSA/Baron Outlook Report Q4 2008, p.5

³ MSA/Baron Outlook Report Q4 2008, p.5

⁴ www.canadianunderwriter.ca, November 23, 2009

⁵ MSA Benchmark Report 2009

⁶ MSA/Baron Outlook Report Q4 2008, p.6

⁷ MSA/Baron Outlook Report Q4 2007, p.7

⁸ www.canadianunderwriter.ca, November 23, 2009

⁹ MSA/Baron Outlook Report Q1 2009, p.5

¹⁰ MSA/Baron Outlook Report Q2 2008, p.3

system and reducing transaction costs.¹¹ The reforms are based on the recommendations by the Financial Services Commission of Ontario (FSCO), the provincial insurance regulator in Ontario, following their review of Part VI of the *Insurance Act*, which deals with auto insurance. The Ontario government intends to implement the reforms in summer 2010.

The Alberta auto insurance market, the second¹² largest auto insurance market for private insurers, had been facing significant challenges with the striking down of the cap on compensation for minor injuries in February 2008.¹³ The cap was challenged on the grounds of being unconstitutional and the ruling is retroactive to when the reform was introduced in 2004. As the court ruling was being appealed in the Alberta Court of Appeal, it caused significant uncertainty around how insurers should be pricing mandatory auto insurance.¹⁴ In June 2009,¹⁵ Alberta's Court of Appeal restored the cap, ruling unanimously that the lower court judge was in error when he ruled the cap was discriminatory. A further appeal to the Supreme Court of Canada to again strike down the cap was not heard by Canada's top court, which effectively upheld the Alberta cap on minor auto injuries. The Insurance Bureau of Canada says that the cap being upheld, "marks the end of the uncertainty we've had since the constitutional challenges began in the province."¹⁶

Auto insurance in BC is based on a full tort system where caps and thresholds do not apply; therefore, this is not expected to impact ICBC or its policyholders.

Regulatory Trends

In addition to the changes to minor injury regulation in Alberta and regulatory reform in Ontario mentioned previously, the insurance industry is also experiencing the following regulatory trends:

- The review of the *Bank Act*, which was completed in May 2007 and is not due for another review until 2011, affirmed the existing position that banks cannot market or retail insurance from their bank branches. In October 2009, the Canadian government also announced their intention to introduce legislation that would prohibit banks from selling and marketing insurance products and services through their banking websites.
- On July 23, 2009, the provincial government announced its intention to harmonize the provincial sales tax (PST) and the federal goods and services tax (GST) effective July 1, 2010. HST will be administered by the Canada Revenue Agency and follow many of the underlying concepts of the GST. Companies will need to ensure compliance and transition of systems, processes and procedures in accordance to HST requirements before July 2010.

Under the current Reciprocal Taxation Agreement (RTA) between the federal government and British Columbia, ICBC is considered to be a provincial entity for the purposes of its administration and thus entitled to purchase supplies and services relative to administration without payment of GST. When the HST comes into effect, ICBC will be subject to the provisions of the HST, but will qualify for a full refund of any HST paid.

¹¹ Government of Ontario website: <http://news.ontario.ca/mof/en/2009/11/ontarios-proposed-auto-insurance-reforms.html>

¹² Canadian Underwriter 2009 Statistical Issue (2008 Year-end Data)

¹³ MSA/Baron Outlook Report Q4 2007, p.7

¹⁴ MSA/Baron Outlook Report Q1 2008, p.7

¹⁵ www.canadianunderwriter.ca, June 12, 2009

¹⁶ www.canadianunderwriter.ca, December 17, 2009

Key Strategic Issues and Risks

Looking ahead to 2010 – 2012, we have identified a number of issues and risks that could impact our future performance.

Key Strategic Issues

Meeting Increasing Customer Expectations

Customers have increasing expectations around prices, choice, convenience, and service. In addition, they want to be able to access services in a variety of ways, including face-to-face, via telephone or the Internet. Our business processes and systems are aging and require much-needed upgrades and renewal in order to adapt to changing business and customer needs. The relationship between price and value is by far the greatest influencer of customer purchasing behaviour. Continuing to provide value to all of our customers as their expectations increase will be an ongoing challenge, particularly in the face of claims cost pressures.

Competition in the Optional Insurance Market

Based on premiums written, the BC Optional automobile insurance market has experienced strong growth over the past five years. There are about 34 private insurers,¹⁷ many of which are large multi-national insurers that sell some level of BC Optional auto insurance. Although insurers may be adversely impacted by lower investment returns and the issues in the Alberta and Ontario auto insurance markets, we expect that the Optional market will continue to be robust and competitive in BC.

High-Risk Drivers

High-risk drivers are a serious concern as they cause a disproportionate number of crashes and these crashes are very costly, which, in turn affect all of our customers' insurance premiums. There were more than 100 traffic fatalities caused by impaired driving in 2008 and more than 180 fatalities caused by other high-risk driving behaviours, such as excessive speed and failing to observe traffic signals. We are taking steps to increase personal accountability for high-risk driving through underwriting enhancements, which includes higher premiums for higher risk drivers to help keep rates low and stable for safer drivers.

Automobile-Related Crime

Insurance costs for all British Columbians are impacted by automobile-related crime. This continues to be an area of focus for us and auto theft rates have declined by 56% between 2003 and 2008. The improving trends may be attributed to the positive results of the Bait Car Program,

newer vehicles having built-in immobilizers, growing public education and awareness over the use of vehicle anti-theft technology, as well as strong partnerships with the police and community stakeholders on automobile-related crime prevention.

Evolving Business Environment

In an evolving business environment, it is important for us to continue innovating to better serve customers through examining and reinvesting in our people, business processes, and technology. Some of the challenges we face include an aging workforce and legacy information technology (IT) systems that are not easily adaptable.

Economic Environment

Following the recent global economic downturn, the current economy still presents a challenging environment where growth and recovery is slow, and uncertainty still exists. We will continue to prudently manage our investment portfolio and assess interest rate, concentration, and credit risks while continuing to keep tight controls over operational expenditures.

Key Strategic Risks

ICBC's Corporate Risk Management Framework is approved by the Board of Directors and defines the approach used to assess and manage corporate risk. Consistent with good governance practices and insurance sector practices, ICBC manages risk from an organization-wide perspective.

The Corporate Risk Framework considers both external and internal environments and the risks and challenges associated with each. The framework is used by ICBC executives and Board of Directors to discuss and monitor strategic risks and mitigation strategies. Through monitoring and review of the external environment and our corporate strategy, the strategic risks will evolve over time. New risks may emerge, and identified risks may be reduced or eliminated through mitigation strategies or changes in the risk profile.

