Insurance Corporation of British Columbia

Service Plan

2005 – 2007
Update

September 2005

Table of Contents

Introduction

Purpose

The Insurance Corporation of British Columbia's (ICBC) 2005 – 2007 Service Plan (updated version) presents an overview of the company's three-year plan to fulfill its responsibilities for providing automobile insurance, driver licensing, and vehicle licensing and registration services. In this Service Plan, ICBC sets out its performance accountability to the public by describing:

- where the company envisions itself in three years;
- what goals it needs to achieve to realize this vision; and
- how ICBC defines and measures progress on achieving these goals.

In early 2006, ICBC will publish its 2005 Annual Report detailing the extent to which it has achieved 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, ICBC has relied on guidance provided by:

- the Legislative Assembly of BC's Select Standing Committee on Crown Corporations (SSCCC) in *A Guide to Operations,* April 2003;
- the Crown Agency Secretariat's *Guidelines for Government Organizations Service Plans,* August 2004; and
- the Shareholder Letter of Expectation between ICBC and government.

Balancing Accountability and Commercial Sensitivity

ICBC is committed to providing customers and the public with information needed to understand the company's plans and to evaluate its performance against those plans. This is fundamental to the governance of any Crown corporation.

ICBC competes with other insurance companies in the sale of optional automobile insurance products in BC, which account for over $1.3 billion in premiums and are an important component of ICBC's business. However, because of commercial concerns, this Service Plan does not provide specific information pertaining to ICBC's competitive insurance products, including competitive intelligence, performance measures and targets associated with the competitive line of business, and specific competitive business strategies.

Letter from the Chair of the Board

Chair, ICBC
Vancouver
August 2005

The Honourable John Les
Minister of Public Safety and Solicitor General
Government of British Columbia

Dear Minister,

On behalf of the Board of Directors and employees of ICBC, I am pleased to present the company's updated version of the 2005 – 2007 Service Plan.

In late 2002, ICBC set out its strategic direction as a Crown corporation operating in BC. The path was clear: position the business to compete successfully; build the company's financial strength through operational excellence; enhance the overall customer experience; and focus on employees as a key component of ICBC's success.

In a short time, ICBC has made remarkable progress. Since 2000, operating costs have been reduced by over 20%. There has been an organization-wide move towards a more performance-based culture, both among employees and ICBC's business partners. And, the company has undertaken work to actively control claims costs.

ICBC remains committed to staying the course of its present strategy, and results to date confirm we are on track. Continued profitability has enabled ICBC to build its capital on both the basic and optional sides of its business. The company expects to build its retained earnings in the short -term so it can achieve its capital targets. Healthy capital provides a measure of stability in an unpredictable industry. Indeed, British Columbia has largely avoided the rate volatility that other provinces have experienced in recent years.

These are positive results, but the work continues. Strong financial performance in both 2003 and 2004 demonstrates the company's fiscal discipline. It also, however, reflects the positive influence of inherently unpredictable factors such as investment markets and good driving conditions. This means ICBC has to remain focused on managing costs in all aspects of its business, and ensuring the fundamentals are in place to maintain stability.

Strategies articulated in this Service Plan keep ICBC on its present course, and address risks and opportunities. The company will continue to position itself to compete in the optional insurance market. It will support the regulatory process to ensure a transparent review of basic insurance *rates. It will also continue to prepare for proposed changes that establish a common legislative framework in the optional insurance market. ICBC will explore ways to evolve its service delivery to meet customer needs and take advantage of technology. It will strengthen processes to make business transactions more efficient, and pursue innovative arrangements with suppliers that leverage economies of scale. And, finally, the company will focus on its employees, developing individual capabilities to align skills with the needs of the business.*

The 2005 – 2007 period promises to hold challenge and opportunity. With the same focus and determination that ICBC brought to meeting its financial challenges, the company believes it can provide British Columbians with a high quality and competitive auto insurance product, superior customer service, efficient and secure driver licensing services, and focus on developing its employees.

T. Richard Turner
Chair, Board of Directors

Statement of Accountability

This updated version of ICBC's 2005 – 2007 Service Plan was prepared under the direction of the Board of Directors in accordance with the *Budget Transparency & Accountability Act.* The Board is accountable for the contents of the plan, including the selection of performance measures and targets. Further, the Board ensures ICBC achieves its objectives and measures and reports on its performance annually. The plan is consistent with government's strategic priorities and overall Service Plan. Significant assumptions and identified risks, as of August 11, 2005, have been considered in preparing the plan. Achievement of results may be influenced by factors, such as legislative and other external changes, which are beyond the company's control.

T. Richard Turner
Chair, Board of Directors

Paul Taylor
President & CEO

Overview of ICBC

ICBC, a provincial Crown corporation, is one of BC's larger companies and among Canada's biggest property and casualty (P&C) insurers. The company was established in 1973 to provide universal automobile insurance to BC motorists. Soon after its inception, government passed legislation to create a competitive optional insurance market. Today, ICBC is the sole provider of basic insurance and competes with other insurance companies in the sale of optional automobile insurance products. In doing so, ICBC operates as an integrated company, which provides significant benefits to customers in terms of cost and convenience.

As of December 31, 2004, ICBC had approximately $7.5 billion in assets, $7.1 billion of which are investments, and provided direct employment for some 4,764 full-time equivalent employees. It provides insurance products, driver licensing, vehicle registration, and licensing services through an extensive provincial network of ICBC Driver Service Centres, Government Agents, Appointed Agents, and over 900 independent brokers. The strategic partnership with brokers, in particular, is central to ICBC's successful delivery model. In addition, the company partners with many other businesses and suppliers in communities across BC, including members of the automobile repair industry, defense lawyers, health service providers, and law enforcement agencies.

Insurance and Claims

The primary function of insurance is to spread risk through the collection of premiums from many to pay for the losses of a few. Premiums, therefore, are designed to reflect the risk of loss. In 2004, ICBC earned approximately $3.0 billion in premiums for both basic and optional insurance from more than 2.8 million annualized policies sold. In the same year, the company incurred approximately $2.3 billion[1] in insurance claims costs from almost 930,000 claims processed through ICBC's 24-hour telephone claims handling facility, province-wide network of over 40 claims service locations, and corporate website, www.icbc.com.

Much like vehicle owners in other provinces, BC residents are legally required to purchase a basic package of insurance. For the basic product, private passenger and commercial vehicle owners (excluding buses, taxis, limousines, and extra-provincial trucking and transport vehicles) are provided with $200,000 in third-party legal liability protection, $150,000 in no-fault accident benefits, and $1 million of underinsured motorist protection. In addition to providing basic insurance, ICBC competes with private insurers for the provision of optional coverages, including extended third party legal liability, collision, comprehensive, vehicle storage, and others. The figure on the following page illustrates the full spectrum of ICBC's basic and optional insurance products.

The automobile insurance product in BC is based on a full tort scheme, which means injured parties are entitled to take the at-fault party to court for the full amount of his or her damages. In addition, the insured injured party has access to a maximum of $150,000 for medical and rehabilitation expenses and up to $300 per week for wage loss through his or her basic insurance from ICBC. This differs from other jurisdictions with variants of no-fault automobile insurance. In those provinces, compensation can be based on predetermined benefit schedules, threshold schemes, and/or caps or deductibles on pain and suffering awards. Further, there may be limited or no ability to sue for additional damages.

[1] Excludes expenses for claims services, administration, loss management, and non-insurance services.

Inter-provincial comparisons are difficult because tort-based and no-fault systems of insurance produce vastly different cost structures. Claims costs in a tort environment are primarily driven by litigation costs, injury severity, and legal precedents, which add a level of uncertainty and unpredictability to costs. In a no-fault system, costs are driven predominantly by wage replacement and no-fault medical and rehabilitation costs.

Figure 1. *Basic vs. Optional Insurance*

Basic Coverage

The minimum amount of insurance any vehicle must carry to legally operate in BC:

- Third-Party Legal Liability
- Accident Benefits
- Underinsured Motorist Protection
- Protection Against Hit-and-Run and Underinsured Motorists
- Inverse Liability Coverage

Optional Coverage

Additional coverage to meet the customer needs:

Vehicle

- Collision
- Comprehensive
- Specified Perils
- Vehicle in Storage
- Limited Depreciation Coverage
- Replacement Cost Coverage
- Collector & Vintage Vehicles

Equipment

- Motor Vehicle Equipment
- Excess Special Equipment
- Motor Home Contents

Individual

- Extended Third-Party Legal Liability
- Excess Underinsured Motorist Protection
- Loss of Use
- Vehicle Travel Protection

Loss Management and Road Safety

ICBC invests customers' premiums in loss management and road safety initiatives that help reduce crashes and auto crime, which in turn lower claims costs and keep premiums as low as possible. ICBC works 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, brokers, municipalities, community groups, and volunteers. In 2004, ICBC invested approximately $43 million on loss management and road safety initiatives.

