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SELECT STANDING COMMITTEE ON

CROWN CORPORATIONS

Victoria

Wednesday, May 7, 2003

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SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS

Victoria
Wednesday, May 7, 2003

Chair:	* Ken Stewart (Maple Ridge–Pitt Meadows L)
Deputy Chair:	* Harry Bloy (Burquitlam L)
Members:	* Pat Bell (Prince George North L) * Susan Brice (Saanich South L) * Daniel Jarvis (North Vancouver–Seymour L) * John Les (Chilliwack-Sumas L) * Harold Long (Powell River–Sunshine Coast L) * Barry Penner (Chilliwack-Kent L) Rod Visser (North Island L) * John Wilson (Cariboo North L) * Patrick Wong (Vancouver-Kensington L) Joy MacPhail (Vancouver-Hastings NDP)
	** denotes member present*
Clerk:	Craig James
Committee Staff:	Audrey Chan (Committee Research Analyst)

Witnesses:	Nick Geer (President and CEO, Insurance Corporation of British Columbia) Bill Goble (Insurance Corporation of British Columbia) Geri Prior (Insurance Corporation of British Columbia)

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Select Standing Committee on Crown Corporations

Wednesday, May 7, 2003

MINUTES

SELECT STANDING COMMITTEE ON CROWN CORPORATIONS

Wednesday, May 7, 2003
9 a.m.
Douglas Fir Committee Room
Parliament Buildings, Victoria

Present: Ken Stewart, MLA (Chair); Harry Bloy, MLA (Deputy Chair); Pat Bell, MLA; Susan Brice, MLA; Daniel Jarvis, MLA; John Les, MLA; Patrick Wong, MLA; Barry Penner, MLA; Dr. John Wilson, MLA; Harold Long, MLA

Unavoidably Absent: Rod Visser, MLA; Joy MacPhail, MLA

1. Pursuant to its terms of reference, the Committee examined the Insurance Corporation of British Columbia.
Witnesses
Mr. Nick Geer, President and Chief Executive Officer
Ms. Geri Prior, Chief Financial Officer
Mr. Bill Goble, Chief Operating Officer

2. The Committee met in camera to review its examination of the Insurance Corporation of British Columbia and its report to the House on the matter of the British Columbia Securities Commission.

3. The Committee met in public session.

4. **Resolved,** that the Committee adopt its report to the House on the matter of the British Columbia Securities Commission.

5. **Resolved,** that the Chair present the Committee's report to the House on the matter of the British Columbia Securities Commission at the earliest opportunity.

6. The Committee adjourned at 11:27 a.m. to the call of the Chair.

Ken Stewart, MLA
Chair

Craig James
Clerk Assistant and
Clerk of Committees

WEDNESDAY, MAY 7, 2003

The committee met at 9:02 a.m.

[K. Stewart in the chair.]

K. Stewart (Chair): I'd like to welcome everyone here this morning to the Select Standing Committee on Crown Corporations. My name is Ken Stewart. I'm the Chair of this committee. What I'd like to do this morning is to quite quickly get into our presentation, but first, we'll just have a round of introductions. The format is going to be fairly tight today. We have a number of members who have planes and ferries they have to catch.

What we're going to do is have one hour for the presentation. I see we have a hard copy of the presentation before us. I would suggest to members that if you have any questions, just write them down there. We'll be starting the questions an hour after the presentation starts. I would suggest we leave the questions until we're finished the presentation so that we can get through that in a timely manner, and there'll be a full hour for questions after that.

Without any further delay, we'll start with introductions. I'll start with the Clerk to my left.

C. James: Craig James, Clerk of Committees and Clerk Assistant in the Legislative Assembly of British Columbia.

A. Chan: Audrey Chan, committee researcher.

P. Bell: Pat Bell, MLA for Prince George North.

S. Brice: Susan Brice, MLA Saanich South.

D. Jarvis: Daniel Jarvis, North Vancouver–Seymour.

P. Wong: Patrick Wong, Vancouver-Kensington.

B. Goble: Bill Goble, chief operating officer.

G. Prior: Geri Prior, chief financial officer.

N. Geer: Nick Geer, president, ICBC.

B. Penner: Barry Penner, MLA for Chilliwack-Kent.

J. Wilson: John Wilson, Cariboo North.

H. Long: Harold Long, Powell River–Sunshine Coast.

J. Les: John Les, Chilliwack-Sumas.

H. Bloy (Deputy Chair): Harry Bloy, Burquitlam.

K. Stewart (Chair): We'll just turn it over to Nick here. We've been using first names, so feel free to continue that process, if you like. We'll turn it over to you. You have an hour.

Review of Crown Corporations: Insurance Corporation of B.C.

N. Geer: Firstly, Bill Goble and Geri Prior are joining me. I will make the presentation, but all three of us are available for answers. If there is anything difficult, I'll always pass it off to somebody else. That's what Geri and Bill will be able to answer.

Thank you for this opportunity. Actually, we've looked forward to this. We believe, as ICBC is owned by the people of this province, that this is effectively an opportunity to have a shareholders meeting and present to you how we've done over the last year, where we're going and some of the thoughts we have.

We've laid out on the first slide — and you have your hard copy of what we will be putting up on the screen, if you want to glance at that — basically the agenda we will try and go through in the next hour and some of the points we will cover.

[0905]

The next slide is really very basic. I apologize to anybody here who has a lot more knowledge than this. Just to frame the area we're talking about, it's useful to look at this at a high level. The purpose of insurance really is to provide customers with financial protection should they need it, should they be in a crash. We talk about crashes, not accidents, generally. The primary function of an insurance company is to spread risk. We collect premiums from a lot of people, and then we have that money to be able to pay claims to the few who have losses and who have crashes.

The issue we often have in an insurance company, along with many others, is that our costs are unknown for a long period of time. When we talk about the balance sheet and we talk about some of our challenges, you will see that our balance sheet is composed primarily of reserves for future losses. We take an attitude of being as conservative as we can for reserving those future losses.

The basic insurance products ICBC is involved in are auto in B.C., as you know. It's split into two fundamentals. The basic or mandatory insurance is there to get people on the road. It's required. People have to buy it. It's a fairly good package if you look at what is offered across the country. Fundamentally, it has a $150,000 amount for medical and rehabilitation costs for the injured person. That's on a no-fault system. There is a wage loss maximum of $300 per week. We cover funeral expenses and death benefits. Then we have a $200,000 protection for third party. That is, if you cause an accident, the injured party, the third party, has a $200,000 limit they know they can look to because that individual will be insured. We also put into the basic plan an underinsured motorist protection. If such a thing should happen and we do have an uninsured problem, then a $1 million coverage is in the basic coverage. Hit and run is also, at this time, covered in the basic coverage on a no-fault basis — again, up to $200,000.

The optional or competitive product is a different product. That really is designed to cover financial loss of the individual — loss of one's own assets or protection of one's own estate. If you have a collision and your car is damaged, the optional coverage is there for you. Similarly, there's comprehensive, which deals with glass; it deals with loss; it deals with vandalism of your own property. Or if you are sued beyond the $200,000 in the basic, extended third-party is available to cover, really, your estate. It is an optional package. There are a number of other — I won't go into detail — policies available under the optional side, such as collector cars, vehicle storage and a number of other specified risks and perils. They are all covered in the optional package.

To set the scene a little bit across Canada, auto insurance in Canada is not uniform. There are different rules across Canada. We look at comparisons, primarily, between B.C., Alberta and the Maritimes. The reason for that is within those three areas of this country of ours, you have a full tort concept. Saskatchewan and Manitoba operate on a no-fault basis, although Saskatchewan has just introduced a concept of choice — that you can actually choose between the two. Quebec also offers, in the bodily injury area, a no-fault system. Then there's a threshold system in Ontario which caps certain levels and the way in which it can go. We tend to look at Alberta and the Maritimes as comparables.

The levels that are offered in those areas…. Alberta, for example, offers a $10,000 basic coverage for medical and rehabilitation, compared to our 150. In the Maritimes it's 25 to 50, compared to our 150. The comparison of premiums isn't necessarily always accurate, because you've got to look at the product that is offered.

B. Penner: Just a quick point of clarification. When you say 150, you mean $150,000.

N. Geer: Yeah, I talk in thousands. It's $150,000 in B.C., $10,000 in Alberta and 25 to 50 in various provinces of the Maritimes — thousands of dollars.

The other difference in the Maritimes, the disability…. We and Alberta cover $300 a week; the Maritimes are between $140 and $250. The products are somewhat different. One has to bear that in mind as we go through.

[0910]

The next item on the agenda is how we plan. We're changing the way we've done things as we go through in ICBC and changing the way we plan. We'll try to cover off a number of these items as we go through, but from an overall view, our planning context really starts in around the summer. We get a handle on what's happening in claims, we get a handle on what's happening in our costs within the company, and we start to develop the goals and the objectives for the future year, which are then taken to the board.

The board will look at this, discuss this with management, go back to management with changes, and then management will develop an overall business plan. This again comes back to the board in the fall. That business plan is the plan we have going forward, on which we base our need for premium increases or premium changes in the following year and on which we base the service plan.

We are very keen — as I hope our service plan is showing, and in some of the things you'll see as we talk today — on developing measures and targets, both internally and using external targets and measures, against which we can measure. If you don't measure something, you're just practising. Everything we do, we attempt to measure.

We've also developed, as you'll see later on in the presentation, an overall strategy for the company on a longer-term view: where operationally we are attempting to take the company and where, from a customer's perspective, we believe we should be going.

Budgeting operational. Once we've developed the business plan and once we've developed the idea of where we are going, we are obviously looking at how we're allocating resources and what resources we need to provide the service to our customers that we wish to provide.

In reporting, our main areas, as you know, are the annual report and the service plan. Within ICBC, in addition to all of the reports we provide to the government, to this committee and to others, we are also adopting a view that we will attempt to report in a manner similar to a public company. We have adopted quarterly reporting now. Our quarterly report for the first quarter came out this week. We will adopt policies of a public company in reporting policy and as government as well. We're putting that on ourselves, and we believe it is advantageous.

The measures we use are designed to be both financial and non-financial — measurable financial and non-financial performance. We use outside benchmarks. Internally for the last two or three years we've employed a company called Ward Benchmarking that comes into ICBC annually, spends two or three weeks with us, goes through our entire organization from top to bottom and provides benchmarking of many small and detailed levels — how we are doing against the industry. We use that as a planning tool as to where we need to make changes. We'll outline today some of the key measures, but there are many others included in the service plan and within the organization. We use a number of benchmarks, particularly coming from Ward Benchmarking.