The key strategic risks and mitigation strategies identified on the following pages are considered and incorporated into our corporate strategy, as outlined in this Service Plan, and into detailed operational plans.

¹⁷ Canadian Underwriter 2009 Statistical Issue (2008 Year-end Data)

Description of Risks:	Mitigation Strategies:
Objective: Improve Customer Perception	
<ul style="list-style-type: none"> Reputation The risk that ICBC’s reputation, or trust in ICBC, is negatively impacted due to perceived or real breaches in its ability, or the ability of third parties with which ICBC is associated, to conduct business securely, ethically and responsibly, and be customer-focused. 	<ul style="list-style-type: none"> A key focus of our strategy is to become more customer-focused. ICBC policies, processes, and systems have stringent security requirements, as do any agreements we enter into with third parties. ICBC’s risk management framework explicitly considers the impact on ICBC’s reputation associated with business practices and decisions. We have ongoing brand-related work and proactive communications aimed to build customer trust and confidence in ICBC.
<ul style="list-style-type: none"> Business Partner and Stakeholder Management The risk that business partners/stakeholders who influence customers do not support the current business model and strategy. 	<ul style="list-style-type: none"> We will seek input from stakeholders so that changes to enhance customers’ experience and perception of price/value are supported by partners and stakeholders.
<ul style="list-style-type: none"> Privacy The risk that customers’ and employees’ trust in ICBC will be diminished due to breaches by ICBC or business partners inadequately safeguarding their personal information. 	<ul style="list-style-type: none"> ICBC has data security measures in place, including Information Systems Security Policies governing the access and use of corporate data. Direct access to ICBC databases by specified third-party businesses is managed through access controls and formal information-sharing agreements. ICBC’s Code of Ethics reflects its focus on protecting access to information. The company continues to undertake significant awareness campaigns internally and with our business partners on the importance of understanding our obligation to ensure privacy of customers’ personal information. The 2009 audit by BC’s Office of the Information and Privacy Commissioner recommended that ICBC provide training that is more specific for claims adjusters and better communication and awareness of ICBC’s privacy policies for external defence counsel. Those and the other recommendations contained in the report will all be implemented in 2010. A Privacy Incident Protocol is in place to ensure any incidents/breaches are effectively handled.
Objective: Improve Employee Experience	
<ul style="list-style-type: none"> Workforce Planning The risk that ICBC cannot deliver its core business or change initiatives due to alignment, capability, capacity and readiness of its leaders and employees. 	<ul style="list-style-type: none"> Our business renewal efforts will improve our business processes in order to continue to meet customers’ needs. We will continue to focus on recruitment, compensation, training, and leadership development to attract, develop, and retain talent for the future. We will continue to refine our performance management program so that each of our employees is aligned to the successful achievement of our objectives.
Objective: Maintain Financial Stability	
<ul style="list-style-type: none"> Bodily Injury Claims Costs The risk that insurance rates increase due to bodily injury claims cost increases arising from internal or external factors: <ul style="list-style-type: none"> Internal factors: claims handling. External factors: increased claims fraud, severity, frequency and/or litigation. 	<ul style="list-style-type: none"> Strategies to address crashes and claims costs are a priority for ICBC and include improvements to claims-handling processes, public awareness campaigns on high-risk driving, and other road safety activities. ICBC completed a comprehensive review of its claims handling practices to identify “points of pain” for our customers and opportunities for improvement. In response, we will renew our aging systems and update our processes in order to be more customer-focused and provide better tools for our employees.

Description of Risks:	Mitigation Strategies:
<ul style="list-style-type: none"> • Financial Markets The risk that market value of investments and/or investment income is lower due to adverse changes in equity prices, interest rates, credit, liquidity or currency. 	<ul style="list-style-type: none"> • ICBC's investment policy addresses ICBC's risk tolerance and investment goals, and specifies a long-term investment asset mix and fixed income duration consistent with these objectives. In 2009, together with the Investment Committee of the Board, ICBC reviewed its investment beliefs and updated its investment policy. The policy is based on prudence and regulatory requirements, and provides guidelines for balancing the levels of risk and return in ICBC's investment portfolio. • ICBC follows a long-term strategy and diversifies its investment holdings to manage investment return fluctuations. • ICBC has implemented a corporate credit policy to manage credit risk from an enterprise-wide perspective.
Other Significant Corporate Risks	
<ul style="list-style-type: none"> • Business Renewal The risk that ICBC does not fully realize the intended benefits of the Transformation Program underway due to ineffective program governance. 	<ul style="list-style-type: none"> • ICBC has developed a comprehensive governance model to provide oversight to the Transformation Program. The model includes establishing a Transformation Program Committee of the Board of Directors, appointing a third-party independent risk advisor to the Board, and internal reviews to monitor that the program continues to meet its stated objectives.
<ul style="list-style-type: none"> • Technological Readiness The risk that ICBC cannot fulfill its business change objectives due to prerequisite technology investments not being implemented and made available. 	<ul style="list-style-type: none"> • We are developing long-term technology requirements to meet our strategic direction. • We are developing strategies and roadmaps for technology investments to meet future business needs. • We will use proven methods and tools to achieve intended benefits within the expected timeframe (e.g., principle of buying rather than custom-building solutions to speed deployments with 'out of the box' functionality).
<ul style="list-style-type: none"> • Access to Systems The risk that system-dependent operations could be intentionally or accidentally compromised due to: <ul style="list-style-type: none"> • unauthorized access to ICBC's systems/data obtained; and/or • legitimate access to information systems/data used inappropriately. 	<ul style="list-style-type: none"> • An enterprise-wide Information Security Program is in place. • We will continue communication of the Code of Ethics throughout the organization, reflecting a focus on appropriate access to information and systems. • Increased security awareness for all employees will continue, including a mandatory Information Privacy and Security tutorial in 2010.
<ul style="list-style-type: none"> • Business Interruption The risk that operations cannot be maintained or essential products and services cannot be provided due to business interruption arising from physical and/or technical events. 	<ul style="list-style-type: none"> • ICBC's business interruption risk is managed through three related programs: Emergency Response Program (safe building evacuations, search and rescue, etc.), Business Continuity planning (continued essential customer services during interruption) and IT Disaster Recovery planning (ICBC's Data Centre). • ICBC conducts an annual test of the IT Disaster Recovery Program and implements improvements to ensure a successful recovery program. • ICBC has entered into an agreement with other BC government entities and Crown corporations to purchase data center services from a third party. The shared data centre solution will provide a secure and stable environment for ICBC's Information Systems and contribute to keeping costs down, which helps ICBC to keep insurance rates low and stable. ICBC will continue to own and maintain its own equipment in the new facility, which is expected to be available for occupancy in April 2011.
<ul style="list-style-type: none"> • Catastrophic Loss The risk that ICBC's capital strength is eroded in the event of a major disaster. 	<ul style="list-style-type: none"> • In the event of losses resulting from catastrophes such as an earthquake, ICBC has financial protection through a reinsurance program that is reviewed and renewed annually. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits. • In addition to protection against individual catastrophic events, the reinsurance program protects ICBC against abnormally large losses by limiting the amount for which it is liable in any single event and in any given year.