Non-Insurance Services

Unlike traditional P&C insurers, ICBC provides a number of non-insurance services on behalf of government and collects $450 million annually from the provision of these non-insurance services, which it remits in full to the provincial government. These services include vehicle and driver licensing services, vehicle registration, government debt collection, and funding for commercial vehicle compliance.[2]

In 2003, a Service Agreement between ICBC and government was established to delineate these services and their associated costs, thereby creating a stronger foundation for this partnership. The costs of these non-insurance expenses are funded through ICBC's basic insurance premiums, and amounts to about $38 per basic insurance policy or approximately $105 million annually. These costs are not borne by private sector insurance companies.

[2] As part of the implementation of ICBC's Core Services Review decisions, the commercial vehicle compliance and motor carrier functions were transferred to the provincial government in 2003. ICBC will provide annual funding of $24.7 million to government for the management of these functions up to and including March 31, 2006.

Investments

Investment income contributes significantly to overall net income and plays an important part in minimizing the cost of insurance. ICBC holds investment assets to offset future claims payments and to provide reserves to mitigate future volatility in insurance rates. Similar to other P&C insurers offering automobile insurance products, ICBC invests conservatively, with the majority of investments held in the form of fixed income instruments or bonds. The portfolio also includes investments in equities and real estate assets, which are held to enhance returns and provide added diversification.

Investment transactions are governed by a set of guidelines and procedures outlined in a Board-approved Investment Policy. This policy addresses the company's risk tolerance and investment goals, and specifies a long-term investment asset mix consistent with these objectives. It also specifies market-linked benchmarks against which investment performance is evaluated. In addition to these internal governance provisions, under the new regulatory framework, ICBC is now governed by the "prudent person" standard as set out in the *Insurance Companies Act (Canada)*. This standard requires ICBC to make investments for its insurance business in a manner that "a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and to obtain a reasonable return," and is the same standard required of federally regulated insurance companies.

Governance

ICBC's governance is defined through legislation applicable to all Crown corporations, legislation specific to the company itself, and by the annual Shareholder Letter of Expectation from the Minister responsible for ICBC, namely the Honourable John Les, Minister of Public Safety & Solicitor General. It is also defined by an explicit organizational framework that sets out the roles and responsibilities of ICBC's Board of Directors and senior management.

Legislative Framework

As a Crown corporation, ICBC is subject to the *Budget Transparency & Accountability Act,* the *Financial Information Act,* the *Financial Administration Act,* and the *Freedom of Information and Protection of Privacy Act*. Under these provincial Acts, the company is accountable for making public its strategic plan (i.e., this Service Plan) and performance against the plan (i.e., an Annual Report). In addition, ICBC is 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 (Motor Vehicle) Act*
- *Insurance Corporation Act*
- *Motor Vehicle Act*
- *Commercial Transport Act*
- *Motor Vehicle (All Terrain) Act*
- *Sales Tax Act (of BC)*

ICBC as a Regulated Crown Entity

In 2003, government passed the *Insurance Corporation Amendment Act,* which named the British Columbia Utilities Commission (BCUC) as the independent regulator for ICBC. In this role, the BCUC's mandate is to approve basic insurance rates and ensure that ICBC's service levels for its basic product are adequate, efficient, just, and reasonable. As ICBC is the sole provider of basic insurance, this new regulatory environment is an important development for BC, providing customers with an independent and transparent review of the company's basic insurance operations.

In the same year, the *Insurance (Motor Vehicle) Act* and the *Insurance Act* were restructured and renamed the *Insurance (Vehicle) Act*. As of August 2005, the *Insurance (Vehicle) Act* has not been brought into force. As a result, the company remains subject to the *Insurance (Motor Vehicle) Act*.

In 2004, ICBC did not apply to the BCUC for a 2005 increase in basic rates. It did, however, submit the company's third filing for review in July 2004, requesting approval of its financial allocation methodology (i.e., how ICBC allocates the costs and revenues of basic and optional insurance). During the oral hearing process that followed, the BCUC reviewed the proposed methodology and other issues it requested ICBC provide information on, including road safety programs, the collection of age, sex and marital status information for the purposes of rate setting, and ICBC's capital requirements. The process to review and assess this filing concluded in early January 2005 with the BCUC decision.

The BCUC endorsed ICBC's investments in road safety as a means to keep rates low and stable for customers. On the issue of ICBC's collection of age, sex, and marital status information for the purposes of rate setting, the BCUC concluded that ICBC can collect and disclose data if the disclosure is consistent with its collection purpose or for statistical and research purposes.

Regarding ICBC's financial allocation methodology, the BCUC and most intervenors agreed with ICBC's overall methodology for allocating costs between its basic and optional lines of business. As directed by BCUC, the allocation of costs in a small number of areas was explored in more detail in a workshop held in March 2005. As a result of the workshop and the ensuing negotiated settlement process, the Commission was satisfied the costs allocations were correctly and comprehensively dealt with.

The process of BCUC review of ICBC's basic rates, services, and related issues is expected to continue in 2005 and future years. ICBC will continue to meet its accountability requirements so that it contributes to an open and transparent regulatory process for the setting of basic insurance rates and meets the expectations of its customers.

ICBC Board Governance

ICBC's Board of Directors is appointed by the Lieutenant Governor-in-Council. The current Board consists of nine members who bring with them a broad range of experience and expertise. They play an important role through their work at regular Board meetings and on the four established Board committees.

The Board provides strategic direction for ICBC, guiding the achievement of its mandate. More specifically, the Board works with management to set goals and objectives that form the foundation of corporate accountability and the measures against which performance is assessed throughout each year. 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 Governance Committee.

In early 2003, ICBC's Board of Directors approved the Corporate Risk Framework, which defined a corporate approach towards the effective assessment and management of significant risks. The framework considers both external and internal environments, and the risks and challenges associated with each. The objective of this framework has been to identify risks, raise awareness of those risks throughout the company, and to initiate further action to control significant risks. The framework is actively used by ICBC executives to monitor strategic risks and their planned mitigation strategies. Executive management and the Audit Committee of the Board review key corporate risks and status of related mitigation strategies quarterly, and an update is provided to the Board of Directors. Key risks and issues facing ICBC are discussed later in this Plan.

Operating Subsidiaries

Previously, Surrey City Centre Mall Ltd. (SCCM) operated as a subsidiary of ICBC Properties Ltd. (IPL). On January 1, 2004, the net assets and liabilities of IPL were transferred to ICBC, including SCCM and 596691 B.C. Ltd.

SCCM is ICBC's only active operating subsidiary. It is governed by a four person Board of Directors, made up of SCCM's President and three members of ICBC's Board of Directors. SCCM's Board meets quarterly with its senior management. In addition, the company provides ICBC with monthly financial and performance information.

Strategic Context

Industry and Competitive Context

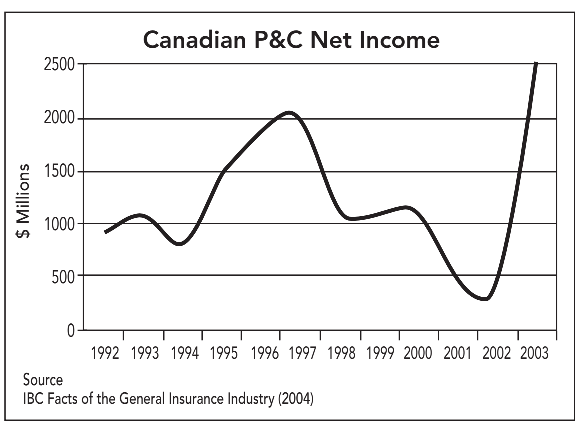
Insurance is a complex business that is affected by external trends, factors, and risks. Understanding these trends and factors and their implications for ICBC is an integral part of planning. These external forces can present both significant opportunities and risks for the company, and hence heighten the importance of planning to capitalize on the opportunities and mitigate risks.

Profitability of Canadian Property and Casualty Insurance Industry

2004 was a good year for the Canadian P&C insurance industry. According to information published by the Office of the Superintendent of Financial Institutions, a combination of premium growth, stabilizing reinsurance rates,[3] sustained returns in the investment market, and positive underwriting profits have led to a net income before tax of $3.7 billion in 2004 compared to $1.9 billion in 2003.[4]

The insurance market upturn can be largely attributed to significant rate increases from 2002 to 2003, more selective underwriting criteria, and gradual recovery in the financial markets. This trend is in line with the P&C insurance cycle, which is typically characterized by periods of widely fluctuating gains (and losses) over a six to eight year period.[5] Throughout a cycle, there can be significant swings in claims costs or investment income, which can affect a company's financial performance.