We introduced the concept of personal performance into the company in the last two years. In 2003 all of our management and confidential employees, everybody not in the bargaining unit — a little over 600 people — are now on a personal performance plan where the remuneration is linked to performance. If the company does well and the individual does well, their pay will go up; if neither of those apply, their pay will go down. We've taken away a number of entitlement provisions such as time-off days, extended vacations and banked vacations. Fairly rich post-retirement benefits have been removed, and in their place we've placed performance pay.

We use performance pay in four quadrants. Just as an example of how we look at both financial and non-financial, of the four quadrants, 25 percent of our corporate measure is on customer satisfaction; 25 percent is on an employee index which we'll look at in a while — we're developing that today; 25 percent is bottom line; and 25 percent is in our key financial measures, which is our loss ratio and our combined ratio.

We've also developed an overall concept of corporate risk management. We've divided our internal audit group now into two separate groups. They report directly to the audit committee of the board. We have developed a corporate risk profile management profile which identifies the top ten risks that the company is facing. These will change from time to time. That group will identify, will produce mitigation strategies and will report quarterly to the audit committee on their progress on what is happening and what we see as the major risks facing the company as we go forward — in addition to all the internal audits functions that are normally performed in a company of this size.

On the management side we have made, I think, some fairly major steps this year. We have introduced a complete governance manual that outlines the responsibilities, the duties and all of the areas for the board, the individual directors, the committees, the executive and the president. That's now alive and operating, a governance manual that we use as a guide to how we're going forward.

[0915]

Then every year we use an outside resource consultant to look at the board and how we're performing. Individual board members can report on their problems and concerns to an outside party. Those are collated, and we can look at what we need to do within the board to better the governance of this company. We've moved, I think, a long way on improving governance.

We operate within the insurance industry. We thought it appropriate today to give just a little bit of an oversight on what's happening within the insurance industry in Canada, in particular, to get an idea of some of the pressures and the concerns we have.

The insurance industry today is an industry in trouble. We are seeing a fairly significant escalation of claims across the country. We're not alone. We're actually on the better side of that in B.C., on our escalation, but this is pressure the entire industry is facing. We're also seeing a significant decline in investment income because of the markets, because of the lower interest rate on bonds and because of the equity markets and the way they've performed. Insurance companies, in general, have relied in the past on significant investment income for their bottom line. That is no longer available, and it's showing up.

The return on equity — and this is an external chart produced by IBC — now is reaching a level that actually is quite dangerous. In the year 2002 it was down to 1.6 percent. If you consider that investment income in ICBC in 2002, we earned a return of 5.7 percent on our investments. If investment income is above the return on equity, then what is happening is that capital is actually subsidizing the insurance business. Through returns on investments that are greater than the return on equity, you're actually getting subsidy from capital to the insurance business. I think that is a dangerous position for the industry. The industry is having to react.

This chart, again, is a busy one, but I'll just explain a little bit of what's there. It's again from the IBC numbers. What you're seeing over the last number of years — in the last five years — is a significant increase in claims and loss ratios. Where that is coming from is bodily injury. The one anomaly on that chart is Quebec. The reason Quebec is an anomaly is because that number is only property damage in Quebec. Property damage is in the private sector market; bodily injury is not. It's interesting to compare that, because when you segment out property damage you actually see an entirely different direction to what you're seeing with bodily injury. This is the pressure we all face in the insurance industry across the country. We're not alone. The climb we're seeing in major claims…. The courts are handing out far larger awards than they have in the past, and this is probably the major pressure we're seeing on premiums as we go forward.

The other slide is, again, a little busy, but it's just to give you a concept. Capital is a fundamental element of an insurance company in order to protect against the unforeseen circumstances of the future. Capital in Canada and in the United States has been declining substantially. We are starting to see capital constraints within the industry. We're starting to see the possibility that the industry has to pull in its horns in what it does because of those capital constraints. Business has increased as premiums increased, but capital has not increased in that context.

The next slide. One of the reactions you've seen to that is obviously a rise in premium costs. This is the year January 2002 to January 2003. It's produced by Statistics Canada, and the reason we've used this is that it's in our annual report. It compares the increase in auto premiums — this is a Statistics Canada number — year over year, one year to the next, January to January.

The interesting part here is that we're showing increases of 7.3 percent, according to Statistics Canada, which is very close to the increases that were actually implemented by ICBC. In the comparables that were used, we're seeing 59 percent increases in Alberta and between 58 and 70 percent increases in the Maritimes. This is a response of the industry to the capital constraint and the problem of a lowering return on equity.

This is anecdotal, but I think what we've seen is that, in the past, auto has been used as a loss leader because it brings traffic. It's automatic. Everybody has it, and everybody needs it. Other lines of business that other insurance companies operate under have been able to subsidize auto. We've not had that opportunity within ICBC. With 9/11 and with the other problems that you're seeing across the world, with the almost collapse of the reinsurance industry and the massive escalation in premiums on reinsurance, you're seeing a need for auto to stand on its own two feet. I think that's one of the reasons you're seeing fairly sizeable increases in auto premiums right across the country.

[0920]

The other slide, again, is a bit of a busy slide. I just want to explain what it really means, because this is an example. As companies find it difficult to reach the returns they need, another reaction is to move away from markets or move away from particular insureds. In every other province but B.C. — or rather, the government-run provinces — a facility organization is created, which picks up those people that the private insurers don't wish to handle. What you're seeing over the last two or three years is a significant increase in the number of people that are falling into the facility associations. That's the line that shows on that chart in the last two or three years. It's indicative of insurance companies starting to look at the better risks and trying to move away from the poorer risks. Again, it's a problem that's facing all of us in B.C. ICBC basically takes all. I'll cover that a little more as we go on.

The next part of the agenda is ICBC: a little bit of context and a little bit of overview of the company — just a few of really what I regard as our prime directives. Being a *Star Trek* fan, I kind of like to use that.

The new-era commitment was to introduce greater competition in auto insurance to reduce premiums. That's one sentence, and it includes reducing premiums. We take that very much to heart. Our ability to produce the lowest-cost premium is something we believe is the responsibility of any server of the public, ourselves included.

Some specific directions. The first two I personally received from the Premier before the last election. They've been given to the board quite clearly and, I believe, set the tone for what we're attempting to do: do what is best for the people of the province; run the company like a business; operate with the lowest rates possible; optimize the economic value of ICBC to the government; and provide the governance from the board to run ICBC efficiently. These are really some of the prime directives we're using as a company and as a board to go forward to make sure we behave properly and we behave well.

The core review tests. I don't know who came up with these five items, but I believe they are very well thought out, and we have entrenched these in the way we wish to run. These are not short term during the core review process. I believe these five levels are a good credo to run any company by, particularly a Crown: run in the public interest, be affordable to your customers, run effectively and efficiently and be fully accountable. Part of the process we're in today ties into the last level, which is why we're very happy to be here and to tell you a little bit about what we're doing.

The core services review, which was concluded in November with the open cabinet meeting, decided a number of things. It perhaps didn't go as far as many people thought or many people wanted to see or many people expected, but we've also adopted within the board a concept — particularly because the insurance industry is in trouble — of moving in an evolutionary rather than a revolutionary way.

With a company as large as ICBC that affects so many people in this province, to make revolutionary change within an industry which is in trouble and its capital constrained I believe could cause serious problems. The board adopted a concept that we will move slowly and we move evolutionary, keeping in mind the core principles we've seen in the last two slides.

An independent regulator is in the process of being set up. I gather that legislation is on its way through cabinet and through the House, which we're expecting shortly. We have been consulted on this. We have been talking with the group that is designing this, as has private industry, and we're looking forward to seeing this being set up.

I gather it will be housed under the B.C. Utilities Commission, and then a number of things will occur. The basic thrust is that for the first time ICBC will effectively go through a hearing process to set its basic or monopoly rates rather than come to cabinet once a year. We believe this is a very positive move.

Asking for a regulator, as we did, is rather like requesting your own Spanish Inquisition and giving somebody else the opportunity to design the rack. But we are in fact looking forward — would you believe, somewhat masochistically — to going through a process where we can be open, we can look at what we're doing, and we can see an independent regulator understand and hear outside concerns as we set the monopoly rates which nobody else can offer. We think this is a very useful exercise. It will be open. It will be transparent. It will cause us to continually operate efficiently and effectively, as we wish to do.

[0925]

One of the fundamentals is that we must not and will not use premiums collected on the mandatory side to subsidize the optional competitive product. We have been moving in that direction over the last two years. I think we are doing fairly well. As you saw, the premium changes occurring in 2002 and 2003, we had this in mind. Now we will come before a regulator to show that that is indeed the case.

On the optional side, which is a competitive marketplace, we need to provide a level playing field. It needs to be a healthy market for optional insurance in which we will play our best to offer the best products to our customers. Provided we meet certain rules with which we agree, it will permit ICBC on the optional side to operate as a business and to offer rates that make sense to the risks involved.

Now, there will be changes in philosophy as we go forward. Within ICBC we expect to make those changes as slowly as we can in order to avoid rate shock and to avoid trouble within the marketplace. But obviously, as we operate as a business, we will look at the risk and the rates involved.

That's the independent regulator. It's going to change how we operate. It's going to cause costs, but we think it's a very positive step for this company.

On the core services review again, we decided that we are an insurance and licensing company. We are not in the compliance business. The commercial vehicle compliance and motor vehicle carrier operations that were passed to ICBC some time ago, we wished to be moved back to government. That occurred in January; it has happened. That took 280 of our employees with it across to the appropriate ministries. This is a very appropriate step for these types of transactions.

We agreed, from ICBC, that we would continue to fund what we saw as our costs for this year — approximately $25 million — over three years, providing those funds to government on a transitional basis to allow government to move into that without seeking additional revenue. That money will be recovered from basic insurance premiums and, therefore, is a user-pay system to some degree.

Interjection.

N. Geer: Did I say January? It's just been pointed out that I said January. It moved across in April. If I said January, I apologize. April 1 is when it occurred. All the signs have now changed on the test stations, and it seems to have gone very smoothly.

We decided to retain both driver and vehicle licensing. When I say "we," this is cooperative with the core review committee and with cabinet. Vehicle registration — importantly, because the linkage of vehicle registration to basic insurance — is one of the principle reasons why we have such a low level of uninsured drivers on the roads in B.C. We believe it's somewhat under 1 percent. We're told that it's over 40 percent in Los Angeles, and in most places it's around 15 percent. It's that linkage which creates that benefit to the people of B.C.

On the driver licensing side, which was given to ICBC a fair time ago, we think it makes sense. It's a user-pay system because it's priced into basic. We believe we're operating relatively efficiently. The linkage of insurance to licensing helps us — in cooperation with the Solicitor General's department, which is vital — to have some influence in getting the right drivers on the road, which has a huge impact on the claims costs. The cost of that is some $60 million in 2002. We bear the full cost and price it into basic. We actually collected around $417 million in 2002 and over the years, each year, in licences, fees and fines that we collect, and that we hand, gross, back to the government through the operations of ICBC.