Corporate Strategy

ICBC's current corporate strategy was established in 2006 by the Board of Directors and continues to be endorsed as the long-term strategy to guide the company.

To better focus the organization, we have simplified the wording of our corporate strategy. Previously, our corporate strategy included four goals, five strategies, and fourteen objectives, as stated in our last Service Plan (September 2009 Update). In the new and current wording, we have maintained the existing vision and mission statements, but have consolidated the goals and objectives into a single goal and three objectives, and three corresponding strategies (see table below).

ICBC's corporate vision is to be BC's preferred auto insurer, providing protection and peace of mind. This means that ICBC exists to serve its customers. Our corporate goal, therefore, is focused on our customers. The previous Customer Focus goal is now restated as the *Improve Customer Perception* objective. We will focus on earning the trust of our customers by offering products and services that are good value while still managing our business in a cost-efficient way. The previous High Performing, Engaged and Capable People goal is now restated as the *Improve Employee Experience* objective. To improve the experience of our customers, we must also focus more on improving the experience of our employees. Without their hard work and dedication, we will not be able to successfully achieve our vision. The previous Financial Responsibility goal is

now restated as the *Maintain Financial Stability* objective. Maintaining financial stability is the backbone of any financial institution. With the hard work of the past years, we are in a strong position today. The previous Operational Excellence goal has been removed as a specific goal or objective as it is considered an enabler that is required to achieve our three restated objectives.

The basic design of many of our processes and systems were developed in the 1970s, and while ICBC has done much to make improvements and enhancements over the past 35 years, our ability to adapt existing processes and systems to evolving business challenges is coming to an end. Achieving our corporate vision and goal will require investment in our business processes and systems over the coming years. As we are faced with new risks and opportunities, which are ever-present in our environment, we will be diligent in allocating finite resources and implementing our corporate strategy.

We established three key strategies under the three objectives. The strategies represent core areas of focus for the work that is underway to achieve our corporate goal and objectives over the next three years. Therefore, it is important to understand these strategies in the context of our overall vision, mission, goal and objectives. For the purposes of the Service Plan, we have focused the discussion on the goal, objectives, and strategies level.

Goal	
We must improve our customers' experiences and perceptions of us. We will do this by listening to, better meeting the needs of, and trusting our customers while maintaining low and stable auto insurance rates. To be successful, all of us must be empowered, engaged, and accountable for the actions we take to achieve this goal.	
Objective	Strategies
<ul style="list-style-type: none"> Improve Customer Perception 	<ul style="list-style-type: none"> Understand our customers and exceed their expectations
<ul style="list-style-type: none"> Improve Employee Experience 	<ul style="list-style-type: none"> Engaged, inspired, and confident leaders and employees
<ul style="list-style-type: none"> Maintain Financial Stability 	<ul style="list-style-type: none"> Streamlined, efficient, and cost-effective systems and processes

Performance Management Systems

ICBC has a unique business model relative to other insurers in the P&C industry. Our business model is to set premiums to achieve and maintain our capital target rather than to maximize our return on capital. We operate exclusively within British Columbia under a full tort environment wherein the cost of settling a claim may be higher than in other jurisdictions that do not operate in the same system. We are mandated to provide automobile insurance to all drivers in BC, including high-risk drivers. We provide auto insurance rates that are not based on age, gender or marital status. ICBC also provides a wide range of non-insurance services such as driver licensing, vehicle licensing and registration, and fine collection on behalf of the provincial government. Due to our unique business model, we do not set our performance targets based on industry benchmarks.

However, we do use a “balanced scorecard” approach which embodies our corporate strategy. By using a balanced scorecard framework, we establish our strategic goals and related objectives, and our corporate performance measures are aligned with these goals and objectives. Our strategic plan and report on performance against our plan are reported externally through the Service Plan and Annual Report.

Our financial performance measures are derived from actual financial information and forecasted trends and assumptions. Key corporate performance metrics such as the combined ratio, loss ratio and expense ratio are benchmarked to P&C industry benchmarks and reported in the Annual Report. Non-financial performance measures are generated by external sources. Independent firms are retained to conduct ongoing surveys of customers for the purpose of monitoring satisfaction and an annual survey for the purpose of monitoring employee engagement.

Our divisional plans are also aligned with the corporate strategy and, where applicable, corporate performance measures are cascaded down to the respective divisions. Other benchmarking studies focusing on specific areas of operation are undertaken to support improvement in management practices internally.

Divisional performance measures and targets are established annually and divisional performance measures are

included in individual performance plans, as appropriate. We hold a quarterly corporate performance update with executive and senior management, which includes an update on key financial results and performance measures and a review of the projected year-end results. Divisions also report on their performance results and highlight business issues as part of this quarterly update.

ICBC maintains and relies on risk management practices that encompass management, system and financial controls designed to provide reasonable assurance that tangible and intangible assets are safeguarded and transactions are properly authorized and recorded. The controls include written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic risk-based audits by the internal auditors who independently review and evaluate these controls. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Policies that require employees to maintain the highest ethical standards have also been instituted and processes to reinforce our ethical standards are being developed.

ICBC recognizes the inherent limitations in all risk management frameworks and believes the current framework provides an appropriate balance between costs and desired benefits. We believe that the systems of management controls provide reasonable assurance that the strategic business risks have been appropriately addressed. The quarterly review by management and the Board of Directors of these strategic business risks provides a regular review process to ensure mitigation strategies are in place to reduce these risks to acceptable levels.

The Audit Committee, composed of members of the Board of Directors, oversees management’s risk management processes and discharge of financial reporting responsibilities. The committee meets no less than quarterly with management, our internal auditors, and representatives of our external auditors, to discuss auditing, financial reporting, and internal control matters. All financial statements are externally audited by our independent auditors in accordance with Canadian Generally Accepted Auditing Standards.