P&C firms are still recovering from significant reductions in capital levels resulting from a market downturn that began in 1997. Despite continued focus on operational efficiencies and reducing costs, sustained returns in the Canadian P&C industry are still jeopardized by problematic liability lines and escalating claims costs. Claims incurred have been increasing for the past five years at an average of 8.8% annually, due largely to higher repairs costs for newer cars and higher litigation costs and awards.[6]



[3] Thompson's Daily Insurance News Service September 15, 2004, "Canadian Reinsurance Rates Stabilize, Sometimes Decline."
[4] Office of Superintendent of Financial Institutions, 2005 (http://www.osfi-bsif.gc.ca/eng/insurers/property/financial/index.asp).
[5] Insurance Bureau of Canada (IBC), *Perspectives*, Vol. 10, Number 4, December 2004.
[6] IBC, *Insurance Bureau of Canada Facts*, 2004.

Automobile Insurance

With net premiums written of $17.1 billion in Canada during 2004, automobile lines represented 50.9% of the P&C industry's total direct premiums written.[7] After a period of escalating premiums, rates have stabilized or decreased across Canadian jurisdictions. Based on Statistics Canada's Consumer Price Index for the 12 months ended December 31, 2004, automobile insurance premiums decreased 1.7% across Canada.[8] This can be largely attributed to various provincial governments implementing premium rollbacks or rate freezes in exchange for cost savings that would be passed on to the industry in the form of legislated reforms,[9] such as caps on injury awards and deductibles on minor injuries. Other factors include improved operating efficiencies, stronger focus on selective underwriting, and the underlying insurance cycle. Continued improvement on automobile lines in Canada is expected;[6] however, the challenge for automobile insurers is to address increasing claims costs.[10] Although loss ratios have improved due to legislated reforms, the average cost of settling claims continues to rise.[11]

Regulatory Trends

Governments across Canada have introduced legislative solutions to curtail rising claims costs and lower insurance premiums for drivers. Some of the changes implemented across different jurisdictions include rate freezes and roll backs, changes in rating criteria and rate structure, claims caps or deductibles on minor injury and soft-tissue injury claims, measures to control fraud, and better ways to assess claims.[12] The Insurance Bureau of Canada estimates that government reforms in 2003 and 2004 helped remove approximately $800 million in future claims costs.[13]

Looking across the country, highlights of major developments in 2004 include the following:[14]

- In Alberta, the government approved a maximum rate grid for high-risk drivers, a 5% roll back on rates for good drivers as well as a $4,000 cap on pain and suffering awards for minor injuries.
- In Ontario, legislation was passed to set maximum fees for designated assessment centres, establish a framework for injury rehabilitation, and place limits on payouts for income replacement.
- In the Atlantic Provinces, Newfoundland introduced a $2,500 deductible on pain and suffering awards while Nova Scotia and PEI have introduced caps on pain and suffering payouts. In New Brunswick, a new insurance board was set up to review and approve automobile insurance rates.

These reforms have been instrumental in stabilizing automobile insurance rates across Canada in 2003. However, their full impact on claims costs will take another year or two to fully materialize because of the longer settlement period for high-cost claims, potential changes in business strategy in reaction to reforms, and ongoing adjustments to regulation.[15]

[7] Canadian Insurance – 2005 Annual Statistical Issue, May 2005.
[8] Statistics Canada, *The Consumer Price Index,* December 2004, Catalogue no. 62-001-XIB.
[9] Standard & Poor's, *Industry Report Card: Canadian Property and Casualty Insurance,* June 21, 2004.
[10] Thompson's Daily Insurance News Service, "Best Guarded on Long-Term Impact of Government Auto Reform in Canada," September 17, 2004.
[11] IBC, *Insurance Bureau of Canada Facts,* 2004.
[12] IBC, *Insurance Bureau of Canada Facts,* 2004.
[13] IBC, *Perspectives,* Vol. 10, Number 3, September 2004.
[14] This section does not reflect events that have transpired from January – August, 2005.
[15] IBC, *Insurance Bureau of Canada Facts,* 2004.

Key Strategic Issues/Risks

Looking ahead to 2005 – 2007, ICBC has identified a number of issues and risks that could impact ICBC's future performance.

Impact of the Regulatory Process

The BCUC provides regulatory oversight of basic insurance rates and service and ensures that costs are appropriately allocated between ICBC's basic and optional insurance businesses. Although the 2004 hearing focused on ICBC's approach to financial allocation, other issues arose related to capital levels and targets and the calculation of capital adequacy. Based on the Commission's January 2005 decision, ICBC is preparing a capital management plan for its basic business which it will submit to the BCUC for review in August 2005 along with its financial information filing. ICBC's filing will propose no change in basic insurance rates for 2006. An order from the BCUC on these matters could have a significant impact on the company.

Following progress in 2004 and in the first half of 2005, ICBC will continue to contribute towards an open and transparent regulatory process for the setting of basic insurance rates with the BCUC and the other parties involved. Further, the company will build capacity and refine internal processes required to effectively meet its regulatory responsibilities.

Competition in Optional Insurance Market

As indicated earlier, the Canadian P&C insurance industry is experiencing record profits resulting from robust market conditions. This may spur more intense competition as insurers seek to invest their excess capital and expand market share.

In 2003, the government set the stage for greater competition by passing legislation that proposes to create a common regulatory framework for both private insurers and ICBC in the optional insurance market. Two new proposed rules, in particular, warrant discussion.

The first is the requirement for ICBC's optional business to hold industry levels of capital. The need to build and maintain such capital levels has implications for the competitive pricing of ICBC's optional insurance.

The second change requires ICBC to sell its optional insurance through an optional policy contract under the same conditions as those applicable to private insurers. A separate policy contract is a significant development. It not only increases customer awareness of the difference between basic and optional insurance, but also highlights what a customer gets when they purchase optional insurance and makes clear they have choice in this market.

Overall, ICBC must respond to competitive changes that may result from both improved market conditions and the new anticipated rules for the optional product. Further, integrating proposed legislative rules into ICBC's business will involve complex modifications to ICBC systems and processes in a relatively short period of time.

Investment Market

Like all insurers, ICBC holds investment assets to pay for future claims costs and to provide reserves to mitigate against future volatility in insurance rates. In holding such assets, investment income is earned and contributes to the company's overall net income and helps minimize the cost of insurance. This income is largely affected by the overall condition of the general investment market.

Automobile Crashes and Crime

Automobile related crashes and crime present a significant social and economic cost to all British Columbians. As vehicle population grows and the urban density of many BC communities increases, the risk of automobile crashes rises. Changes in driver behaviours as well as driving conditions are other factors that can contribute to or mitigate this risk. The financial risk associated with bodily injury claims continues to increase because of factors such as trends in rising court awards and the impact of inflation on claims settlement costs.

Auto crime is a problem that impacts insurance costs for all British Columbians. It continues to be an issue in BC even though annual trends now see rates declining, from 550 incidents per 100,000 insured vehicles in 2002, to 461 in 2003, to 422 in 2004. When we look at rates for vehicle theft (excluding theft from vehicles, and vandalism) reported to ICBC, the rate was 116 per 100,000 insured vehicles, in 2002, 125 in 2003, and 111 in 2004.

Long Term Financial Strength of ICBC

2004 was a successful year for ICBC, with the company recording a net income of $389 million. ICBC is financially sound and is moving towards achieving the target capital levels established in regulations. The financial performance experienced in 2004 is largely attributable to good driving conditions, continued lower volume of low value claims as a result of changes in deductibles, and a change in the provision for an anticipated increase in court tariff of costs. While the release of some reserves for the court tariff had a one time positive impact for 2004, an increase in the court tariff could have a negative impact in 2005 if implemented in that year. Investment performance has been strong, yielding positive gains on bonds and equities. And while claims costs and investment performance have contributed to this year's positive performance, these same factors can be quite volatile, are outside the company's control, and in prior years, have negatively impacted financial performance.

Looking ahead, ICBC will continue to manage the major risks inherent within the insurance business described earlier, and will be challenged to achieve the same level of financial performance. Premiums have remained relatively flat while claims costs continue to rise, despite continued prudent fiscal management practices. Approval to increase revenues for the basic business is now subject to the scrutiny of the BCUC in a public and resource intensive regulatory process. The optional business will be required to prepare for proposed legislative changes. ICBC will need to make prudent business decisions in this environment and prepare itself to compete, while keeping customer needs at the forefront.