We also operate a loss-management activity. We're moving more and more to look at the areas we should be operating in and get away from the areas we shouldn't be. We are not a compliance operation; we are not an enforcement operation; we're an insurance company. The reason we're in road safety is to save claims costs. Pure and simple, it's a business decision. If we can stop a crash from happening, we can save a cost and we can keep premiums down. Our focus is tending to go more and more to the educational side and fixing problems, which are high crash areas that are causing us a lot of problems.

We've produced in our annual report and in documents we are putting through, a little bit of a better idea, a bit of a feel, to the general public — and this is in all the brokers' offices now — of how the money comes in and where it goes. I'll just leave that with you. In 2002 approximately 2 cents of the premium dollar fell to the bottom line. That is actually razor-thin. A 2 percent change in claims, which can happen overnight — a snowy day in Vancouver is an expensive activity — can affect the bottom line fairly rapidly. We've got to be careful; we've got to be cautious. It gives a bit of a better view in pictorial terms — and I thank Geri for developing this slide and for developing this concept — to be able to show people where the money comes from and where it goes.

[0930]

I won't go through the next slide. It's awfully busy. We'll leave it with you to give a bit of a feel for the impact that this company has on the province and on the people. Our number of customers is 2.7 million. That's a lot of people in this province — 900,000 driver's licence transactions annually. We pay nearly $900 million in bodily injury claims every year. It's a large entity, the point being we've got to be careful in how we go, in order not to create problems rather than create opportunities.

The next item on the agenda is to look at some of our performance. You have the service plan. You have the numbers in the service plan. We want to highlight some of the specifics we've seen occur in 2002 and some of the areas where we see challenges and opportunities going forward.

One of the areas we focused on in ICBC right from the get-go when the new board was appointed was our costs. I believe very strongly that in any corporation you can price your product for market share or for other reasons for some period of time, but in the long run your underlying costs are what will drive your price. If we are to produce the lowest premium costs possible, we must get our costs under control.

In the last two years we've taken, on an annualized basis — this is done; it's not planned — $174 million a year out of our costs. You can see that in those numbers. The jump that occurred on this slide from '98 to 1999 was the final acquisition by ICBC of all the motor vehicle branch activities. Really, they're not a comparable number. The activities are comparable from 1999 through to 2002. The peak of the costs was in mid-2000. We've reduced now, to 2002, $174 million, as I say.

Our staff is down, before the transfer of compliance — so on a comparable basis — by 1,400 people from a height of 6,500. A further 280 have gone across in the compliance transfer. We've reduced over 270,000 square feet of space. We've closed claim centres. Just indicative, we got to ICBC as the new board — I got there as the new president — and found a fleet of vehicles which would choke a horse. There were some 900 vehicles owned in ICBC. There are now 87.

We've changed our entire way of doing business as well as just reducing costs. We're approaching things very differently. This was a major focus for us for two years, and it was necessary in order to get where we go.

The next slide deals with numbers of people. This is obviously a main driver in the controlling of costs. This just lays out for you the reduction in staff over the quarter shown on that slide, from the middle of 2001, when it was approximately 6,500 people, down to 5,100 people before the transfer of compliance. A further 280 will now come out of that number in the second quarter, as compliance is transferred across. We believe we've reached approximately the right level. There will be changes up and down. There will be movements within the company. Some will need more; some will need less. We need to go back in and adjust things we've overdone or underdone, but we think we're now operating at about the right level, having achieved that in the last two years. This is probably the major driver of that cost.

The pleasing slide is the next one, which we are delighted to see. What we've done here is taken a major change in the way in which we operate business as we take out costs for the benefit of our customers, but we have not driven down — as can happen — customer satisfaction. In fact, over the last three years, as we've been acting on costs, customer satisfaction has been rising. One of the reasons is we're doing things differently. We are approaching the interaction with the customer in a different way to the way they've been done before, as well as reducing costs. We're trying to involve our employees in a customer service organization. We are trying to listen to our customers. We are involved in a number of focus groups to understand what our customers want from us, what they wish to see ICBC present. That, we believe, is now showing up in customer satisfaction.

This measure is a measure of an activity — an Autoplan purchase, a claim, a licensing transaction. With the organization we are now going to try and develop another measure of customer satisfaction, which is an overall view of: "What do you think about ICBC as a whole, not just the transaction you've had?" It's to guide us towards where the public, our 2.7 million customers, wish to see us go.

[0935]

I mention, and I'll show a little later on, that investment and investment income is a key element — $327 million of investment income in 2002. That was down — I think the number was $125 million or thereabouts — from the investment income in the prior year. Why? Because the markets have performed that way. We are earning a lot less as a return on our investments than we did before. I believe what we've reached is a reality, whereas the prior few years may have been the anomaly. The entire industry is seeing this issue.

What's up on the chart is a comparison of ICBC to the industry median. We are in the top 30 percent of the industry in our performance and our return on our investments. We can take some pride not in the drop but in our performance when we measure ourselves comparably. Obviously, the pressure that creates on the bottom line is significant.

We have added a new way of measuring. We've changed our investment criteria. We believe our investments are there for one reason only, and that is to pay the claims for our customers when they become due. They're not there for any other reason. That's why an insurance company has an investment portfolio.

We've looked at our investments, we've reorganized how we invest and what we invest in, and we've linked the investment exposure and the investment risk to our risk on the claims side and the risk of the company. It is a new policy. It's a new approach. As we move forward, we are in fact taking less risk than we have taken before. That might show in a slightly reduced income, but it reduces exposure, which we think is important.

Looking at the income of the company, on slide 27 you see where the net income has been reported in our annual reports over the last five years. When you look at that, it looks as though 2001 was the anomaly, that it was a terrible year, and that everything else was fine. I would point out that in 2001 we took a net write-down to the Surrey Place Centre of $100 million, so that $251 million is a little distorted.

It is interesting. I mentioned very early on that an insurance company doesn't really know its major liabilities for a number of years until those claims settle out. You adjust for that by reserving — hopefully properly — but also taking adjustments for prior years. It is that number that really tells you how you've done in any given year. You can only really see it as time goes on.

On the next slide we've adjusted those five years for the prior adjustment claims. Remember, again, that 2001 does have that $100 million for the write-down in Surrey. When you look at this slide, what you begin to understand is that ICBC, on a premium base and on a bottom line base, was actually getting into trouble in 1999. We had a six-year rate freeze, we were actuarially deficient in our premiums, we in fact paid a significant dividend authorized in the year 2000, and yet we were in trouble on the bottom line.

What you've now seen through 2002 is a reversal of that position back to a level where we are achieving marginal profitability as we need to do in order to create stability in this company so that it is there for our customers when they need us to be there, which is when they have a claim and when they are looking to buy an insurance policy. I think that is a fairly interesting slide to understand, not just the net income on the bottom line of the annual report but what really is happening in a claim year or premium year.

Looking at the balance sheet gives you a little idea of where the preponderance of our balance sheet is. On the asset side 95 percent of our balance sheet is in investments. Five percent represents some cash on hand, some cash in flow at broker level, some buildings that we own and claim centres we've sold. We've closed down four claim centres, by the way, which we are in the process of selling. It was inefficient. We had claim centres close to each other and operating at suboptimal efficiency, so we've closed and amalgamated. That will in fact shrink. Those are the normal business assets you see in the company, but our balance sheet is primarily investments.

On the liabilities and retained earnings side you see again that really what our balance sheet represents is unearned premiums. Now, when we collect a premium for a year, we only take that premium in one month at a time into income, so the balance on average, I guess, is six months. There were six months of unearned premiums at any point in time. That represents 21 percent of the balance sheet for which we hold investments. The major item, 69 percent of the balance sheet, is unpaid claims. Those are the claims that we believe we have incurred, that we have reserved for and are yet to be paid and settled out. So our balance sheet really is unpaid claims and liabilities and investments on the other side.

[0940]

Our retained earnings — and we call it retained earnings — are only 5 percent of our total balance sheet. We believe that's too thin. It's running around $314 million at the end of the year. Now, remember that in the year 2000 a dividend of $218 million was declared, which reduced those retained earnings to a level we believe is unsustainable. We had to write down $100 million net on the Surrey centre, so $318 million — in fact an amount almost equal to the retained earnings we have today — was taken out of this company at a time when premiums were insufficient to pay for our claims. We're reversing that. We're rebuilding that slowly because we need to be stable for our customers. We have a government guarantee. You have my blood that I never, ever wish to call on that government guarantee. We need to stand on our own two feet, and we intend to.

The issues and risks. I talked about forming a segment of our internal audit group that reports directly to the audit committee. These are some of the principal risks that we see operating within the company today. These will change from time to time. Claims costs are rising, particularly on bodily injury and on crime. Stealing vehicles is becoming a habit in this province in certain areas, and the loss of vehicles through theft is growing — 8 or 9 percent, I think, in the last quarter over the last year and around 10 percent last year. It's a serious problem.

Catastrophic loss is an issue in an earthquake zone. If we were to have an earthquake in British Columbia of the magnitude that is said to be possible, a significant loss would occur in ICBC. For that we reinsure. We carry a $25 million first liability, and $100 million is then reinsured. That reinsurance policy comes up at the end of this year. We're in negotiations now for renewal, and we're in negotiations and investigating to see what level we should be covering and what level we need to cover. That premium is going to be more expensive than it was before. The reinsurance market is a tough one, so that is clearly an issue.

Investment income is declining. We cannot rely on the investment income we've received over the last number of years. We understand that. We need to run the company accordingly.

I've talked to capital levels. We are thin on the ground on capital. If something occurred that we just can't think of, we are thin on the ground. We need to rebuild capital slowly over time. We need to avoid, I believe, a rate shock or market disruption or dislocation through massive change suddenly within the marketplace. We need to move on optional to risk-based pricing, but we wish to do this slowly over time, over a three or four period, to avoid a massive rate shock in the marketplace. I don't think anybody benefits from having massive change or massive rate shock.

We have a changing governance model with a regulator. This will create challenges to the company and opportunities. It is clearly not a risk but an issue to the company that we need to deal with.

We need to change the corporate culture. We believe we've got a handle on the finances. Now we're in the process of changing the culture of this company. We're moving away from what can simply be called entitlement to a performance culture. We've done that in pay in the non-bargaining unit group — over 600 people. We're creating a listening culture to listen to our employees. We're listening to our customers. We're attempting to be responsive to stakeholders, customers and employees. That is a major change in the corporate culture. It doesn't happen quickly; it takes time. We've set ourselves a target of three years.