Improve Customer Perception

We will focus on improving customers’ perception of ICBC by better understanding our customers and exceeding their expectations. In order to improve customers’ perception of us, we will continue to maintain the high levels of customer satisfaction that we have achieved in the past, work on improving our customers’ experiences, and continue to build trust with our customers.

Value is created through a combination of the services we provide, the benefits a customer receives, and service experience we deliver for our customers. We will use each critical customer touch point to improve our customers’ perception of ICBC.

Insurance prices and the value of the insurance protection are important factors to customers. Our priority, therefore, is to improve their perception of price/value and the customer relationship, and we will work in partnership with brokers to achieve this. Customers’ perception of price/value will be further enhanced through our improvements in our underwriting and pricing by continuing to move in the direction of driver-based pricing where premium rates are more reflective of driver risk. Driver-based pricing also supports the concept of increased driver accountability, where drivers can have a greater influence on their premiums by their driving behaviour on the road.

We will also focus on improving the customer experience across key touch points, particularly the claims experience. These changes will be supported by enhancing the capabilities of our employees and implementing customer-focused business systems and processes and renewing the aging technology infrastructure that supports provision of our services, to ensure we can continue to provide quality service to our customers. We will also extend our contact channels to make it easier for our customers to access and do business with us.

Part of being customer focused includes helping our customers better deal with the issues of safety and the environment. ICBC is committed to improving driver well-being in BC. We will be continuing the *Drive Smart Save Green* campaign, which educates drivers on how they can save money by reducing fuel costs and contribute to reducing carbon emissions by changing how they drive.

Additionally, we will reinforce our brand promise through our marketing and media programs and community involvement. These activities include partnering with law enforcement and other stakeholders on awareness campaigns around road safety issues, community volunteer programs such as *SpeedWatch* and *Lock Out AutoCrime*, working with local municipalities on road improvement projects, and other community partnership programs.

Summary Performance Measures

Strategy	Performance Measures	2008 Actual	2009 Outlook	2010 Target	2011 Target	2012 Target
Understand our customers and exceed their expectations	Insurance Services Satisfaction	93%	96%	93%	93%	93%
	Driver Licensing Satisfaction	93%	93%	92%	92%	92%
	Claims Services Satisfaction	85%	88%	85%	85%	85%

Performance Measures

Measuring customer service performance at ICBC is based on the percentage of satisfied customers. A separate measure is used for each major transaction type — insurance product purchase, driver licensing, and claims. The design of ICBC's measures and targets reflects the inherent differences of these key transactions.

An independent research firm is retained to conduct ongoing surveys of customers for the purpose of monitoring transactional satisfaction.

Insurance Services Satisfaction

Independent insurance brokers process over three million policies each year. The insurance services satisfaction measure represents the percentage of customers satisfied with a recent insurance purchase transaction and is based on surveys of approximately 4,000 customers over the course of a year. This measure is typically over 90% and indicates the positive relationship ICBC and its brokers enjoy with customers.

The 2009 outlook is expected to be 96%, which is better than 2008 actual results.

In the 2010 – 2012 period, we have set our target at 93% in order to reflect the level of customer satisfaction we plan to maintain while preparing for customer-facing changes. As we proceed with the implementation of rate design initiatives, we expect more time will be needed by brokers to discuss these changes with our customers at the point of sale. This may have a negative impact on customer satisfaction levels during the transition period. The current target reflects historical satisfaction levels until the implementation schedules are determined.

Driver Licensing Satisfaction

Each year, ICBC conducts over 1.5 million transactions relating to the issuance of driver licences and driver exams. The

driver licensing satisfaction measure is used to determine the percentage of customers satisfied with their transaction with ICBC, which includes 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 4,000 customers surveyed throughout the year.

The 2009 outlook for ICBC's customer satisfaction for driver licensing is 93%, which is consistent with 2008 actual results.

For 2010 – 2012, the target has been set at 92%. ICBC anticipates that driver licensing satisfaction will remain consistent with historical norms.

Claims Services Satisfaction

Almost one million claims are processed each year through ICBC's call centre and claim centres throughout the province. The claims services satisfaction measure represents the percentage of customers satisfied with a recent ICBC claims transaction and is drawn from a sample of customers surveyed throughout the year.

2009 has been a period of transition for claims services satisfaction. The company has made changes to the survey framework in order to assess customer satisfaction across a number of customer contact points with the call centre and claim centres. This has resulted in a change in the mix of claims in the survey. In addition, ICBC is now surveying more than 28,000 customers so as to measure satisfaction at the individual claims adjuster level.

The 2009 outlook of 88% is well above the 2008 actual results. For 2010 – 2012, ICBC expects that customer satisfaction will be negatively impacted by the renewal of our aging technology and changes to our business processes. The target of 85% for claims services satisfaction has been set to reflect historical norms.

Improve Employee Experience

ICBC’s corporate strategy includes renewal of the company’s major business systems and processes. Bringing new systems and processes to life and achieving our vision of being BC’s preferred auto insurer will depend on our people being engaged, inspired, and confident in themselves, their roles, and the company.

The company will implement new roles and skills, new processes and tools, and new organization design and working environments. We will focus on developing workforce capability, capacity, and implementation readiness to realize the benefits of the new, customer-focused systems and processes. Furthermore, we will align performance management, the corporate competency framework, and learning and development programs with the increased focus on improving customer perception and renewing our business. We will also continue to establish policies and programs that promote diversity and sustainability, with a focus on being representative of the communities and customers ICBC serves. These changes in aggregate will provide improved employee engagement that supports the corporate strategy.

We will further improve the employee experience through:

- Improved change management to support employees through process and system changes;
- Employee recognition to reinforce the behaviours required to achieve the corporate strategy;
- Increased communication of our corporate strategy and plans to managers and their teams;
- Expanded employee and manager involvement in our business renewal efforts;
- Significant investment in employee development related to the corporate strategy; and
- A performance management program for all employees that will help build and maintain a high performance culture and ensure activities support our strategy of developing engaged, inspired, and confident leaders and employees.

Summary Performance Measures

Strategy	Performance Measures	2008 Actual	2009 Outlook	2010 Target	2011 Target	2012 Target
Engaged, inspired, and confident leaders and employees	Employee Engagement	44%	49%	51%	N/A*	N/A*

* Employee engagement is an annual measure. Targets are not set beyond the current year.

Performance Measures

Employee Engagement

Engagement is defined as an employee's commitment to:

- Say – Tell others great things about the company.
- Stay – Remain an employee of the company and recommend employment to others.
- Strive – Proactively seek to do a better job every day to improve the company's business success.