Evolution of Service Delivery

ICBC must continue to evolve its service delivery with a focus on the changing needs of customers and continued efficiency.

Today, ICBC can provide customers a relatively high level of value through integrated points of service, a result of the economies of scale that come from an effective integration of ICBC's various business services. As technology and customer needs change, ICBC must be ready to take advantage of emerging opportunities to serve customers betters.

Labour Relations

ICBC recognizes its people and their contributions as one of its core strengths. The company operates in a competitive, regulated environment that demands customer needs be met and basic insurance services provided in an operationally efficient manner. In late 2004, ICBC and the Canadian Office and Professional Employees Union Local 378 (COPE378) concluded a renewal collective agreement with a June 30, 2006 expiry. The new agreement provides ICBC with the opportunity to work with COPE378 to better meet the service expectations of our customers through extended hours of operation in claims and driver services centres. In addition, it provides greater opportunities for employees to share in the company's success.

Other Risks

ICBC's risk management process has identified additional potential corporate level risks that are being actively monitored and mitigated. They include the following:

- Succession plans are being developed for key positions to ensure current and future business needs are being considered today. As part of its approach, the company is using tools like High Potential Pools and development plans.
- Protection against catastrophic loss (such as an earthquake) is an ever-present concern, and one ICBC moderates by determining the right level of reinsurance required for its business.

Corporate Strategy

Vision

ICBC will be the leading insurance company in all aspects of its business, operating competitively and valued by its customers.

Mission

We will be the insurer of choice delivering insurance products, licensing services, road safety, and other loss management initiatives that are superior, innovative and valued by our customers, at the lowest cost possible. Our reputation will be as a dependable, fair, equitable, and competitive service provider. We will accomplish this with our dedicated employees working in a performance-based culture achieving operational excellence with the assistance of our independent broker force and other business partners.

Values

Integrity

We value people by treating others with respect and dignity. We are honest by representing our intentions and ourselves truthfully. We will be accountable for our performance and ensure decisions made are supportable.

Commitment

We demonstrate commitment as employees by doing our best work at all times. ICBC leadership demonstrates commitment to employees by creating a work environment that supports employees in making their best contribution for the benefit of the customer. We are committed to operating in a cost-effective manner and will continue to seek ways to improve efficiency.

Dedication to the Customer

We measure our success by our customers' belief that ICBC products and services provide good value for their money. We provide excellent customer service by approaching every customer interaction as an opportunity to create a positive customer experience.

Strategic Goals, Objectives, Strategies and Performance Measures

ICBC's strategic direction in 2005 and beyond is clear: no fundamental change is needed because the strategy is working and the company is on track.

In late 2002, ICBC articulated a vision that today continues to guide every aspect of the company – to be a leader in all aspects of business, from insurance to licensing to road safety, to operate competitively, and to ensure that customers value everything it does.

Concerted effort from every area of the business has produced sustained success. The results show this strategy is working and ICBC is committed to maintaining the current course. The goals established provide the direction needed to operate and compete successfully, and the flexibility to respond to external pressures. The cornerstones of this strategy are:

- Become More Competitive
- Customer Focused
- Revenue Driven & Fiscally Responsible
- Personally Accountable, Capable & Engaged People

This section details each goal, identifying high level objectives, strategic activities that will guide ICBC's efforts, and the measures that will drive results. They form the foundation of ICBC's performance environment. Having clear strategic direction helps the company set priorities, making sure effort at every level – from the division to the department to the individual – is aligned and focused on the same result.

The measures selected to assess ICBC's performance are both financial and non-financial. Where it makes sense, the company uses standard industry measures that enable benchmarking with other insurers. In other cases, because the business model is relatively unique among P&C insurers, ICBC develops distinctive measures relevant to that area of endeavour.

Planning at ICBC is a continuous activity. Throughout the year, the Board and management systematically review corporate direction against strategic issues facing the company as part of ongoing risk management processes. When appropriate, the company adjusts accordingly to reflect these changes.

Become More Competitive

The goal of becoming more competitive is about being a better business overall. Although ICBC is the sole provider of basic insurance, consumers expect the basic product to provide service levels comparable to those found in the general P&C industry and other service industries. At the same time, consumers expect basic insurance rates to be as low as possible, and expect ICBC to use fair underwriting practices to deliver basic automobile insurance that is accessible to all drivers in BC. The concept of being a better business and comparing well to one's peers applies equally to insurance, road safety, and driver licensing.

For optional insurance, ICBC must address the added dimension of responding to competitors in the market place. ICBC must also respond to the proposed legislative environment. ICBC and private insurers will now be operating under the same rules in the optional insurance market and all players will be required to sell their optional insurance through an optional policy contract. This will create heightened levels of customer awareness in terms of choice, and ultimately more competition for the optional product.

ICBC needs to be ready for these changes and to continue to compete for its customers across the province in all aspects of its business. It must also retain its focus on performance and results — benchmarking wherever possible to best practices and working closely with its business partners.

Objectives

- Deliver innovative, competitive, and tailored optional products and services.
- Achieve planned financial results.

Strategies

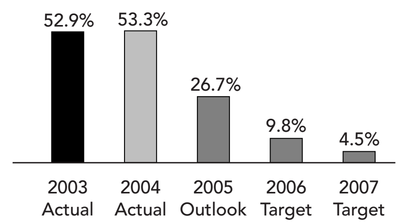
- Manage optional products to ensure they remain competitive.
- Strengthen the collection and use of business intelligence to better manage the business.
- Enhance the value of broker relationships, recognizing their role as influential business partners in one of ICBC's service channels.
- Streamline point of sale and related processes.
- Manage legislative and regulatory change effectively.

Performance Measures

Return on Equity

This is a standard financial measure that indicates the change in value to a shareholder for investing in an organization. It enables ICBC to measure progress towards becoming more competitive and allows the provincial government to measure the financial return from ICBC on an annual basis. This measure is the ratio of net income to average retained earnings and is calculated on an annual basis.

Return on Equity



Annual return on equity is a volatile measure within the P&C industry as illustrated earlier. ICBC's result for 2004 was significantly higher than previous forecasts. At the beginning of 2004, ICBC had low levels of equity, and therefore with strong financial results, the ROE measure appears very high. The strong results in 2004 are due to lower than expected claims incurred costs, higher than expected premiums earned, and an adjustment to the provision for an anticipated increase in the court tariff. Faster recovery of the investment market has also contributed to better than expected performance. It is important to remember many of these factors can be quite volatile, are outside the company's control, and in prior years have negatively impacted financial performance. A combination of a higher equity base and more normal levels of projected income will result in a lower ROE in 2005, albeit still comparable to industry.

The 2005 – 2007 targets reflect assumptions that claims costs will increase and return to levels of a more typical year and that ICBC's capital base will move towards industry levels. The 2005 outlook for return on equity is 26.7%, or a 9.4% improvement on the original target of 17.3%. This is due to the outlook net income for 2005 of $285 million, or $109 million higher than the original plan of $176 million. The improved net income is due mainly to higher than expected investment income from strengthening investment markets. In addition, premiums earned are also expected to be higher than originally planned but these are offset by negative prior years' claims adjustments due mainly to a deterioration in unpaid bodily injury claims.

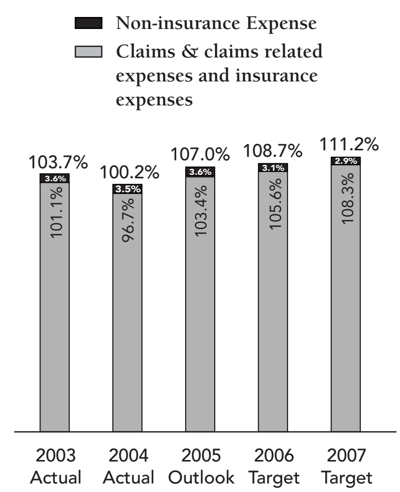
The target for return on equity has increased slightly in 2006, and decreased slightly from 7.8% to 4.5% in 2007. The decrease in 2007 is due to lower expected net income of $61 million from the original plan of $98 million. This is mainly due to higher expected claims costs. With the recent changes to optional insurance premiums, the increase in claims costs is growing at a faster rate than the expected growth in premiums.

Within this context, ICBC was able to reduce optional insurance rates for better risk customers in June 2005. More than 1.6 million customers will receive rate reductions totalling $100 million on an annual basis. An additional $33 million will be refunded to qualifying customers who renewed their policies in 2005 prior to the June announcement. As ICBC monitors evolving claims trends, and if they continue to outperform expectations, it may look at further rewarding its better risk customers.