Our collective agreement, which we're bargaining on today, ends on June 30, 2003. That clearly is an issue or a risk for the company. We are in bargaining. I can't talk about it in detail for that reason, but that is on the list of an issue and a risk that we have within the company.

Next item on the agenda is the strategic plan. Where do we see ourselves planning to go, and how are attempting to go there? What steps are we taking to make sure this is done well, consistently and for the customers? At the end of core review in November and December we adopted a new vision and a new mission statement for the company. I won't go through the mission statement. It's there for you to read, but on this slide there's the vision statement that we've now adopted for ICBC.

We intend to be the leading insurance company. That's our objective. In a fully competitive marketplace we intend to lead. We intend to lead because we're good — not because we are given the right to, but because we are good. We intend to be good and to be the leader in all aspects of the business, and we intend to operate competitively. That doesn't mean to say — as it will not be for some period of time — that the mandatory basic insurance is competitive. It's not. It's mandatory. But we will operate in a competitive fashion as if it was, so that we provide to our customers the products and services they need at the price they're willing to pay.

Most importantly, the real driver is the last line: to be valued by its customers. That is, I think, probably the prime driver of where we're going on our vision. It underlies an awful lot of what we're trying to do and where we're trying to go with this company.

[0945]

The next three slides outline the mission. In view of time, I won't read through these. They're there for your view. It expands the vision statement and goes into greater detail on some of the issues we're dealing with.

For the first time in our mission statement we've actually recognized our independent broker force as our sales force. It is important. They are our sales force. We need to work more cooperatively for their benefit and for ours. They are selling the policies to customers who we never meet. We need to cooperate. They can tell us more about what the customer wants perhaps than we can. In our cultural change we're getting away from a command-and-control structure. We're getting more into a responsive, listening organization that operates for the benefit of customers.

The three key values are not changed. We believe strongly in these. I'd like to read these:

> "Integrity. We value people by treating others with respect and dignity. We are honest by representing our intentions and ourselves truthfully.
>
> "In commitment. We demonstrate commitment as employees, all of us, 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.
>
> "In dedication to customers. We measure our success by our customers' belief that ICBC's products and services provide good value for money. We provide excellent customer service by approaching every customer interaction as an opportunity to create a positive customer experience."

Those are the values — to use a horrible Iraq war term — that are now "embedded" in the company, and we intend to move forward with those as with the others that you've seen today.

We adopted in early 2002 four corporate goals, which you see on the slide here: become more competitive; customer focused; revenue-driven and fiscally responsible; personally accountable, capable and engage people. Those underlie our values. They underlie our vision and mission statement. They underlie our direction. They've not gone away. They are just further expanded into more operable, measurable terms as we move forward.

In the last two months Bill and I have met, I believe, virtually every employee of the company. We've conducted 31 employee sessions and three management sessions throughout the province, taking the vision, the mission, the objectives of the company — their company, because we're just employees along with everybody else — of how we see this company and where we wish to see this company going in the future.

We've adopted a strategic plan, which is called Jan. 1, 2006, because the strategic plan is to take us to a point in three years' time where we are fully performing under our vision; to take us to that level in a measurable, meaningful way — quarter by quarter, year by year. The objectives to do that we have now expanded out below the vision and mission and then these expand significantly within the regions, within the offices, within the divisions and on each employee's desk. We're explaining to every single member of our staff that it starts with people in a high-performance culture, and it ends with being valued by your customers. That's the be-all and end-all of an efficient operating company and a company that's performing well for its customers.

In between, we create certain business objectives. We must be competitive and innovative in our products and services. We must minimize claims costs, not by not paying people. No, we will pay people the right amount but not a penny more and not a penny less. We don't wish to pay people money they're not due; but if it's due, we should pay it.

We must minimize claim costs by road safety activities and other loss management activities that we undertake to keep those costs down. We must be a fair purchaser of products and services. We are a large organization. We must be fair, and others must be fair to us, so that our customers don't overpay for those services and see it in fact in premiums higher than they need to be. We need to put that solidly in the mantra of how we operate, and we will.

We clearly need to be effective and efficient. Everything we do will be that. The bottom line needs to be positive. We need to operate in a stable, fiscal manner to rebuild the bottom line slowly, rebuild the reserves, so we're there for our customer when he or she needs us. We need to be customer-valued. That's the be-all and end-all. This is the message we're taking out to our employees. This is the message, really, that embodies the company's performance today and where we're attempting to go.

On the agenda the last item is some of the performance information for 2002 and for the steps we see being taken in 2003-05 in the service plan that you all have seen and have. The claims measure is to allow benchmarking. Again, all of these measures… There are many more within the service plan, which I won't, in respect of time, go through, but these highlight ones we'll look at today. These are benchmark items. These are items we can benchmark ourselves against the industry and against other operations.

[0950]

The three bars there. "Autoplan satisfied" is when people buy premiums at the broker's office — are they satisfied with the transaction and the way in which it's handled? Running at a 93 percent level, we believe we're achieving a very high level of satisfaction. We look for that to climb by being more competitive and more innovative in what we do and by our communication with the brokers and better interaction with the broker's office.

The "claims percent satisfied," at 85 percent, is close to the industry benchmark at 86 percent. We're not satisfied with that. We believe it needs to climb, and we're looking for that to climb over the next few years. In my head I want to see that at 90 percent. But you're seeing 86 percent, 87 percent and 89 percent over the next three years as our targets on satisfaction on a claim.

The black bar, which is "driver services percent satisfied," we're running at 90 percent, which I believe is a fairly high level of satisfaction. We've actually dropped it in our forecast for 2003 and then will rebuild. The reason for that is that we anticipate a fairly major change in driver service activity, with the introduction of a new wave of graduated licence programs. We think that when we ask the question, "Are you satisfied with driver licensing services?" the introduction of that program is going to see a negative effect on customer satisfaction, because it will be more complicated, more difficult, more steps to take, and we think it will have an impact. That's why we've built that. This is not because we want to perform worse. This is because we see a major step, which we're working with the government and with the Solicitor General towards and which we really believe is essential, as we move forward to reduce claims, and it will have an impact on satisfaction that we then need to rebuild. That's the reason we're showing a drop. I hope it doesn't. We will always strive to keep these rising, but that's the reason you see that dropping.

We are developing an employee index. In the past we've asked our employees: "Is ICBC a good place to work?" We don't think that's satisfactory. We're going to ask employees different questions. We're going to ask them: "Are we training you well? Do you have the right tools? Do you understand where the company is attempting to go? Do you understand the job that you do? Do you contribute to the company? Are you feeling valued?" We're developing that employee index as we speak, but we may slow it up because of the issues we have this year. We intend to roll this out towards the end or the middle of this year and measure how our employees are valuing where they are. If the employees are valuing it, and if the employees are working in a performance culture, our customers will feel it and we will improve our customer performance. We are rolling out a new employee index, and we hope that will be done, certainly, by the end of the year — probably towards the end of the year.

The next item is the expense ratio. ICBC operates — which you will see fairly shortly — at a loss ratio that is fairly significantly above the industry. The reason is we take all comers. We don't turn people away. We take all comers and their insurance, so we bear a loss ratio. We pay out more of the premium dollar in claims, significantly more than pretty well anybody else. We take all comers. We, in fact, create premium levels that don't necessarily recognize risk for age, sex and marital status. That is government policy; we administer it. But it creates significant distortions in the premium levels in those areas, compared to other provinces — meaning we pay out more on the premium dollar. To compensate for that, we must reduce our expenses in the operating of the company to compensate for the higher loss ratio that we experience in the company.

We understand that the benchmark in the industry is between 25 percent and 27 percent of operating costs. In 2002 — if you take out the 3.2 percent, which is our cost of operating the licensing, collecting fines and doing things for government for which we receive no revenue — the comparable number to industry, the benchmark, we're running at is 15.4 percent — close to 10 percent below the industry level of expense ratio. This includes premium taxes, and it includes commissions. It's the full operating cost of the company. We need to run there; we think we're about right. We think it might go up and down and sideways a little bit.

[0955]

Again, you'll see in the year 2003, we've been pessimistic. My rule with Geri and Bill and with people in the company is: "Underpromise and overperform." The reason we've seen a bit of a jump in 2003 that we forecasted is that a couple of things are happening in 2003. We're moving into a regulatory environment, which we believe will create cost within the organization to respond to it and to deal with it. We think that will create cost within the company. In a bargaining year it creates cost within the company, and it creates issues.

We've forecasted that in our target for 2003. We will attempt to get underneath that, but we've forecasted it for those reasons and then to bring it down as we go forward. The regulatory burden, which we believe is the right way to go, will, however, cause increased costs on the company, and that will be actually permanent to some degree. We don't know what that will be yet, so we're guessing a little bit, but that's the reason for the increase. The whole focus of the company is operational excellence. We need to keep our expenses down.

The next slide, the second-to-last slide, is our combined ratio. This is the combination of loss ratios and our expense ratio. This is where we can overall benchmark against the industry. Our ratios include that 3.2 or nearly 3 percent that you have to take off those numbers to really be comparable. In 2002 if I take off the 3.2 percent, we're running at 108.1 percent comparable to industry, and our benchmark in industry is 108.6 percent. We're running now at a benchmark level, on a combined ratio — despite a significantly higher loss ratio — equivalent to industry.

Interestingly enough, this week at an insurance conference in Victoria, Paul Kovacs, the IBC chief economist, made the comment that the industry benchmark is the overall P and C industry, which includes other-than-auto. Paul Kovacs of IBC stated this week that the combined only-auto companies come in in excess of 110 percent on the combined ratio. If we are operating at a level of 108.1 or 108.2 percent, we are now running at a combined ratio at a level more efficiently, we believe, than industry. We don't think it's good enough. We want that to continue to decrease, not with premium increases, but with more efficient operations within the company and by stopping claims happening through other programs.

That is a target of ours, and we believe it is a highly measurable target as we look forward and compare ourselves to industry.

Finally, four items as to where we look to go, where our strategies are based, where we look to take this company and the way in which we operate it.

Firstly, like a business, in the best interests of our customers — a key strategy on which many things are based — we intend to listen to our customer. We are doing so through focus groups in many areas: on the insurance side, on the claims side and on the products side. We intend to be and will be more innovative and creative in the products we provide and produce. Our customers require it; we will be there.

Secondly, we need to move from entitlement to performance, both within and without. We need to change the corporate culture. We need to listen to our employees as well as our customers, and we need to engage the entire workforce and our employees in making this company the best that it can be for the benefit of our customers.