ICBC's objective of improving employee experience is measured on an annual basis using a third-party-supplied Employee Engagement Survey, using six core questions to calculate engagement. The engagement score is the percentage of respondents whose average score on those questions is 4.5 or greater, on a scale of 1 to 6. Employee engagement is reviewed in context with a number of other internal indicators around performance, recruitment, and retention. The company's approach has been to establish an annual engagement target and focus on incremental

improvements each year. As a result, the target for this measure is set annually with a focus on internal drivers of engagement rather than benchmark targets against other organizations.

The Employee Engagement Survey was sent to each of the approximately 5,000 ICBC employees in the fall of 2009. The participation rate was 80%, an improvement of five percentage points from 2008. The 2009 result, at 49%, exceeded both the 2009 target of 48% and the 2008 actual of 44%.

The target for 2010 has been established at 51%, representing a two percentage point increase over the 2009 result. In keeping with the company's long-term corporate strategy, ICBC strives to improve the employee experience by cultivating a workforce of engaged, inspired and confident leaders and employees.

Maintain Financial Stability

Our strong financial performance over the last several years has allowed us to provide greater value to our customers by keeping rates low and stable. There was no increase in Basic insurance rates in 2008 and 2009. Optional insurance rates were, on average, reduced by three per cent in 2008 and an additional three per cent, on average, in October 2009.

To maintain financial stability we will continue to have a conservative investment philosophy and we will manage operating costs prudently, which will be critical in keeping rates low and stable for our customers.

This financial strength also allows us to make overdue investment in renewal of processes and systems. This renewal will support our objective of improving customer perception

while also increasing the efficiency and effectiveness of our business.

The most significant cost pressure to our business is the cost of bodily injury claims. Bodily injury costs continue to be a major challenge for the insurance industry as a whole, particularly due to the increase in severity trends over the past few years. Over 2009, ICBC has seen positive trends in the number and total cost of injury claims. It will be critical for us to maintain this strategy of reducing the growth of bodily injury claims costs through our multi-pronged efforts, which include streamlined claims handling and cost controls, road safety enhancements, and underwriting changes that provide incentives to drivers for improving their driving behaviour, resulting in fewer crashes.

Summary Performance Measures

Strategy	Performance Measures	2008 Actual	2009 Outlook	2010 Target	2011 Target	2012 Target
Streamlined, efficient and cost-effective systems and processes	Minimum Capital Test*	209%	241%	TBD	TBD	TBD
	Combined Ratio	95.9%	100.8%	106.7%	108.6%	110.2%
	Loss Ratio	77.6%	81.4%	85.1%	87.0%	88.1%
	Insurance Expense Ratio	15.9%	16.4%	18.4%	18.3%	18.7%
	Non-insurance Expense Ratio	<u>2.9%</u>	<u>2.9%</u>	<u>2.9%</u>	<u>3.0%</u>	<u>3.0%</u>
	Expense Ratio (excluding DPAC)	18.8%	19.3%	21.3%	21.3%	21.7%
	Investment Return (Market Return)**	Benchmark + 0.53%	Benchmark + 0.271%	Benchmark + 0.275%	Benchmark + 0.279%	Benchmark + 0.282%

* Minimum Capital Test (MCT) is based on the Guidelines for MCT for Federally Regulated Property and Casualty Insurance Companies, No: A, dated March 2008 issued by the Office of the Superintendent of Financial Institutions Canada. Pending legislative and regulatory changes, ICBC will transfer Optional capital in excess of the MCT determined by its actuaries in accordance with federal regulatory guidance, and validated by ICBC's independent actuary, less any approved deductions by the Treasury Board, to the Government of British Columbia. This new framework will be in effect as of April 1, 2010. As a result, the 2010 – 2012 targets for both Optional and Total Company MCT will be determined after the framework is in place.

** The ICBC target investment market return is a value add objective in excess of the policy benchmark return. In July 2009, an investment policy change was made which impacted the strategic asset mix and the portfolio's long-run value add objective. As a result, the 2009 outlook was increased to benchmark + 0.271%. For 2010 – 2012, the value add objective will continue to increase until it reaches benchmark + 0.284% in 2013. The value add target is based on a four-year annualized return and will therefore be transitioned into the value add objective over the next four years.

Performance Measures

Minimum Capital Test (MCT)

MCT is an industry measure set by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurance companies across Canada. The MCT is used to determine whether a company has sufficient capital levels to protect policyholders from financial risk and provide long-term financial stability.

As a result of the economic turmoil in 2008, the property and casualty insurance industry has been evaluating the appropriateness of its capital levels. ICBC has also reassessed its capital position and the appropriateness of its management targets for MCT. The current 2009 MCT outlook is forecast at 241%.

Pending legislative and regulatory changes, ICBC will transfer Optional capital in excess of the MCT determined by its actuaries in accordance with federal regulatory guidance, and validated by ICBC's independent actuary, less any approved deductions by the Treasury Board, to the Government of British Columbia. This new framework will be in effect as of April 1, 2010. As a result, the 2010 – 2012 targets for both Optional and Total Company MCT will be determined after the framework is in place.

Combined Ratio

The combined ratio is a key measure of overall profitability within the insurance industry. This measure is calculated as the ratio of all costs (claims costs, claims-related costs, administrative costs, acquisition costs and non-insurance costs) to all insurance premium dollars earned. A ratio below 100% indicates an underwriting profit while a ratio above 100% indicates an underwriting loss. ICBC's combined ratio is slightly higher than the industry average. This is partially due to ICBC's mandate to deliver non-insurance services on behalf of government and these costs are reflected in the combined ratio. Also, ICBC uses its investment income to reduce premiums for its customers. As a result of lower premiums, our combined ratio is higher.

The 2009 outlook for the combined ratio is 100.8%. Current year claims costs reflect favourable frequency trends in bodily injury and collision claims, due to good driving conditions and general economy. Prior years' claims costs have been negatively affected by an unfavourable discounting adjustment due to slightly lower interest rates.

Due to the economic downturn, the increase in premium dollars earned is moderate in 2009, resulting in an overall decrease in average premium per policy. Premiums earned also reflect the flow-through of rate adjustments. Basic rates were not changed in 2008 and 2009, and Optional rates decreased by three per cent on average each year. Claims costs are expected to revert back to historical trends and operating costs will be higher due to our investment in

business renewal and replacement of aging technology. For these reasons, the expected increase in costs is outpacing the expected increase in premiums, resulting in higher combined ratio targets for the 2010 – 2012 period.