Combined Ratio

The combined ratio is a key measure of overall profitability within the insurance industry. This measure is calculated as the ratio of costs (claims costs, claims related costs, administrative costs, acquisition costs and non-insurance costs) to insurance premium dollars earned. A ratio below 100% indicates an underwriting profit while a ratio above 100% indicates an underwriting loss.

Combined Ratio



The 2004 result for combined ratio is a significant improvement from the target of 109.4% in the 2004 – 2006 Service Plan. For the reasons described above, 2004 was an exceptional year with potentially volatile factors trending in the right direction and positively impacting the company's financial performance. The 2005 – 2007 targets are therefore higher because they reflect assumptions that claims costs will increase and return to levels of a typical year and that the impact of the anticipated increase in the court tariff is included in 2006 and 2007.

In all years 2005 – 2007, the combined ratio is expected to be slightly higher than originally planned. This is due mainly to higher claims and acquisition costs. The increase in these costs is growing at a rate faster than the expected growth in premiums given the recent changes in insurance premiums.

In understanding these figures, it is important to remember that as part of the basic insurance business, ICBC's operating costs include approximately $105 million in non-insurance costs, which are costs not incurred by private insurers. Further, the basic insurance business is mandated to provide basic insurance to all drivers in BC, including higher risk drivers.

Investment Return

ICBC manages an investment fund of approximately $7.1 billion. As of December 31, 2004, ICBC holds a conservative portfolio with the majority invested in fixed income instruments. Industry benchmarks and target asset mix are explicitly outlined in the Statement of Investment Policy and Procedures set out by the Board of Directors.

In previous years, ICBC used a measure for investment return based on a ratio of accounting investment income over the average book value of the investment portfolio. Following discussions with the BCUC in 2004, ICBC changed that measure to one that compares investment portfolio return against a market-based benchmark. The Portfolio Return measure is the standard for monitoring investment performance, and takes into account both realized and unrealized gains.

On a four-year annualized basis, ICBC exceeded its investment policy benchmark in 2004 by 0.46%, well in excess of the added value objective of 0.268%. A four-year annualized return is consistent with industry practice and with ICBC's long term investment strategy. ICBC will continue its policy of planning to meet or exceed industry average performance. The 2005 – 2007 targets have been established to outperform the policy benchmark by 0.268%. ICBC does not forecast the benchmark return, as it is the result of market forces and beyond the company's control. In managing the portfolio, ICBC remains vulnerable to rising interest rates, deterioration in equity markets, and currency fluctuations. These risks are not unique to ICBC, however, and are proactively managed.

Revenue Driven and Fiscally Responsible

ICBC's current financial success follows four years of disciplined financial management. The company has steadfastly adhered to a policy of fiscal restraint and cost reduction, focusing on streamlining operations, eliminating unnecessary functions, and significantly reducing discretionary costs. This was necessary to provide an environment that:

- supports low and stable rates;
- positions ICBC to excel in its basic business and thrive amidst a competitive environment; and
- protects against the impact of both anticipated changes (such as program and system work to implement government legislation) and unexpected events that characterize the natural risks of our business (such as driving conditions and investment returns).

Holding the line on costs remains central to ICBC's financial strategy. Success in reducing controllable costs represents one piece of this strategy. Controllable costs in 2004 were $474 million, well below the 2004 plan of $508 million. The 2005 outlook at $491 million represents an increase of 3.6%. ICBC continues to prepare for one-time costs expected as part of proposed legislative and regulatory changes discussed earlier.

Another piece of this strategy is ICBC's use of supply management and procurement practices to improve the value of goods and services. Initiatives such as streamlining ICBC's procure-to-pay processes and implementing performance arrangements with suppliers bring this strategy to life. ICBC's performance-based compensation model with the collision repair industry is intended to positively influence vehicle repairs and claims costs by improving efficiencies within these shops, with initiatives such as a streamlined authorization and supplement process.

A third element of fiscal discipline is managing claims costs. ICBC invests in various initiatives and programs that keep these costs under control. For example, efforts underway to review the service delivery model will help minimize overhead, eliminate unnecessary tasks, and automate functions while enhancing the overall customer contact experience. ICBC's partnership with the Ministry of Public Safety and Solicitor General to provide enhanced traffic law enforcement on BC roads will further reduce crashes and crime and keep insurance premiums as low as possible. So too will initiatives such as the Graduated Licensing Program and the approximately $43 million that ICBC invests in road safety and loss management activities each year.

As part of recent legislative changes, the government mandated that ICBC hold specific levels of capital for basic insurance, optional insurance, and for the company as a whole. Specifically, ICBC's optional business will be required to hold a minimum level of capital that is comparable to its competitors.

Since the P&C sector has historically demonstrated a cyclical pattern in its performance, it has been common for regulators to require insurers to hold minimum levels of capital to safeguard their solvency during industry downturns and against possible catastrophic events. As a general practice, most insurers build capital levels well above regulatory minimums to ensure an adequate cushion is in place to minimize the risk of falling below those minimums.

Objectives

- Excel in operational effectiveness and efficiency in all insurance products and services, licensing, road safety and loss management, and other activities conducted by the company.
- Minimize claims costs, severities, and frequencies through product design, claims cost controls and loss management.
- Improve the value of goods and services purchased and increase the recovery of costs for services provided.

Strategies

- Deliver programs to manage frequency and cost of claims such as road safety, fraud reduction initiatives, and other initiatives to tightly manage bodily injury and material damage claims.
- Expand ICBC's ability to realize cost reductions through performance based supplier arrangements.
- Realize procurement opportunities that capitalize on ICBC's economies of scale.

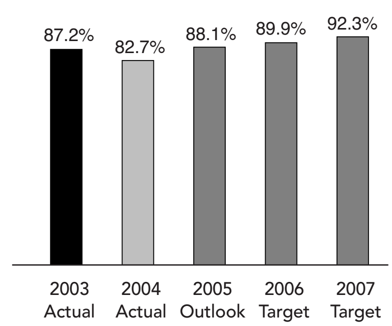
Performance Measures

In September 2004, ICBC's Board of Directors approved changes to the company's public corporate performance measures. The New Driver Comparative Crash Rate, Crash Rate, Injured Person Rate, and Auto Crime Rate were discontinued for the purposes of the Service Plan. These are useful indicators of claims trends and provide insight into the effectiveness of ICBC's road safety and loss management programs. Ultimately, however, claims trends affect the loss ratio and the combined ratio, which are both corporate performance measures already in the Service Plan. While they will no longer be reported in the Service Plan, the four directional indicators will continue to serve an important role in monitoring the impact of road safety and loss management programs.

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 and claims related costs, including loss management and road safety costs, to insurance premium dollars earned.

Loss Ratio



2004 was an exceptional year, with lower than expected claims incurred costs and higher than expected premiums earned. Lower claims costs were driven by favourable driving conditions, changes to product offerings, and a reduction in the provision for an expected increase in court tariff costs. Targets for 2005 – 2007 assume more normal trends for claims costs, and are thus higher than in 2004. These targets also reflect assumptions that ICBC's book of business will be affected in the short term in response to competitive pressure in the optional market.

The 2005 loss ratio outlook at 88.1% is higher than the original plan of 86.8%. This is due to the expected negative prior years' claims adjustments due mainly to a deterioration in bodily injury claims. The loss ratio targets in 2006 and 2007 are also slightly higher than originally planned due mainly to higher claims costs than in the original plan.

Expense Ratio

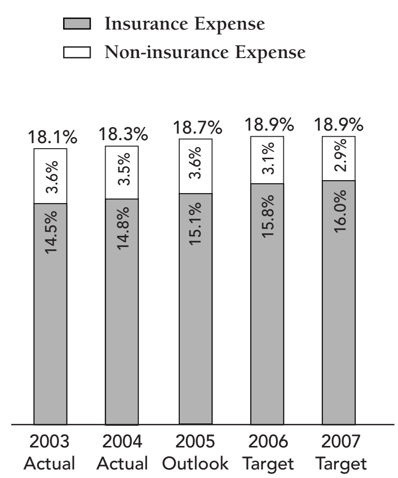
The expense ratio is a standard industry measure for assessing a firm's operational efficiency. This measure is calculated as the ratio of non-claims costs to insurance premium dollars earned. It includes operating costs that are not directly related to servicing claims such as general administration,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

This 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 business, and more accurately reflects the distinct nature of ICBC's operating model relative to other automobile insurers.

The increases anticipated in the 2005 – 2007 expense ratio confirm the company's resolve to keep a tight rein on costs. The company is holding the line on these targets amidst the potential for higher costs resulting from regulatory changes, inflationary pressures, and the effect of competitive pressures over time.