Thirdly, the lowest rates possible. We intend to charge the best that we can, the lowest rates possible, for the product that we provide. That will be done by controlling our costs and operating more efficiently. We've launched, as we say, a January 1, 2006 strategic plan to reach the vision we've seen. We're looking at the optional side to move our optional prices toward a risk-based price in a competitive marketplace. We will continue, in cooperation particularly with the Solicitor General and his department and with the municipalities, the road safety and loss management initiatives that make sense for the company to reduce its costs. We're not an enforcement agency, and we don't intend to be, but we do want to look at where we can reduce our costs.

Lastly, on that one, zero tolerance for fraud. We will not eliminate fraud. Fraud exists within the insurance industry, as I think everybody knows. The industry, not us, has stated that approximately 15 percent of your premium goes into fraud. I don't know whether that is the right number or not. If it were, that is $400 million dollars to ICBC. We adopt an attitude that if somebody cheats ICBC, they're not cheating ICBC; they're cheating our other customers. They're creating an expense that we have to pass on in higher premiums. We are just a conduit. We need to look at that area fairly significantly to make sure that the right people are being paid the right amount of money fairly and on an ongoing basis, and we're managing our customers' money properly.

Efficient and effective. We need to produce and should produce a fair return on capital for our owners — you. That is important and is important for the stability of the company. We need to continually focus on the long-term viability and reliability so we are there for our customers when they need us. We don't come and go. We're there financially, and we're there in product form.

Those really are the key four strategies that we've got going forward that underlie a lot of what I've said today with respect to our activities in 2002.

With that, I'm 57 minutes, so I'm very close, Ken, to your one hour. Thank you.

[1000]

K. Stewart (Chair): Thank you very much, Nick. That was quite an informative presentation. Just prior to opening it up to questions, you might want to grab yourself a juice or something to replenish yourself.

I do have a few comments, just before we get started, with regard to process. The one point I'd like to make, if the committee members or our witnesses today aren't aware of it, is that there is an opportunity…. If there are any questions that we either don't get to today or we don't have a complete or concise answer to today, those can be e-mailed through the Clerk's office, either outgoing from the committee or incoming from the witnesses. We'll assure that those are distributed.

N. Geer: Ken, could I just, for the last minute or two, ask first Geri and then Bill if there are just one or two points they wish to add from the finance or the operating standpoint?

K. Stewart (Chair): Yeah, you still have a couple of minutes left in your time, so go ahead.

G. Prior: All right. I'll do this quickly. I think mainly the emphasis here certainly has been on making sure we have the lowest possible rates for our customers. Over the last two years our focus, as you've heard, has been to reduce those costs. We will be diligent about them, going forward. We have the processes in place and, I think, the mindset within our company to do that. Clearly, the intent here is to make sure we will be there for the customers in the long run, so long-term viability is a focus for us.

B. Goble: I'd just like to add to Nick's presentation — talk a little bit about the regional focus for the organization.

We manage the company through five operating regions: the north central, the southern interior, Vancouver Island, greater Vancouver and the Fraser Valley. Through those regions we distribute 900,000 licensing transactions through 120 service points. Those would be drivers' service centres, expressways, government agents and appointed agents. The 2.7 million policies Nick talked about are serviced or sold through 900 independent brokers throughout the province. Last year we had a little over one million claims, and those are handled through call centres but also 40 claim centres throughout the province.

As we move forward in our plan, as Nick talked about, our strategic plan is…. We recognize that there are differences in regions and in customers' needs in those regions. We need to develop programs of both product and service to service those. We have a very strong regional commitment and see that we need to respect that and ensure that our products and services reflect the needs of the customers in the regions that are different, and the regional differences.

K. Stewart (Chair): As we proceed, one of the comments I should have made at the start…. It's probably a little late to tell you this, Nick, but on the back wall you'll notice a little "On Air/Record" sign. This information is being transcribed, and it will be out on the webpage within a day or two. It's part of our process of being as open to the public as we can with regard to information. If you weren't aware of that, you are now, and you'll be able to read what you said or what you thought you said very shortly on the website. I just wanted to point that out to you.

Turning to the members of the committee, you have in front of you the questionnaire we utilize for questions. I suggest that as we go through the questions, you can just do a draft of that. Then at the end of the session you might want to take the information you have back from both the service plan plus what was presented today and then get a final copy of that back to Audrey as quickly as possible. I would suggest that — you have pencils there — you make some notes on it now, at least a draft form to get it started. It's really important that we get those back in a timely manner so we can continue on. Again, I mentioned about any further questions. They will come back and be presented back to the committee at our next meeting.

The process we've used in the past is that we go around the room, and everyone asks their most pressing questions. I suggest to members that you come up with your most pressing question first, and we'll keep working through until we end up either that the members don't have any more questions or our time runs out. Generally speaking, we run out of time. Given the fact that I had a member present me some written questions ahead of time, I will allow that member to start.

Dan, would you like to start? Then we'll just continue around in a clockwise motion.

D. Jarvis: You're going to learn how to present questions now, aren't you?

Thank you, Nick. That was a very good presentation. You're getting better. You must be doing it quite often now.

N. Geer: Quite often.

D. Jarvis: You weren't using your notes hardly at all. I've got half a dozen questions here.

K. Stewart (Chair): The one point I will make is we do one question at a time and then move around.

[1005]

D. Jarvis: I took them, basically, from your statements and your service plan. One question I wanted to refer to is, bearing in mind what our *New Era* document committed us to, to a degree…. Again, it's on slide 18. My question is: do you expect to cut back on any type of business or to allow others the opportunity to fill that niche? Will you continue to expand? In conjunction with that, are you prepared to share the data collected over the last 30 years with the other insurance companies, as I believe they are required to do?

N. Geer: There are two points. First, we intend to operate for the benefit of our customers and the people of British Columbia. A process is being put in place on the competitive side to provide for an open and level playing field in which we will compete, along with others. It is the benefit of the people and the customers that I think is paramount in our actions and importance. We would not intend to become less efficient; we would intend to become more efficient. Then basically, the chips will fall where they may on a level playing field basis.

Over time, together with government, we will be looking at what makes up basic and what makes up optional. Those are issues we are discussing today in some cases, and we will look at that, but I can't specifically talk of any particular points.

The second point was…. I've lost it.

D. Jarvis: That was on the sharing of the data.

N. Geer: In other provinces summary data is provided to all insurance companies on a number of risk factors on certain issues. We are discussing and intend that that summary data will become available to all insurance companies in a manner very similar to the way it is in other provinces. That will be done through the regulatory body or some other body.

P. Wong: I understand that one of the missions is to be competitive in the business. I understand that ICBC is not subject to any corporation tax versus the other industries which have to pay corporation tax. I understand that you're trying to build up a solid reserve or retained earnings in line with other businesses. Can you tell me what the time frame is that we are in alignment with other insurance companies in the industry if you are going to build up the necessary reserve or retained earnings?

N. Geer: We look to see the buildup of retained earnings probably over a three- to four-year period or maybe a little longer, because again, there is only one place that the buildup in retained earnings can come from. That's premiums. It would not be beneficial, I don't think, to rapidly escalate premiums to build up reserves. This needs to be done over a period of time.

Yes, we don't pay taxes, but remember we pay approximately $90 million worth of costs that others don't bear either on the government services, the compliance, the fine collection and the like. I was actually interested to read the annual report of the Economical Insurance Group, which is one of our competitors, that just came out for the year 2002 and to note that in 2001 and 2002 they actually recovered income taxes and it was positive to their bottom line because they had refunds. We don't get refunds either.

P. Wong: You list there some accounting numbers. I understand that you receive $41.1 million from ICBC Properties Ltd. for the leased settlement. How do you account for that in your financial statements?

N. Geer: The $41.1 million. The Surrey Place Centre was built to accommodate two customers primarily —

Tech B.C. and ICBC. Fairly early on the current board made the call that it made no sense for ICBC to move into Surrey Place. It just didn't make any sense. The cost of doing so was enormous. The risk to the business was very high. It made no sense, and we cancelled that.

[1010]

In the original evaluation where we took a $100 million write-down, the loss of ICBC as a customer was taken into account. At that time Tech B.C. had a lease, and the building had been constructed in fact for Tech B.C. What we did when Tech B.C. was cancelled was…. A payment was made to ICBC through IPL — its wholly owned subsidiary — of the amount you mentioned, and we took a further write-down of the same amount because of the loss of that tenant and the loss of the opportunity to earn that income from that particular tenant. The net effect of the bottom line was zero. We had it re-evaluated by two independent appraisers, and their independent appraisals bracketed the amount we received. So we took a write-down of the same amount as we received, which had a zero effect on the bottom line but accounted for the fact that we now had lost a major tenant for over 450,000 square feet for which the building had been designed and specifically made. It's difficult to in fact deal with that space, which had been specifically designed for an educational institution.

P. Wong: I'll come back later.

B. Penner: I'm tempted to pursue that line of questioning, because I believe SFU is now using that building.

N. Geer: SFU has a lease in the mall, not in that building. SFU has a lease in about 90,000 square feet of mall space that was an old store. I forget who was there, actually. I think it was Sears. SFU has a lease on that space. SFU is not in the space that was built for Tech B.C. at this time. We have discussions ongoing in that regard, but we are not at the moment having SFU occupy the Tech B.C. space.

B. Penner: My real question pertains to…. You mentioned in your presentation the number of cars you discovered were in the portfolio of ICBC. I wonder if you can tell us what the policy guidelines were for the corporation at the time that ICBC had 900 vehicles, in terms of acquiring the vehicles for employees, presumably. What are those policy guidelines now, if they do exist?

N. Geer: I'll have to look to Geri or Bill about what the policy guidelines were before, because as soon as I got there we changed them and did something different. What they are now is, we only have a car available in the company when it's absolutely necessary for that car to be owned for the purposes of the business of ICBC. It is not for personal purposes. It's strictly for the business of ICBC.

As you can imagine, in the outlying areas, in the outlying regions, we do a lot of moving to small villages and small towns, and we need transportation. That is primarily what those cars are used for. If we need cars, we now have arrangements with a leasing and a rental company. If cars are needed they have to be approved by management.

A car is leased under a very favourable contract with a leasing company. We have just — in fact, Bill, I think in the last month — put out for bid to all the leasing and rental companies that contract, so that we will be receiving bids from the individual leasing companies for our needs as time goes by. What we will not do is build up in any way, shape or form ever again a fleet, which tended to be used often for personal reasons and not for what it was intended.

B. Penner: It's a dramatic difference going from 900 cars to 230. There are now less than one-third as many as there were previously. Obviously, some policy must have been changed. I wonder if you've been able to assess whether what you're doing now is cheaper in terms of leasing vehicles or renting them instead of owning them outright.