Loss Ratio

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

ICBC's loss ratio is typically higher than the P&C industry. Unlike private insurers, ICBC premiums are set only to recover costs and to achieve and maintain our capital targets. ICBC uses its investment income to offset rates for its customers, thereby allowing rates to be lower than they would be if ICBC had to generate an underwriting profit as many private insurers do. With lower premiums, a greater percentage of our premium dollars earned goes toward the payment of claims benefits to our customers, thus resulting in a higher loss ratio. ICBC is also mandated to provide Basic insurance to all drivers, including the high-risk ones whose claims costs are proportionally higher. With higher claims costs, ICBC's loss ratio will be higher.

The 2009 outlook of 81.4% is higher than the 2008 actual of 77.6% primarily due to higher claims and claims-related costs. Current year claims costs reflect favourable frequency and severity trends while prior years' claims costs have been adjusted to account for the unfavourable discounting adjustment due to lower interest rates.

The 2010 – 2012 loss ratio targets reflect longer term claims costs trends and expected increases in supplier costs. In addition, the loss ratio includes an increase related to investments in our aging customer service systems.

Expense Ratio

The expense ratio is a standard industry measure for assessing the percentage of each premium dollar that goes to an insurer's expenses. This measure is calculated as the ratio of non-claims costs to total insurance premium dollars earned. It includes operating costs that are not directly related to servicing claims such as general administration, commissions paid to brokers, taxes paid on premiums written, product design (underwriting), and non-insurance costs such as those associated with driver and vehicle licensing and vehicle registration. To enable comparisons with industry benchmarks, the expense ratio excludes the impact of one-time, non-recurring items.

ICBC's expense ratio consists of two key components: The insurance expense ratio and the non-insurance expense

ratio. Segregating expenses in this manner allows ICBC to better manage the costs of operating its insurance and non-insurance businesses, and more accurately reflects the distinct nature of ICBC's operating model relative to other automobile insurers.

The overall P&C industry expense ratio for 2008 was approximately 29.7%.¹⁸ For insurers who predominantly write auto insurance, the ratio was about 28.3%.¹⁹ ICBC's expense ratio is lower than the industry average due to its ability to achieve economies of scale, the benefits of integrated operations, and lower marketing, underwriting, acquisition and general administration costs.

The 2009 outlook expense ratio of 19.3% is higher than the 2008 actual of 18.8%. This change is mainly due to the impact of the economic downturn, which has moderated the growth in premiums earned, resulting in a higher expense ratio. It is important to note that ICBC's results are still below the industry norm and we continue to operate efficiently and manage costs effectively.

As part of its operations, ICBC incurs non-insurance expenses in providing driver licensing, vehicle licensing and registration, and government fine collection. The non-insurance expense ratio represents the ratio of the operations and administration costs of ICBC's non-insurance business to total insurance premium dollars earned. Managing these costs closely ensures ICBC remains an efficient provider of these services on behalf of government.

The 2010 – 2012 targets reflect higher insurance and non-insurance expense ratios mainly due to higher operating costs required for the reinvestment into our business through renewing our aging technology and enhancing the capabilities of our people. In addition, general inflationary increases and suppliers' increased costs also impact our overall expenses. As a result of the agreement with ICBC's broker partners, we also expect an increase in acquisition costs in the future years.

Investment Return

Investment income is typically a significant component of any insurer's overall net income and plays an important part in reducing the cost of insurance. ICBC investment assets arise from funds set aside for unpaid claims, unearned premiums, and retained earnings. At the end of 2009, ICBC's investment portfolio had a carrying value of approximately \$11 billion. The portfolio is managed in accordance with the Statement of Investment Policies and Procedures. This policy establishes guidelines for ICBC to manage the

level of risk and return in the investment portfolio. The majority of investments are held in the form of fixed income instruments or bonds, and equities are held to enhance returns and provide added diversification. The asset mix was developed with the Corporation's liability profile and cash flow needs in mind to cover future claims payments, whereas the investment income generated is used to reduce the premiums that would otherwise need to be collected from our policyholders.

Investment returns, which incorporate both change 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. As well, the return of the overall portfolio is measured against a policy benchmark, calculated as the average of individual asset class benchmark returns and weighted according to the portfolio's strategic asset mix. Asset class benchmarks and strategic asset mix are outlined in the ICBC Statement of Investment Policies and Procedures.

Given the heavy weighting in fixed income instruments or bonds, ICBC is subject to interest rate risk. An increase in the interest rate would decrease the market value of fixed income holdings. However, ICBC's claim liabilities would also decrease as a result of a higher discounting rate used.

ICBC's fixed income portfolio is subject to credit risk. Credit risk will remain heightened as the economy struggles to recover from its recent downturn. To mitigate this risk, it is ICBC's investment policy to hold government and investment grade bonds. ICBC also performs its own internal credit analysis.

Economic growth is expected to be modest in the upcoming year. The volatility in the financial markets will likely continue, particularly in the equity markets given the uncertainty around the strength of the economic recovery. The Canadian dollar, relative to the US dollar, is expected to remain strong. ICBC is vulnerable to deterioration in equity markets and to currency fluctuations. Nevertheless, these risks are not unique to ICBC and are proactively managed by the Investment Department.

The 2010 – 2012 investment portfolio performance targets are set to outperform the policy benchmark, as described in the ICBC Statement of Investment Policies and Procedures. For performance measurement purposes, ICBC does not forecast the benchmark return as it is the result of market forces beyond the company's control.

An external performance measurement service independently calculates returns at the portfolio, asset class, and investment manager levels.

¹⁸ MSA Benchmark Report, Property & Casualty, Canada 2009 (Expense Ratio for Total Canadian P&C excluding ICBC and Saskatchewan Auto Fund)

¹⁹ MSA Benchmark Report, Property & Casualty, Canada 2009 (Expense Ratio for Auto Writers excluding ICBC and Saskatchewan Auto Fund)

Strategy Summary

ICBC's current goals, objectives and targets on its high-level strategies are contained in the following table.