ICBC incurs non-insurance expenses in providing driver licensing, commercial vehicle services, vehicle registration and licensing, and fine collection to British Columbians. The non-insurance expense ratio represents the ratio of the operations and administration costs of ICBC's non-insurance business to insurance premium dollars earned. ICBC scrutinizes these costs closely to ensure it remains an efficient provider of these services on behalf of government. The 2005 – 2007 targets are consistent with historical results. The reduction in the 2006 target reflects the March 31, 2006 expiration of ICBC's $24.7 million annual payment to government for the commercial vehicle compliance functions.

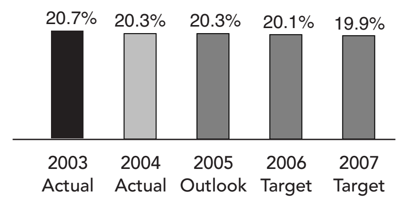
Expense Ratio



Claims Efficiency Ratio

Managing claims represents a significant component of ICBC's workforce and operating costs. This is a measure of ICBC's claims handling efficiency, and is calculated as the ratio of claims handling costs (including allocated expenses) over claims paid less the allocated expenses. Allocated expenses consist primarily of outside legal counsel fees and disbursements, medical reports, private investigators, independent adjusters, and towing costs. In general, a year-over-year reduction in this measure indicates an overall increase in operating efficiency.

Claims Efficiency Ratio



This is a new measure for ICBC, replacing Claims Productivity used in the 2004 – 2006 Service Plan. The new calculation improves upon the previous measure by considering the inherent differences in the complexity and work effort of both material damage and injury claims. In doing so, it provides a clearer link between claims paid and operating expenses. However, because the claims efficiency ratio is an extension of the loss ratio, it needs to be viewed in conjunction with that result. For example, if ICBC were to defend a claim by going to trial, its operating costs would increase and the efficiency measure would decline. Yet, if ICBC was successful at trial, the result would actually lower claims costs overall, which would have a positive impact on the loss ratio.

The targets for 2005 – 2007 project stability and are consistent with the outlook for ICBC's insurance loss and expense ratios. ICBC anticipates a return to more normal claims volumes in 2005, based on assumptions of historical averages in vehicle growth and weather. Nonetheless, a number of cost pressures remain. For example, allocated legal expenses will continue to increase in the first half of 2005, although some levelling off is expected later in the year. Further, ICBC anticipates upward pressure on material damage costs due to a newer overall fleet that is increasingly more expensive to repair because of technological advancements. These examples reinforce the need for ICBC to remain vigilant in identifying and implementing initiatives that manage claims servicing costs.

Customer Focused

Introduction

In its ongoing effort to become a better business, ICBC must maintain its steady focus on customers.

For ICBC's basic insurance business, this means not only providing service that is both high quality and fair, but also ensuring that basic insurance is accessible to all BC drivers.

Being customer focused clearly includes understanding different customers' needs and expectations. Ultimately, ICBC needs to deliver value to British Columbians through both its basic and optional products and services. Value can be defined not only by low cost or easy access. It is also about ensuring customers are treated fairly and that ICBC is accountable for its performance.

In today's competitive and dynamic consumer markets, people expect value for what they purchase and to be serviced well, promptly, and in a cost-effective manner. The advent of technology and global competition continue to transform expectations. At the same time, it opens up new opportunities to service customers better and more cost-effectively.

ICBC continues to evolve its service delivery by expanding web-based claims services, leveraging new technology in its call centres, and working with key business partners (such as brokers and repair shops) to look for ways to make interacting with ICBC easier.

Objectives

- Increase customer approval of ICBC as a result of informed opinions and a better understanding of the value and operations of the company.

Strategies

- Achieve competitive levels of customer service and satisfaction.
- Strengthen service channels to improve customer satisfaction, enhance efficiencies, and strengthen ICBC's overall competitiveness.
- Offer coverages that are competitive and valued by customers.

Performance Measures

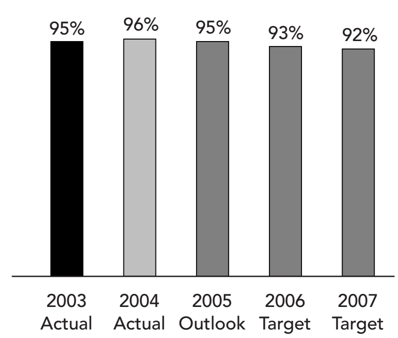
Measuring customer service performance at ICBC is based on the percentage of satisfied customers. A separate measure is used for each major transaction type — broker, driver service and licensing, and claims. The design of ICBC's established measures and targets reflects the inherent differences of these key transactions. Complementing these transactional measures is the Customer Approval Index, a new measure that gauges approval at the corporate level. An independent research firm is retained to conduct ongoing surveys of customers for the purposes of monitoring satisfaction.

In September 2004, ICBC's Board of Directors approved changes to the company's public corporate performance measures. As part of the provincial government's deregulation initiative, ICBC achieved a one-third reduction in the regulatory burden on customers, suppliers, and employees as of June 2004. The company will continue to support this initiative by maintaining the current level of regulatory requirements and preserve the reductions to date. For this reason, the company will no longer include this as a public corporate performance measure.

Insurance Services Satisfaction

ICBC's insurance brokers process approximately 2.8 million policies each year. This measure represents the percentage of customers satisfied with a recent ICBC insurance transaction and is based on quarterly surveys of over 1,000 customers. The measure is typically at or over 90% and indicates the positive relationship ICBC and its brokers enjoy.

Insurance Services Satisfaction



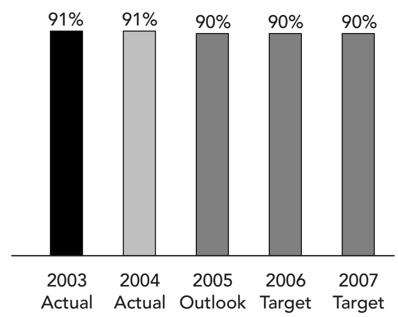
ICBC expects a slight decrease in 2006 resulting from the introduction of pricing and product changes. It is anticipated that these new changes may increase the transaction time of the insurance purchase (e.g., brokers explaining choices for customers, collecting additional information, etc.). The 2007 target is also lower than 2005, owing largely to the proposed legislative changes requiring a separate optional policy contract. The separate contract will be a change for ICBC and its customers, and an important step in increasing consumer awareness of both the product and the availability of choice. It may, however, increase the time it takes to complete an insurance transaction, at least initially.

With "time" one of eight factors used in rating customer satisfaction, an increase in transaction time, irrespective of the benefits of product, pricing or policy changes, may adversely impact satisfaction scores in the short term. Once the timing of this change is confirmed, ICBC will carefully manage implementation to ensure customers get the right information at the right time in ways that ensure a continued positive experience.

Driver Services Satisfaction

Each year, ICBC carries out over 1.2 million transactions relating to the issuance of driver licences and driver exams. This measure represents the percentage of customers satisfied with their driver licensing transaction with ICBC, which might include renewing a licence, taking a knowledge test, or undergoing a road test. The measure is weighted by the number of transactions for each type of service, and is drawn from a sample of approximately 4,000 customers surveyed throughout the year.

Driver Services Satisfaction

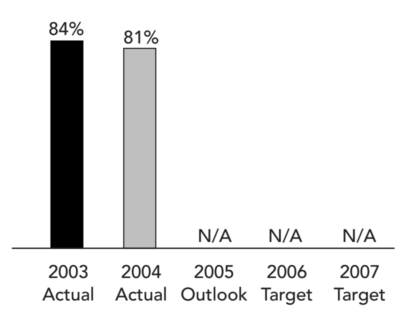


In late 2003, ICBC implemented changes made by government to the Graduated Licensing Program (GLP). Further, in 2004, ICBC introduced a number of initiatives to reduce licencing fraud. At the time, it was thought these measures might adversely impact satisfaction levels among affected drivers. Results, however, have been more positive than anticipated and the 2005-2007 targets have been revised and set higher than those in the 2004 Service Plan to align them with ICBC's historical performance. The new targets, however, are slightly lower than 2004 given that many drivers will exit the GLP this year and may lower overall satisfaction levels as they deal with the outcome of an exam or continued participation in the program.

Claims Services Satisfaction

Almost one million claims are processed each year through over 40 ICBC claims handling facilities around the province. This measure represents the percentage of customers satisfied with a recent ICBC claims transaction and is based on a representative sample of claims customers. In 2003, changes were made in the sample selection and calculation of the measure, enabling ICBC to benchmark its performance to P&C companies in Ontario. The benchmark score in Ontario in 2003 was 83.5%, with ICBC comparing favourably at 84%.