N. Geer: Our capital savings, Geri, is…. I recall something under $10 million, but not far under $10 million, in capital savings. In operating cost savings there are significant operating cost savings. I don't have that number on the tip of my tongue. If we haven't got it here, I can get back to you and provide you with that number.

K. Stewart (Chair): Did you want to get a response to the past policy on that, Barry?

B. Penner: If either of these other people are able to provide that.

B. Goble: We had three types of vehicles. There was what we called compensation vehicles. There were assigned vehicles, and then there were pool vehicles. I'll start with the pool vehicles. For example, a claims centre would need a number of vehicles for staff to move in and out and do operations during the course of the day. We would have, perhaps, depending on the size of the office, six or eight pool vehicles. We virtually eliminated the pool vehicles in those offices and have gone on a pared-down rental agreement, which Nick talked about. What we did is we cut that number in half, generally, in the offices down to, for example, four. Then if there are additional needs, we have a per diem rate with the carrier who supplies the vehicles. If we need five or six extra vehicles for a particular day, we'd use them for one day and then return them.

On the assigned vehicles those were assigned as a vehicle needed for someone to perform the duties of their job. We reassessed that and found there were a number that we could remove. In some cases, we provided a car allowance, which was considerably less than the average cost of the vehicle for the course of the year. So we had some savings in that area.

[1015]

Then compensation vehicles. We had an owned fleet that we would either lease or were owned by the organization to provide for the executive or other people that had compensation vehicles. We've removed that. No one has a leased vehicle or an owned vehicle. As part of their compensation they have a package where they are allowed to choose some portion of that for a car allowance at their discretion.

K. Stewart (Chair): If you have copies of those past and present procedures, could you just send those through the Clerk? That would be helpful for that question.

N. Geer: We can certainly provide that, thank you.

J. Wilson: I like what you're doing here, Nick.

N. Geer: It's not me, John. It's all of the people at ICBC.

J. Wilson: Right. They need the direction, though, that takes them there.

What I have is probably a little more specific than what you're to deal with today, but it deals with road safety. Do you have regional strategies in place to help reduce some of the costs associated with accidents out there?

In the Cariboo our premiums are right at the top in the province. One of the reasons that they're there is because of the wildlife. So far, I haven't seen anything in place to deal with that issue. Approximately 2,000 to 3,000 deer are killed every year on our highways between Quesnel and Williams Lake. It amounts to somewhere in the area of $2 million or better in claims. Is there anything specifically in place to deal with that issue at the moment?

The other question I would have around that is: are you getting the support from the other ministries involved in this type of thing that you should, or is there a lack or response there?

N. Geer: I'll answer the first question a little better and then pass it off to Bill for a little more detail.

On wildlife, for example, we're involved in two or three projects with private companies to develop, utilize and expand on technology that is available in a number of areas for road safety.

One is animal interception. We are developing…. Actually, it is a NASA-based infrared technology. We've got a test model up in the Kootenays now operating on the highway. It looks down the road with an infrared scan, senses an animal approaching the road, identifies the type of animal that it is and flashes up on a live readaboard what that animal is, where it is and the fact that it is coming.

It is a technology that we're developing. It's not yet perfected. We've got test sites up and running. That's something we believe could be very instrumental in alerting drivers, on a "live" basis, to animals crossing the road. We're doing that with a private company. We are funding it. We will get use of it within B.C. We will receive royalties from around the world, and the private company will develop and operate that technology.

Will it be successful? It's in its early days, but that's one of the areas we're looking at specifically on animals. Bill, do you have anything else on the animal side?

B. Goble: What we did, if I could touch on road safety for a second, is we moved that area of the organization out of one division — it was in insurance — late last fall and moved it into the operating side so that people who delivered the services in the regions were also at the same table, obviously, as the people who designed the policies. We're developing a longer-term strategy around that.

One of the key pieces is that we are endeavouring to work on programs that help people in communities or in regions, not by writing a blank cheque, but by working with local areas for improvements. Nick touched on the wildlife detection kind of a process, but we are working on a strategy that develops opportunities in different regions so that we can address those local needs.

That kind of goes back. I know it's a bit of a high-level answer to what I previously said about recognizing the differences between the regions and not designing programs in head office but having them more in the regions.

N. Geer: On your last question, John, on cooperation: yes, we've had no problems at all. We're looking to reduce crash costs. Other ministries or other groups are looking to reduce accidents and increase safety. They are two sides of exactly the same coin, and that cooperation I think can lead to significant improvement — and it's needed. I am delighted with the cooperation we're receiving.

J. Wilson: Not now, but can you get me a breakdown of what you are actually doing at the moment in the Cariboo to address this?

B. Goble: Certainly.

N. Geer: Certainly. We can produce that for you.

[1020]

J. Wilson: That would be good.

K. Stewart (Chair): Thank you.

J. Les: First of all, I'd like to say that it sounds to me like this business is finally getting back to some business principles. It's good to see the political jiggery-pokery removed from the equation.

I've got a question in terms of crash costs and where you see them moving in the future. Obviously, that's a major driver in this business. Cars today are considerably more sophisticated than they've been in the past, not only in design but also in terms of the makeup of technology that's under the hood. For example, you see cars today that are a hybrid electric and internal combustion engine. I wonder if any of those factors make you think about what the trends are for the future in terms of picking up the costs of crashes?

N. Geer: Very good question, John. It's a very important one. We've seen in the last little while — I'm not talking weeks or months; I'm talking a year or two — an overall, basic plateauing or even a reduction in the number of crashes from the property damage side. But what we have seen is an increase in severities. It's costing more to fix a car. More damage is being done to cars, and cars are more expensive to fix. There is no question that some cars are a lot more expensive than other cars to fix. We try to cope with that in our rating schedules. Individual cars are individually rated. We use a national survey for that.

One of the points that actually came out of an employee session — up in Dawson Creek, I think it was — was that it's possible that we might, as ICBC on our website, be able to provide a service to our customers before they buy the car to understand what differences could apply to insurance rates because one car is more expensive to fix than another. We're looking at that today to be able to do that possibly through our website, so we can provide further service to our customers.

There is no question that increased technology…. I met somebody the other day whose headlight was broken. I think it was $1,800. You might have to total the car because the headlight was broken. It's getting very expensive with these component parts. That will have an impact on premiums without question.

B. Goble: May I just add to that? We have a material damage research and training centre in Burnaby. What we do there is research the repairability of cars. For example, we have looked at the hybrid car to see what that's going to do. It's in the very early stages now, of course We've done air bag testing there. With the changeover of the fleet — and when I talk about the fleet, that's the whole fleet in British Columbia — when we went from single air bags to dual air bags, in a very simple collision a few years ago…. Now both air bags will go off, and easily that will add $2,500 right away to the cost of the repair of a car.

The cars are much safer now, and hopefully, that reduces the injuries. But the material damage costs, and to be able to repair those properly, is a very technical issue for the industry. We do training with the industry. We train autobody repair in there as well as our own estimators.

H. Bloy (Deputy Chair): Thanks, Nick, for your presentation. Actually, I wanted to ask two questions. The first question is: what does the symbol up there, 2006, stand for?

N. Geer: We decided, when we launched a new vision statement, Harry, that we needed to have a strategic plan, creating some objectives and some measures. You can't do that overnight. It wasn't to be something fluffy that sort of felt good and warm and cuddly at night. It was a clear business objective to get to.

So we said: "Let's say we've got three years to reach a specific target where we're operating a certain way as outlined by the vision statement. Then we'll back up, and that's January 1, 2006. Then we'll design a strategic plan for that three years from an operational standpoint of what we need to do month by month, quarter by quarter, year by year over that three-year period to reach a designed objective."

What it really is, is putting a stake in the ground and saying: "How do you measure how you get there?" You don't wake up in October 2005 and say: "Oh my goodness, look what I need to do." You start month by month, quarter by quarter as to how you get there. That's how we're running the company on an operational base and what we're really helping our employees think through.

H. Bloy (Deputy Chair): That's the direction we have to go. It's so hard for the measurement. Everyone's so quantitative.

[1025]

Anyway, I generated a number of questions from your presentation. Obviously, I can't ask them all here. In previous meetings when we've met…. You've already made some changes in regard to how suppliers are treated. You've taken out some of the, you know, the colour of toilet paper and the cleaning of rooms, etc. — how you're dealing with your suppliers.

One of the areas we dealt with…. You have a fairness commissioner for the client. You had talked about putting an ombudsman in for the supplier so that they could do it. Something I still hear is that you're making progress in that area but it's still very subjective, versus if there's a complaint, there are no set auditing procedures or parameters on how you deal with it. It's on a case-by-case basis. I hear from big and small that may not want to come out. There's a perception that there's still not a fairness in how they're dealt with. They're saying that big guys, especially in the glass industry, can waive deductibles and are not penalized the same as an individual person who could be put out of business.

The reason I ask this is that…. Is there an audit procedure for every person, big or small, that's exactly the same? Is there a parameter so that it can be measured if there's a complaint? Then it takes all the subjective off the table. This isn't something I believe will be set up by a regulatory body. It's an ICBC issue. Or are you going to create another body through the regulatory body to deal with this?

N. Geer: The end of your question…. We don't intend to set up a regulatory body to deal with this. We think that would just become too cumbersome and too onerous on an operational base.

Let me give you a couple of highlights where we've come from in the last year. I think we've made some major strides. I'll turn to Bill to talk about what we're doing in talking to our customers and what we're doing with respect to the audit and the outcomes of some of those audits. Then I'll make one point I want to make as well.

We agree with you, Harry, totally. When we looked at the rules, I suppose, with respect to how we deal with particularly the body shops and the glass suppliers, we had overstepped the mark. This company had put in cosmetic issues as requirements that were silly. Where we are going and where we now have gone in this first stage is we've said that safety and quality are important. Our customers who are our customers — we pay for the repair — should demand safety and quality in the work that is done. Anything we look at will be totally involved with safety and quality, not cosmetic issues. We've changed a significant number of the rules we had down to achieve that just in the last two or three months.

I'll get Bill to talk in a little more in detail on this. We're now looking — "Listen to the Customer," which is up on that slide — to go out in a very far-reaching way to our 2.7 million customers and ask them what they want. What do they see happening, and what do they want? Those are the people who pay our premiums; those are the people whose cars get fixed. I'll ask Bill to talk about that. And audit? Absolutely. We are highly involved in that and totally non-discriminatory from that perspective.

One issue that is a problem — and it's a pet peeve of mine — is that we're finding in this province, when we pay for a replacement windscreen, that we pay significantly more than that windscreen costs to replace in Alberta. We've had a number of incidents recently. We're tracking them now. An individual has gone in to have his windscreen replaced and was quoted a number as to what it would cost. Then that individual says, "Oh yeah, I have an ICBC claim," and the price of the windscreen jumps by 40 or 50 percent. That concerns us because our customers who are paying premiums are bearing that additional cost. That is another issue we need to look into for the benefit of our customers, because that's why we run this company.