Objective	Strategy	Measures	Outlook	Target		
			2009	2010	2011	2012
Improve Customer Perception	<ul style="list-style-type: none"> Understand our customers and exceed their expectations 	Insurance Services Satisfaction	96%	93%	93%	93%
		Driver Licensing Satisfaction	93%	92%	92%	92%
		Claims Services Satisfaction	88%	85%	85%	85%
Improve Employee Experience	<ul style="list-style-type: none"> Engaged, inspired, and confident leaders and employees 	Employee Engagement	49%	51%	N/A*	N/A*
Maintain Financial Stability	<ul style="list-style-type: none"> Streamlined, efficient, and cost-effective systems and processes 	Minimum Capital Test	241%	TBD**	TBD**	TBD**
		Combined Ratio				
		<ul style="list-style-type: none"> Claims & Claims-related Expenses & Insurance Expenses 	97.9%	103.8%	105.6%	107.2%
		<ul style="list-style-type: none"> Non-insurance Expense 	<u>2.9%</u>	<u>2.9%</u>	<u>3.0%</u>	<u>3.0%</u>
		Total	100.8%	106.7%	108.6%	110.2%
		Loss Ratio	81.4%	85.1%	87.0%	88.1%
		Expense Ratio				
		<ul style="list-style-type: none"> Insurance Expense Ratio Non-insurance Expense Ratio 	16.4%	18.4%	18.3%	18.7%
<ul style="list-style-type: none"> Non-insurance Expense Ratio 	<u>2.9%</u>	<u>2.9%</u>	<u>3.0%</u>	<u>3.0%</u>		
Total	19.3%	21.3%	21.3%	21.7%		
Investment Return***			Benchmark + 0.271%	Benchmark + 0.275%	Benchmark + 0.279%	Benchmark + 0.282%

* Employee engagement is an annual measure. Targets are not set beyond the current year.

** Pending legislative and regulatory changes, ICBC will transfer Optional capital in excess of the MCT determined by its actuaries in accordance with federal regulatory guidance, and validated by ICBC's independent actuary, less any approved deductions by the Treasury Board, to the Government of British Columbia. This new framework will be in effect as of April 1, 2010. As a result, the 2010 – 2012 targets for both Optional and Total Company MCT will be determined after the framework is in place.

*** The ICBC target investment market return is a value add objective in excess of the policy benchmark return. In July 2009, an investment policy change was made which impacted the strategic asset mix and the portfolio's long-run value add objective. As a result, the 2009 outlook was increased to benchmark + 0.271%. For 2010 – 2012, the value add objective will continue to increase until it reaches benchmark + 0.284% in 2013. The value add target is based on a four year annualized return and will therefore be transitioned into the value add objective over the next four years.

Alignment with Shareholder's Letter of Expectations

The 2010 Shareholder's Letter of Expectations affirms ICBC's mandate to provide Basic and Optional vehicle insurance to BC motorists, provide driver licensing and vehicle licensing and registration, and administer violation tickets and provide fee and fine collection services on behalf of the Province.

In addition to outlining government's general reporting framework, public policy objectives and other general directions, the 2010 letter also provides specific direction to ICBC, including the following:

Shareholder's Letter of Expectations	ICBC Alignment
Climate Change	
<ul style="list-style-type: none"> Contribute to the B.C. Provincial Government's climate action objectives and comply with the requirement for Crown agencies to achieve carbon neutrality by 2010. 	<ul style="list-style-type: none"> ICBC has established the 2007 baseline of the company's carbon footprint and is implementing government's SMARTTOOL, a greenhouse gas measurement and reporting tool, in order to track and report the company's greenhouse gas emissions. ICBC is also working to become carbon neutral by 2010. To accomplish this goal, ICBC is undertaking a range of initiatives, including energy retrofits, switching to recycled paper, and building a LEED Gold Driver Licensing Centre. ICBC campaigns help drivers understand how good driving practices can reduce fuel costs, lower carbon emissions, and improve road safety.
Legislative Framework	
<ul style="list-style-type: none"> Comply with applicable legislation and regulations, including the Optional insurance framework under the Insurance (Vehicle) Act, and data-sharing provisions authorised by the Minister under that act. 	<ul style="list-style-type: none"> ICBC is in compliance with the Optional insurance framework and is working with the Insurance Bureau of Canada and the General Insurance Statistical Agency on data-sharing provisions.
<ul style="list-style-type: none"> Comply with direction from the BCUC in its regulation of ICBC's Basic insurance rates. 	<ul style="list-style-type: none"> ICBC continues to comply with BCUC direction on Basic insurance rates.
Service Agreement	
<ul style="list-style-type: none"> Operate within the Service Agreement between the Ministry of Public Safety and Solicitor General, on behalf of the Province, and ICBC. 	<ul style="list-style-type: none"> ICBC continues to operate within the terms and conditions of the Service Agreement and to work with the Government of British Columbia on any changes.
Insurance Rates	
<ul style="list-style-type: none"> Operate the business in an efficient and effective manner to keep rates low and stable. 	<ul style="list-style-type: none"> ICBC operates in a fiscally responsible manner to help keep rates low and stable for the benefit of customers.
<ul style="list-style-type: none"> Provide auto insurance rates are not to be based on age, gender or marital status. 	<ul style="list-style-type: none"> ICBC continues to provide auto insurance rates that are not based on age, gender or marital status.
<ul style="list-style-type: none"> Develop and implement effective strategies to manage rising bodily injury insurance costs. 	<ul style="list-style-type: none"> ICBC continues to monitor, develop and implement effective strategies to manage rising bodily injury insurance costs.
Business Processes and Systems	
<ul style="list-style-type: none"> Continue reinvesting in critical business systems in support of efficiency and effectiveness. 	<ul style="list-style-type: none"> ICBC is implementing a major reinvestment program to address end-of-life systems and ensure ongoing customer-focused services.
<ul style="list-style-type: none"> Support and invest in the redevelopment of critical road safety business systems and processes on a timeline that accommodates the mutual priorities of government and ICBC. 	<ul style="list-style-type: none"> ICBC supports investment in road safety business systems and processes on a timeline that accommodates mutual priorities.