Claims Services Satisfaction



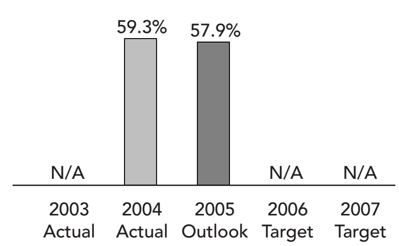
The 2004 result is lower than the original target of 87%, which was established in 2002. The 2004 result shows a small decline from 2003 and reflects, in part, product changes that have altered the sample of customers surveyed for this measure. ICBC is using these satisfaction survey results to implement measures that address main areas of customer concern in the claims process. For example, in the short term, ICBC is looking at a seasonal staffing strategy to deal with high volume periods of the year. In the long term, examples of initiatives underway to improve the claims settlement process include adopting skills-based routing tools and enhancing programs such as Express Repair.

ICBC is curently re-evaluating its 2005-2007 targets, and the target setting process generally, to better reflect comparative industry experience, historical ICBC data, and refined trending methodology. ICBC will continue to monitor quarterly results, which tend to vary according to seasonality trends, and other forms of customer feedback to implement changes that meet customers' needs and expectations in the claims process.

Customer Approval Index

The Customer Approval Index (CAI) is a new measure that helps ICBC understand and manage how customers perceive and approve of the company. It is calculated directly from 11 survey questions structured around three themes identified to be drivers of how customers think about ICBC. These themes include customer perceptions related to service, rates, and road safety.

Customer Approval Index



The CAI is a simple average of the percentage of respondents who agree with each of the 11 statements. The Index is calculated by summing the percentage of respondents who agree with each statement and then dividing the total by 11. This gives a measure that can range from 0 to 100. ICBC uses an outside market research firm to conduct the quarterly surveys that generate the CAI.

Historically, corporate "customer" results have been measured through customer satisfaction based on transactions in the areas of Autoplan, Driver Services and Licensing, and Claims. These strictly transactional measures did not track overall attitudes, or approval of ICBC from all of its customers. The CAI, then, serves as an effective complement to these other measures.

In 2004, the first year for which baseline data is available, the result for the CAI was 59.3%. This score represents the average of respondents that agreed strongly or somewhat to the 11 statements that make up the index. While the 2005 outlook shows a small decrease, with only one year of data it is difficult to make reliable conclusions about what might be influencing this result. The 2004 figure represents a good baseline but it is not enough to establish any trends or seasonality. For this reason, ICBC will continue to track this measure in 2005, and will wait for further data before establishing specific targets in the future. A slow, phased-in approach will allow experience with the survey data to enable ICBC to set meaningful targets.

Personally Accountable, Capable and Engaged People

Employee engagement is emerging as one of the most significant challenges facing organizations in this decade[16] as businesses are coming to terms with the forces of change in the workforce such as demographic shifts, a shortage of knowledge workers, and changing employee expectations.

In recent years, ICBC has made important advances in developing a performance-based culture. And while that work continues and remains central to the company's people strategies, the focus today is taking a broader perspective in understanding and positively influencing overall employee engagement and capability.

The challenge for ICBC is clear: balance the needs of employees with those of the business and improve the overall work experience. Positioning the company to succeed in all aspects of its business hinges on the right people strategies. This is especially important in an environment characterized by increasing regulatory complexity and the promise of continued competitive change. It is through its people that ICBC will truly differentiate itself from its competitors. An engaged and capable workforce is not a key strategy in as much as it is *the* business strategy of today's leading companies.

ICBC has initiated work to more thoroughly understand both the underlying drivers and the current levels of engagement at ICBC. In 2004, the company participated in an external survey process and is using the results to shape various strategies aimed at increasing engagement. In addition, a number of long term planning initiatives were begun that focus on increasing workforce capabilities. Highlights of these initiatives are corporate and divisional people plans, a succession planning model with critical positions and high potential talent pools identified, and corporate development strategies that include a coaching program and training for new managers.

In 2005, ICBC continues to implement various elements of the people strategy, specifically those identified as key drivers of current levels of engagement: recognition and involvement; continuing to enhance a culture of performance; intensified focus on talent development, particularly in the area of leadership and knowledge; and ensuring workforce planning efforts are targeted at getting the right people in the right jobs at the right time.

Objectives

- Increase the level of engagement of ICBC's employees.
- Ensure that ICBC has a workforce that is capable of meeting the current and future requirements of the business.

Strategies

- Identify and improve key workplace people practices that strongly influence workforce engagement.
- Build leadership and management talent.
- Develop and implement a learning strategy tied to business needs.
- Plan for future workforce needs and implement strategies to address gaps (e.g., succession and workforce planning).

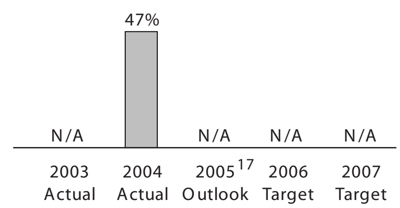
[16] Frank, Frederic "The Race for Talent: Retaining and Engaging Workers in the 21st Century," in *Human Resource Planning,* September, 2004, pp. 12-25.

Performance Measures

Employee Engagement Index

This measure represents the overall level of engagement employees have at ICBC as defined by: a) how positively they speak about the organization to co-workers, potential employees, and customers; b) the level of desire they have to be a member of the company; and c) the degree of extra effort and dedication they are willing to apply to doing the best job possible.

Employee Engagement Index



This is a new measure for ICBC. In June 2004, ICBC conducted a survey of all employees to establish a baseline result. The result was a score of 47%, representing the degree to which employees perceived how engaged they felt at work. This number is slightly below the average of organizations using this methodology to assess employee engagement.

Results from 2004 will form the baseline against which future targets and strategies will be set. This measure is also benchmarked against other Canadian organizations, giving ICBC a useful reference point. Based on the experience of other organizations, ICBC set an improvement target of 3% in 2005. Achieving this result is explicitly tied to the successful implementation of employee-focused strategies that address engagement and capability issues.

[17] As the 2005 employee survey is scheduled for Fall 2005, an outlook figure is not available at the time of publication.

Strategy Summary

The next two tables summarize ICBC's current goals, objectives, and targets, and an historical perspective on ICBC's high level strategies.

Goal	Objectives — High Level	Measures	Actual	Outlook	Target	
			2004	2005	2006	2007
Become More Competitive	▪ Deliver innovative, competitive and tailored optional products and services. ▪ Achieve planned financial results.	Return on Equity (annual basis)	53.3%[A]	26.7%[A]	9.8%	4.5%
		Combined Ratio ▪ Claims & Claims Related Expenses & Insurance Expense ▪ Non-insurance Expenses Total	96.7 % 3.5% 100.2%[B]	103.4 % 3.6% 107.0%	105.6 % 3.1% 108.7%	108.3 % 2.9% 111.2%
Revenue Driven and Fiscally Responsible	▪ Excel in operational effectiveness and efficiency. ▪ Minimize claims costs, severities, and frequencies through product design, claims cost controls and loss management. ▪ Improve the value of goods and services purchased and increase the recovery of costs for services provided.	Loss Ratio	82.7%[B]	88.1%[C]	89.9%	92.3%
		Expense Ratio ▪ Insurance Expense Ratio[C] ▪ Non-insurance Expense Ratio Total	14.8% 3.5% 18.3%	15.1% 3.6% 18.7%	15.8% 3.1% 18.9%	16.0% 2.9% 18.9%
		Investment Return	Benchmark + 0.46%	Benchmark + 0.268%	Benchmark + 0.268%	Benchmark + 0.268%
		Claims Efficiency Ratio	20.3%	20.3%	20.1%	19.9%
Customer Focused	▪ Increase customer approval of ICBC as a result of informed opinions and a better understanding of the value and operations of the company.	Insurance Services Satisfaction	96%	95%	93%	92%
		Driver Services Satisfaction	91%	90%	90%	90%
		Claims Services Satisfaction	81%	N/A	N/A	N/A
		Customer Approval Index	59.3%	57.9%	N/A	N/A
Personally Accountable, Capable and Engaged People	▪ Increase the level of engagement of ICBC employees. ▪ Ensure that ICBC has a workforce that is capable of meeting current and future business requirements.	Employee Engagement Index	47%	N/A	N/A	N/A

A Depending on when the increase in the court tariff is implemented, these ratios could be negatively impacted as a result of an increase in claims costs up to a maximum of $24 million. This would increase or negatively impact the loss and combined ratios by 0.8%, and the return on equity would decrease by 2.0%.

B 2004 was an exceptional year in premiums earned and for claims incurred costs. For 2005, ICBC is projecting a return to a more typical year for claims costs.

C Excludes acquisition cost adjustments (Deferred Premium Acquisition Costs) and other unusual items.