I'd like Bill to fill in a couple of the gaps that I haven't said.

B. Goble: As well as the work that we're doing presently and that you're aware of, in removing some of the criteria in the accreditation programs, what we're doing is we've gone out and held 14 focus groups throughout the province: Smithers, I think; Prince George; Kelowna; Nanaimo; and in greater Vancouver and Victoria.

H. Bloy (Deputy Chair): With the suppliers?

B. Goble: No, with customers, first of all. That's where we want to start — with the customers.

[1030]

We did the focus group in two groups — groups that had had claims and customers that had paid a premium and had not had a claim. The difference there is we have to recognize, as we manage the premium dollar, that there are a lot of customers that never have claims. What do they value, and what do they want as products and services, as well as the people that actually have the claims? Based on the information we received from those groups…. We are doing a survey provincewide. I think the numbers are a thousand people that have not had claims but buy our product and a thousand people that have had claims.

Once we have that information of what the customer wants — because it's really representative of the 2.7 million customers — we're going to engage all of industry to talk about how we deliver those services. That's a key piece. Part of that key piece when we engage industry is going to be zero tolerance for fraud, deductible waiving and things like that to build into programs the customers want. What we hope we can do is reduce the overall costs and improve the service for the customers and have a viable industry out there. We're probably a few months away from finalizing that. The survey comes back…. I think we're finished that in the next month or so. We're hopefully looking to have some ideas or plans set in place by the end of the third quarter this year.

I think this will be a very different approach, because it's the first time we've gone to a representative group of the 2.7 million customers to say: "What do you want? What do you want your insurance company to do?" We won't say, "How much do you want them to pay an hour," but: "What do you value and what do you pay for?" We'll take that information and, instead of designing a program in head office, we'll engage industry and say: "This is where we need to go. These are the financial restraints we have. How do we best do that?" We'll engage all industry in that.

H. Bloy (Deputy Chair): Specifically, how are you dealing with suppliers if there's a problem? When we met in Nick's office six or seven months ago, we had talked about setting up a fairness or an ombudsman.

B. Goble: What we've done is added additional people to the audit group that audit both glass shops and repair shops. Instead of setting that up at this point in time, we need to develop what the new program is going to be and engage industry in how we do that.

We have suspended a number of suppliers — I don't have the number with me, but we can certainly give it to you — big and small, for such things as deductible waiving or misrepresentation on files or not repairing things and not putting parts on. As I say, it's a complete cross-section of large suppliers, chain suppliers and individual independents.

H. Bloy (Deputy Chair): Okay, I guess. I'll leave my one question. The same line. I just wanted to ask….

Could you send me a copy of the parameters and the auditing procedures you use for every complaint you receive?

B. Goble: Sure.

K. Stewart (Chair): I do get a question, too, as it comes around.

One point, though, is I received…. We also take submissions and if people have questions, they send them on to us. I have in front of me something that was sent through the committee from the Insurance Bureau of Canada on the facts and fiction and truth about private auto insurance. There is a series of questions here, and I'll just leave these with you that you can respond to back through to us. That's one thing on behalf of the committee that I'll just leave with you.

I have a number of questions, but I want to talk a little bit about the honesty of the corporation. You certainly put that out. One of the criticisms is some of the independence of the performance ratings. Can you tell us how you keep that independent and about the accuracy of those ratings and the evaluation that you do on that — some of the outside people you may use or how you ensure that those are not biased by the company at all?

N. Geer: This is performance ratings of individuals?

K. Stewart (Chair): No, performance ratings of your corporate performance. If you want to touch on the individuals, that's fine too.

N. Geer: The corporate performance has four quadrants, as we've mentioned. The first one is customer satisfaction, which we think drives the entire company. So, 25 percent of the corporate performance will be based on customer satisfaction rates. You've seen that in the service plan. We're using those numbers, and we intend to exceed. If we exceed, then we believe we are performing.

[1035]

The second 25 percent is an issue of employee involvement and engagement. We don't believe that we have developed…. We're using our human resources group to develop a new index or a new measure. They're using outside people to help them in what a fully engaged and fully performing workforce is. We don't believe the question that's been asked before in surveys is the right one: is this a good place to work? Pay me lots of money and I'll answer yes. It's not really the right question. We want to know a lot more than that — the training, the tools, the engagement. The questions are being answered. "I do a proper job. I feel respected," and so on and so forth. We're developing that index now. Because we are in the middle of a bargaining unit, it may not be appropriate to ask that question at this time, but we intend to do that this year. That will be 25 percent.

The third 25 percent is the bottom line. The net income that we forecasted for the company is the mark of 25 percent of our overall corporate performance. We put that out in our budget; we put it out in our service plan. We submit that to government. We've shown it to you, and it's in the service plan. That is the number we're looking to achieve. We're looking to, over time — not in a hurry but over time — rebuild our retained earnings to a level we believe is satisfactory to a company such as this through that bottom line. If we achieve that, that is 25 percent of our overall corporate performance.

The fourth 25 percent is really the combined ratio. It's the blend between the loss ratio and the expense ratio. The combined ratio, as you've seen, is a combined ratio that is benchmarked against industry, and we look to outperform industry on our combined ratio against a specific benchmark that is utilized within the industry. So 25 percent of our corporate performance is a clearly identified benchmark against industry performance. That's our corporate measure.

K. Stewart (Chair): I guess the question I had was, more specifically: who does these to keep the independence? Who do you use to come in independent of your organization to rate these?

N. Geer: The corporate performance — the benchmark on the combined ratio — is a specific ratio identified against an outside benchmark. Are you asking if we cheat in our numbers?

K. Stewart (Chair): No, I'm asking who the adjudicator is, if you're talking in those terms. Who is it that actually comes in and looks at yours? Is it an independent audit you do? Who is the agency or personnel that you incorporate? Certainly, if one rates oneself, some could say that there's some bias there.

N. Geer: On the numbers side we are subject to independent audit by PricewaterhouseCoopers — anything financial. PricewaterhouseCoopers audit the financial statements every year, and we're subject to GAAP and GAAS. The biggest driver — as you know and as I explained, I think — of our financial statement is our reserve for losses. That drives so much of what we do — our reserve for losses. We intend to be conservative. That is set by our internal actuaries. It is reviewed by an external actuarial firm, Eckler, who every year produces an actuarial certificate which is included in the annual report. Eckler's review and PricewaterhouseCoopers, as auditors, employ their actuaries out of Los Angeles and also look at the actuarial figures. We have three independent looks at the main driver.

One other item. When I first became involved and this new board first became involved, it became clear to me very early on that the biggest driver for reality and truth in the numbers was: are we reserved properly? I brought in — again, independently — another independent group. Ernst and Young came in and did a full review in 2001 of all our actuarial reserves, and we found, actually, that their numbers were pretty well spot-on with what was being used. That gave us a great feeling of comfort. In that area we look at using a lot of outside resources to measure those numbers.

K. Stewart (Chair): Thank you.

P. Bell: Thanks very much, Nick. Certainly, both your presentation and your business plan, I think, are very succinct and demonstrate clearly the objectives of the organization.

I do have one question, though, with regard to financial reserves and how those are applied to your two business lines — the skin and tin line, the optional and basic insurance. You've indicated that you're moving forward in terms of allowing competition, or greater competition, in the optional insurance lines and you're putting ICBC on a footing that will allow private insurers to compete with you on the optional lines. I'm wondering if you have two separate financial reserves, one for basic and one for optional, if that's how you're managing it, or if there's another mechanism for that.

[1040]

As I understand it — and you've stated on page 20 of your service plan: "Private companies are required to maintain larger financial reserves than ICBC." One would surmise from that, that it would be a cost of doing business — maintaining the larger financial reserves. In order for you to be on an equal footing with private insurers in the optional market, it strikes me that either you would need to have separate financial reserves or you would somehow need to identify what those reserves would be and maintain them at a level that a private insurer would be required to maintain them at. I wonder if you would comment, if that's been thought through, and how you've dealt with that.

N. Geer: Be happy to. This is a large issue we've been debating now for a year and a half. Geri is intimately involved in this.

That statement is interesting: that the larger capital is required, therefore, as a cost of doing business to a private company. Actually, it's the reverse. If they're returning a return on equity of 1.6 percent overall and their investments are running, let's say, at 5 percent to 6 percent, the larger capital is actually subsidizing their business. It's the reverse. It's not until you get a return of capital that exceeds your investment return that that comment, in fact, applies. In the last two to three years that has not been the case, so we have suffered from having low capital, not benefited by it. That's the first point I want to make.

[H. Bloy in the chair.]

The second point is that we have run — up until, really, the core review and up until this process now into the regulatory environment — an integrated company with one set of capital and one set of reserves. In our actuarial reserves for losses we look at every single loss and every single claim. So every single product, every single item is fully reserved on its own merits. Those are easily distinguishable in the balance sheet. The investment is a pool for our overall, because the commitment we have made and are required to make is that we will not cross-subsidize, and we will operate on a level playing field.

We've got PricewaterhouseCoopers — I think it is, Geri? — fully involved and engaged with us for two months now to look at how we differentiate all of our costs and all of our revenue lines within the organization to be able to make that statement. We will look for Pricewaterhouse to be involved, our external auditors. They will look at that, they will comment on that, and that will be provided to the regulator on a regular basis.

We have been moving in that direction for two years. When the new board came into being, we took the view that that should be the case anyway, regardless of the core review outcome. When you saw the rate changes in 2002 and 2003 for one of the first times, you started to see a different approach on optional and basic — and that was the reason. We're moving in that direction, and I think we're getting relatively close. A lot of work is being done with PricewaterhouseCoopers today, right now, in being able to analyze the profit and loss statement so we can really look at what is happening in basic and what is happening in optional.

We're in discussion on the capital level, which is $314 million. It's fine, I suppose, if you've got a government guarantee. It's not fine, if you don't. We're looking at that with government now, and we're looking to rebuild that.

Effectively, you're taking away $318 million in the last two years — sad news. We can't rebuild. Nobody's going to come to us with a pot of cash, so there's no magic answer to suddenly rebuild those reserves. We have to build them over time from our operations, and that is why you see a positive bottom line and a drive to a continuous positive bottom line to rebuild those reserves over time. That is what we intend to do. But we will differentiate; we will analyze.