Alignment with Shareholder's Letter of Expectations

Shareholder's Letter of Expectations	ICBC Alignment
Road Safety	
<ul style="list-style-type: none"> Deliver road safety initiatives that provide claims savings and work with the Shareholder on initiatives that can complement its road safety objectives. 	<ul style="list-style-type: none"> ICBC continues to deliver a number of road safety programs that provide claims savings and is working with the provincial government on road safety initiatives.
<ul style="list-style-type: none"> Work with government and stakeholders on public education and awareness on road safety priorities. 	<ul style="list-style-type: none"> ICBC works with government and stakeholders on road safety and supports these initiatives through public education and awareness strategies.
<ul style="list-style-type: none"> Undertake systems and business process changes to support government's road safety priorities. 	<ul style="list-style-type: none"> ICBC, in accordance with the Service Agreement, undertakes changes needed to support road safety priorities.
Governance and Administrative Framework	
<ul style="list-style-type: none"> Ensure that corporate priorities reflect government's goals. 	<ul style="list-style-type: none"> ICBC continues to align corporate priorities with government's goals.
<ul style="list-style-type: none"> Comply with the Shareholder's requirements for Crown corporations, including reporting and information-sharing, Board appointment processes, Public Sector Employers Act and related requirements, rules related to lobbyists, etc. 	<ul style="list-style-type: none"> ICBC continues to comply with the Government of British Columbia's guidelines and directions for Crown corporations.
Other Initiatives	
<ul style="list-style-type: none"> Support the Province's Healthier Choices Initiative. 	<ul style="list-style-type: none"> All vending machines in facilities owned or leased by ICBC, for which ICBC has governance of the vending machine, meet the Nutritional Guidelines for Vending Machines in Public Buildings.
<ul style="list-style-type: none"> Ensure the Shareholder is advised in advance of the release of information requests under the Freedom of Information and Protection of Privacy Act. 	<ul style="list-style-type: none"> ICBC will work with the Government of British Columbia on a process for Freedom of Information and Protection of Privacy Act requests that meets the Government of British Columbia's needs and does not delay response times.
<ul style="list-style-type: none"> Comply with the international Payment Card (PCI) Data Security Standards. 	<ul style="list-style-type: none"> ICBC will always work towards, and maintain, PCI compliance.
<ul style="list-style-type: none"> Work with government on the new regulatory framework for off-road vehicles. Increase promotion of the Enhanced Driver's Licence (EDL) Program. Work with the Shareholder on an Optional insurance dividend policy. 	<ul style="list-style-type: none"> ICBC will work with government on regulating off-road vehicles and enhancing promotion of the EDL Program. ICBC will transfer Optional capital in excess of the MCT determined by its actuaries in accordance with federal regulatory guidance, and validated by ICBC's independent actuary, less any approved deductions by the Treasury Board to the Government of British Columbia, in accordance with the new framework.

Any additional direction will be incorporated throughout the year and reported in the Annual Report.

Summary Financial Outlook

The financial forecasts take into consideration ICBC's plans to address the key strategic issues and risks facing the organization and changes in the external environment. Based on these plans, planning assumptions (see next page) are developed and are used to develop the financial forecasts below.

2008 was an exceptional year in that claims costs were unusually low. In comparison, the net income outlook for 2009, at \$563 million, reflects higher investment income offset by higher claims.

The forecast period takes into consideration higher

investment income based on current investment market conditions while claims and operating costs reflect longer term trends.

In addition, the forecast takes into account the estimated Optional capital amounts that will be transferable to the Government of British Columbia under the new framework.

Throughout 2010 – 2012, ICBC will continue to plan, develop and implement the changes needed to enhance its ability to compete while continuing to manage claims costs, control staffing levels, and support government-mandated priorities.

	2008 (Actual)	2009 (Outlook)	2010 (Forecast)	2011 (Forecast)	2012 (Forecast)
\$ Millions (note 1)					
Premiums earned	\$ 3,631	\$ 3,650	\$ 3,650	\$ 3,662	\$ 3,732
Service fees	69	59	63	63	62
Investment income	280	533	483	497	529
Total revenue	3,980	4,242	4,196	4,222	4,323
Claims incurred (including prior years' claims adjustments)	2,510	2,651	2,758	2,835	2,921
Claims services and loss management	309	320	347	349	366
Insurance operations expenses	148	169	229	228	244
Acquisition costs (including DPAC adjustment)	412	435	452	454	466
Non-insurance expenses	104	104	107	111	114
Total expenses	3,483	3,679	3,893	3,977	4,111
Net income	497	563	303	245	212
Change in unrealized gains/losses during the year	(179)	254	(152)	(112)	(69)
Total comprehensive income	318	817	151	133	143
Total equity — beginning of year	2,433	2,751	3,568	3,232	3,221
Transfer of excess Optional capital to the Government of British Columbia	-	-	(487)	(144)	(147)
Total equity — end of year	2,751	3,568	3,232	3,221	3,217
Represented by:					
Retained earnings — end of year	2,651	3,214	3,030	3,131	3,196
Accumulated other comprehensive income	100	354	202	90	21
Total equity — end of year	\$ 2,751	\$ 3,568	\$ 3,232	\$ 3,221	\$ 3,217
Capital expenditures (note 2)	\$ 22	\$ 19	\$ 83	\$ 77	\$ 79
Long-term debt	Nil	Nil	Nil	Nil	Nil

Notes

1. The above financial information, including forecast information, was prepared based on current Canadian Generally Accepted Accounting Principles (GAAP).
2. Major categories of capital expenditure include: facilities (land, building, and leasehold), vehicles, furniture and equipment, IT systems (computer equipment and software). Looking ahead, ICBC expects an increase in capital expenditure in the facilities category as the company maintains or replaces aging infrastructure, including replacement or upgrade of facilities, and in the IT systems category as critical business systems are renewed. Deferring these expenditures is no longer a viable option.

Assumptions

- The forecast takes into account the estimated Optional capital amounts that will be transferable to the Government of British Columbia under the new framework.
- Based on current available information, the implementation of HST will not result in any net additional costs to the Corporation.
- Prior years' claims reflect changes in the discounted value of unpaid claims.
- The outlook is based on the status quo business model and the company's expected investment in the Transformation Program.
- For policy year 2009, there was no rate change for Basic insurance coverages. In October 2009, there was a 3% decrease for the Optional insurance business. Any proposed changes to Basic insurance rates are subject to regulatory approval.
- Investment income as shown includes the expected interest, dividends, other income and realized gains/losses from the investment portfolio.
- These results reflect the overall operations of the business including Basic and Optional insurance and non-insurance activities.
- Claims incurred reflect current claims trends, vehicle population growth, and inflation.
- Driver Penalty Point Premiums will be partially replaced by Driver Risk Premiums beginning in 2009. The amount of Driver Penalty Point Premiums and/or Driver Risk Premiums included in the forecast is based on current estimates.

Forecast Risks and Sensitivities

- Premiums
 - 1% fluctuation means \$37 million in net premiums.
- Claims
 - 1% fluctuation means \$26 – \$29 million in claims costs.
 - 1% fluctuation in the unpaid claims balance means \$57 – \$63 million in claims costs.
- Investments
 - 1% fluctuation in return means \$101 – \$112 million in investment income.
 - 1% change in investment balance means \$5 – \$6 million in investment income.
- Market share
 - 1% change in market share represents a \$4 – \$6 million impact on net income.

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ADDITIONAL INFORMATION

Additional information about ICBC is available at www.icbc.com