ICBC's Historical and Current Strategy Overview

The table below illustrates the major themes that have characterized ICBC's strategic direction in recent years and in the period addressed by this Service Plan.

Strategic Theme	Road Safety (1996 – 2005)	Operational Excellence (2001– 2005)	Become More Competitive (2003 – 2007)
Emphasis	Prevention Reduce crashes and crime	Financial Health Operate in the most effective and efficient manner	Competitiveness Enhance products and services to customers while operating efficiently and effectively
New Strategies	▪ Support funding for enhanced traffic law enforcement programs and auto crime prevention programs	▪ Improve the value of goods and services ICBC obtains	▪ Build and maintain financial strength of company ▪ Continue to position ICBC to compete effectively ▪ Develop internal capabilities to efficiently and effectively meet regulatory framework requirements ▪ Strengthen workforce capabilities and employee engagement
Continued Strategies	▪ Invest in programs to reduce crashes, crimes and claims costs ▪ Increase business partners' participation in road safety ▪ Develop world class expertise in transportation risk reduction	▪ Understand customer needs ▪ Reduce costs and improve processes to reduce the need for premium increases ▪ Enhance ICBC's performance-based culture ▪ Continue to ensure financially sustainable and independent core lines of business including basic and optional insurance ▪ Reduce crashes and crimes and their impacts on customers and premiums	▪ Provide customer-valued products and services ▪ Understand customer needs ▪ Reduce costs and improve processes to reduce the need for premium increases ▪ Enhance ICBC's performance-based culture ▪ Continue to ensure ICBC remains a financially sustainable and integrated business ▪ Reduce crashes and crimes and their impacts on customers and premiums

Alignment with Government's Strategic Direction

The Government of British Columbia has identified five goals to move the province forward:

GOALS

1. To make BC the best educated, most literate jurisdiction on the continent.
2. To lead the way in North America in healthy living and physical fitness.
3. To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.
4. To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.
5. To create more jobs per capita than anywhere else in Canada.

ICBC's strategic direction focuses the company on providing significant value to all British Columbians, from customers who purchase its products, to those holding a BC driver's licence, to individuals making a claim, to individuals and communities that benefit from a road safety investment. The five goals put forward by government address specific challenges and opportunities in BC, and ICBC is committed to supporting each goal when appropriate within its mandate.

ICBC contributes to these goals directly and indirectly by virtue of the work it does every day. Specifically:

- The company works hard to keep rates low and stable. This helps make insurance accessible to all British Columbians, provides stability at a time when other parts of Canada have experienced significant rate volatility, and contributes to conditions that make BC an attractive and affordable province in which to live and work.

- ICBC is also committed to meeting customer needs throughout BC, which means the company will provide reliable basic insurance to all qualified drivers and compete for optional insurance business in every community of this province.

- Finally, ICBC plays a pivotal role in assuring the safety of British Columbians. Each year, the company invests in loss management and road safety programs that reduce the frequency and severity of accidents, and engages a dialogue about issues that affect individuals and their communities, from crime to fraud to safe driving. The company also provides no-fault accident benefits for medical and rehabilitation services that assist victims in returning to work and living independently in the shortest possible time. Further, the company embraces values of integrity, fairness and community. Through joint initiatives with schools, industry associations, and municipalities, ICBC involves the general public in promoting safe driving. The company also works in close conjunction with government ministries and the police to curtail vehicle thefts.

Summary Financial Outlook

$ millions	2004 (Actual)	2005 (Outlook)	2006 (Forecast)	2007 (Forecast)
Premiums earned	3,026	3,075	3,081	3,143
Investment income	395	500	394	413
Total revenue	3,421	3,575	3,475	3,556
Claims incurred	2,221	2,416	2,465	2,586
Claims services & loss management	281	292	305	315
Insurance operations expenses	104	105	109	115
Acquisition costs	323	367	376	388
Non-insurance expenses	105	110	95	91
Total expenses	3,034	3,290	3,350	3,495
Net income before the following	387	285	125	61
Gain on sale of property and equipment	2	-	-	-
Net income	389	285	125	61
Full time equivalent employees (year to date average)	4,764	4,900	4,900	4,900
Capital expenditures ($ millions)	14	25	30	30

The outlook for 2005 is net income of $285 million or $109 million higher than originally planned. The outlook for 2006 is net income of $125 or $14 million higher than in the January 2005 Service Plan. In both years, this is due to increased investment income and higher than expected premiums earned offset by higher claims and acquisition costs.

In 2007, the outlook is net income of $61 million or $37 million lower than the original plan of $98 million. The current outlook indicates higher claims and acquisition costs than originally planned which were offset by higher than expected premiums earned and investment income.

The increase in investment income in 2005 is due mainly to gains realized from the investment portfolio of Canadian bonds and Canadian and global equities from strengthening investment markets. Premiums earned in 2005 are expected to be $40 million higher than the original plan after the optional rate reductions in June 2005, totalling $100 million, and the further $33 million refunded to qualifying customers who renewed policies in 2005 prior to the June changes in optional insurance rates. The majority of the impact from the optional rate reductions will affect premiums in 2006 and 2007.

Key Assumptions

- No prior years' adjustments are reflected in 2006 and beyond.
- No deferred premium acquisition cost adjustments are reflected in 2006 and beyond.
- The outlook is based on the status quo business model and existing cost structures.
- Return on investment (accounting): 5.8% return for 2004; 6.9% in 2005; 5.08% in 2006; and 5.19% in 2007 on average portfolio balance.
- The outlook is based on current generally accepted accounting principles.

- These results reflect the overall operations of the business including basic and optional insurance and non-insurance activities.
- Claims discounting and the removal of margins on unpaid claims have not been factored into any of the outlooks.
- Claims incurred reflects current claims trends, vehicle population growth, inflation and an improving BC economy. It also includes the anticipated increase in the court tariff for costs in 2004, 2006 and 2007. The decision regarding tariff costs is still outstanding and no increase has been included for 2005. Depending on when the increase in the court tariff is implemented, claims costs could be negatively impacted in 2005 up to a maximum of $24 million.

Forecast Risks and Sensitivities

■ Premiums	1 % fluctuation means $30 – $31 million in net premiums
■ Claims	1 % fluctuation means $22 – $26 million in claims costs.
	1 % fluctuation in the unpaid claims balance means $47 – $50 million in claims costs.
■ Investments	1 % fluctuation in return means $71 – $79 million in investment income.
	1 % change in investment balance means $3 – $4 million in investment income.
■ Market share	1 % change in market share represents a $4 – $6 million impact on net income.

Operating Subsidiaries

Previously, Surrey City Centre Mall Ltd. (SCCM) operated as a subsidiary of ICBC Properties Ltd. (IPL). On January 1, 2004, the net assets and liabilities of IPL were transferred to ICBC, including its two subsidiaries: SCCM and 596691 BC Ltd.

596691 BC Ltd. is a nominee company holding one property asset for ICBC. The company has no operations in its own right, and all financial information is included in ICBC's financial summary detailed in this Service Plan.

SCCM was incorporated in 1999 and is a wholly owned subsidiary of ICBC. It actively manages the Central City project in Surrey, which included the development of a 25-storey class A office tower and Galleria, built over top of the existing retail development known as Central City Mall (formerly Surrey Place Mall). Construction was completed in 2003 with the net leasable area of the new development being 862,000 square feet. The existing retail mall is 626,000 square feet, of which SCCM owns 496,000 square feet.

The sophisticated nature of the facilities' design and amenities of the Central City development has lent itself to attracting tenants with specific space and technology requirements. For example, in 2004, Simon Fraser University (SFU) purchased net leasable space of 305,000 square feet in the Central City development to create a new Surrey campus.

In 2004, SCCM reported a net operating loss of $0.3 million, based on revenues of $11.2 million and expenses of $11.5 million. The operating loss was offset by a one-time gain of $7.5 million realized on the sale of a portion of the development. The outlook for 2005 shows a net loss of $0.9 million, based on revenues of $13.3 million and expenses of $14.2 million. These losses are attributable to the development not yet being fully leased. These financial results are included in ICBC's financial summary provided in this Service Plan.

SCCM management will continue to market Central City as an international quality leasing opportunity. Its 2005 capital budget of $13.6 million will support new construction of retail development and other tenant improvements and allowances. These expenditures focus on realizing maximum value from the asset, with the goal of leasing additional space and generating more revenue overall. These are both key measures of performance for the company.

Today, approximately 90% of the office development is either leased or sold. While leasing efforts continue for the office development, revitalization of the shopping areas of the project is becoming a larger focus of the company. SCCM is making every effort to lease up the building, with a view to bringing occupancy levels in line with other ICBC property investments.