We're looking to outsiders to approve that we're doing it the right way on putting costs in the right place so that we can truly say we are not cross-subsidizing one with the other. That is a commitment we've made and we will hold to. That's not to say others who sell auto and other forms don't necessarily sometimes do a little…. But we're not using that. We have made that statement that we will not cross-subsidize.

Does that answer your question?

H. Bloy (Deputy Chair): Thanks, Nick.

Dan, do you have a second question?

D. Jarvis: Time's running short. It's estimated that the new deductibles would save ICBC roughly about $92 million annually from what I understand. Using ICBC data suggests that the savings would be somewhere around $108 million on existing claims. This is up to $160 million in costs that are actually passed on to the consumers as a result of this deductible. ICBC has made $45 million profit last year.

[1045]

The new deductibles announced in 2001 appear to have had a large impact on the consumers, as you're probably aware. According to your data these increased deductibles have meant 60,000 fewer claims for ICBC. How much has that increase in deductibles saved ICBC in claims costs?

N. Geer: The answer is that there are two or three questions there. The $45 million to an individual sounds like a lot of money; $45 million to a company that has $3 billion in revenue actually is razor thin. It's 2 percent of our claims. If our claims were to change by 2 percent from what we estimate, we're in the red. It is razor thin. This, again, is the number we need to rebuild those reserves that Pat is talking about. We can't, unfortunately, look to an influx of cash from somewhere else. It's the only place it can come from, but it is razor thin. We don't intend to be any different.

When we looked at the deductible issue in 2001, as we were going through into 2002, we clearly — as I think the slide showed when you looked at how the numbers have been going over the last four years — needed to make a change in revenue. The choice in revenue was really increased premiums, increased deductibles or a combination of both. If you increase premiums, you charge a higher premium to everybody, whether they have a claim or whether they don't have a claim.

[K. Stewart in the chair.]

We concluded that to increase revenue, which we needed to do to become viable financially, we had to do a mixture of both deductible and premium. What we were doing there is looking to the person who has a claim to co-insure to some degree slightly higher than they were doing in the past. That allowed us to keep our premium increase somewhat down for those who don't have claims, because there is only one pot of money when push comes to shove, and you have to balance them. That was the rationale.

The one area perhaps where a significant number of claims have been seen — not in 2002, but in 2003 — is on windshields or glass. We increased our deductible on glass from $100 to $200. We've seen a significant drop. We didn't see it in 2002. I think one of the reasons why…. It's amazing how many windshields had been hurt the year before that were only now being repaired. That works its way through the system in a year, and it's now through the system. What we really had in place with that $100 deductible was not an insurance policy but a maintenance policy. We were losing money significantly on that piece of insurance. When you insure somebody, a pot of money has to be self-sustaining within that area or somebody else is subsidizing it. When we looked at that area, we found that what we really were running in the glass area was a maintenance company. People just broke a windshield, paid 100 bucks and got a new one. It was costing all of our customers — it's not ICBC; ICBC is a conduit — a significant amount of money to fund the losses that were occurring in that area.

By increasing the deductible from $100 to $200, which we don't think is unreasonable, we, in fact, have found a significant reduction in claims. We're now looking at the numbers. It looks as though that area of insurance is now becoming, in itself, self-sustainable, which allows us to limit the way in which we charge premiums on comprehensive for everybody who buys a comprehensive policy. By the way, comprehensive is a fully optional product. It's not a basic product. Others in the industry can compete in the comprehensive product, which is the glass product, as they wish. If you do, it's in fact in the north, but there it is.

K. Stewart (Chair): Okay. Thank you. We have ten minutes left. I'd like to try and at least get around to everyone to get a second question, so if we can try to condense our answers and be very specific on our questions.

P. Wong: As you said, you engaged a third-party specialist to give you a consultation in an actuarial report. I understand that you engaged the external auditor Pricewaterhouse to do your audit. You just mentioned that you also asked the external auditor to give you a consultation in the management of revenue generating. I understand that recently…. Maybe I heard it wrong.

N. Geer: I'm sorry. I don't understand the question, Patrick.

P. Wong: I understand that you also engaged your external auditor to give you a consultation in a certain aspect — in the management. Is it true?

N. Geer: No. That's in the splitting of costs between basic and optional. That's what they're helping us do there — the allocation of costs within the company as we're moving to separately looking at basic and optional.

[1050]

P. Wong: Okay. That makes me feel better.

Yesterday you issued a report of net income of $5 million for the first quarter.

N. Geer: That's correct.

P. Wong: You also indicate an investment income of $75 million actually for the same quarter. On the other hand you are showing a $70 million loss before investment income. Investment income in fact plays a very important part in your whole operation. I want to know how much money we spend on managing that investment portfolio and also what the cost of that is.

N. Geer: The first answer. We can run, as does industry…. Industry, we are told by IBC, is running at

110 percent combined ratio; we are running at 108 percent. The reason you can afford to run above 100 percent is that your investment income makes up the difference. Investment income is an integral part of the operation of an insurance company because of the large investment portfolio you hold to pay claims. It is an integral part of it, so I would like to get investment income falling totally to the bottom line. It doesn't happen with the insurance business; it's an integral part of your operation.

We internally manage debt instruments, cash and bonds. We use external managers for a small equity portfolio that we hold. Our cost internally is under a million dollars in our investment department. It's less than a million dollars. It's about six people who manage our investment portfolio, and then we contract with outside investment managers.

Where we are going with outside investment managers — very much so — is that we are looking to performance-based fees. Our largest equity portfolio was managed on a performance-based fee, where if the manager just meets benchmark, just meets targets which are off the stock market, they get a fee which perhaps covers their cost, nothing more. If they start to excel and exceed that, then they have performance fees that we share in. That's how we want to see investment management going — performance-based.

B. Penner: You've stressed that your rate of return on investments has dropped significantly in recent years, but I'll just mention that it looks significantly better than the return on my RRSP portfolio. I'd like to know what you're doing.

Interjections.

B. Penner: So something is…. I am interested in that.

To go back to the Surrey Place Mall for a moment, my understanding is that ICBC remains the owner of that property development. Perhaps you could explain to us — leaving aside the $100 million write-down — if it is now a net contributor to ICBC's investment portfolio and therefore to the bottom line, how that is being accomplished. Perhaps you could elaborate again, because I didn't understand your comment about Simon Fraser University using a store in the mall versus some other facility in the mall. For those of us who are not that familiar with it, perhaps you could explain.

N. Geer: Firstly, on your question of how we've done better than your RRSP — or certainly better than mine — our exposure to liabilities is relatively short-term. Our average liability is about three years. Some are a lot longer than that; some are a lot shorter. In the property and casualty industry, unlike the life industry, your exposure to risk is about a three-year exposure on average. When we look at our investment portfolio and marry it to our exposures, we don't get too far out of whack between investment and risk. A significant portion of our investment portfolio — close to 80 percent — is in income-earning securities, not in equities. That's approximately 80 percent I think today, Geri?

In fact, what we've done over the last year is that we've fairly significantly reduced the duration of those bonds, because we are worried about the possibility of a rising interest-rate scenario. We've reduced the duration by over a year as we marry our assets to our liabilities. That's an exercise that hadn't been done before in ICBC. We did that, and we reduced the duration of our investment portfolio.

That's the reason you are seeing a better performance than, perhaps, others who have a higher component in equities, which would be more equivalent to a life insurance company that has a longer profile of its liability.

On Surrey Place, we still own it. We intend to continue to own it and make the right business decisions. We're going to manage that property as a business. We own it. It's not going to go away. Should we own it? If I had made the decision, no. We would not have done that. It is a wonderful building. It just costs an awful lot of money, and it sits in a place where we can't find large tenants. What we've found is that we've taken the right financial write-downs — the $100 million net and the $41 million to compensate, which was equivalent to the lease termination payment we received. It now sits on our books at a number which is perfectly justifiable to value. We've had it appraised. We think, in fact, it is lower than appraised value, so we're comfortable on the balance sheet. Our job now is to lease out that building…

K. Stewart (Chair): If I could interject, I think Barry had a fairly specific question about how the portion that SFU is in was different from the other portion — if that's not correct.

[1055]

N. Geer: The first property that was acquired and was already up and running was the mall. There was a store in the mall. I think it was Sears who vacated a 90,000 square-foot store. SFU have gone into that space in the mall. It's not in the major development building.

B. Penner: In the tower?

N. Geer: It's not in the tower. It's not in the adjunct other tower. It's in the mall.

K. Stewart (Chair): ICBC doesn't own that property?

N. Geer: Yes, we do. We own the mall, but the mall was existing, and it was acquired by ICBC. SFU was in the mall. It's not in the building or the part that was constructed.

B. Penner: Tech B.C., I think, planned to move into the new tower that is attached the existing mall.

N. Geer: In the galleria, it's called, which is attached to the mall.

K. Stewart (Chair): Does that answer your question, Barry?

B. Penner: Almost. Is that shopping centre complex, including the tower, now a net contributor to ICBC's bottom line, or is it still largely vacant and therefore not generating revenue?

N. Geer: If you looked at what should be a reasonable return on the capital invested, it is not yet a contributor, but we've taken the write-down in that we've looked out eight to nine years and made forecast of the lease-up, and we're ahead of our lease-up plans. On all of the eight to nine years it is on an internal-rate-of-return basis a net contributor to ICBC at the level at which we're carrying it.

B. Penner: I understand your challenge of dealing with that shopping centre, because the whole project has been described as the fast ferry project on land. I'm not asking you to comment on that, but I realize you have a significant problem to deal with that was not your own making, that was foisted upon you by previous political masters.

N. Geer: We'll make the right business decision for our customers and properly manage it. It's a wonderful building. I hate to use derogatory terms, because we're attempting to lease it. When you attempt to lease it to a new customer and you use derogatory terms, it's self-defeating. I don't want to get involved in derogatory terms as we're attempting to make a good business decision — if we could, Barry.

J. Wilson: I want to go back to this glass issue. Since we're focused on customer satisfaction, your policy now for those people who work in the north is if they have five windshields in a row, they are no longer covered. That's a direct hit on working people.

To go back to the earlier question I asked you: are you getting the cooperation from ministries that you require? If you go back a few years, the screening process for the sanding was much better than it is today. We did not have the glass damage we see today.

Is there any movement for the road maintenance people to put out a better product so that the windshields are not being fractured every year? It is not uncommon — it is actually the norm — to replace a windshield each year in a vehicle if you work and drive on our highways up there.

N. Geer: The problem we face — I'll get Bill to answer the specific issue with the screening and the issue of de-icing — as an insurance company is that if somebody pays $100 a year in premiums and it costs us $500 a year in claims, it's difficult to be viable as a business. Somebody else is subsidizing that. An insurance company attempts to pull risk and spread the risk but not subsidize it. We're not a policy agency to make payments from one region of this country to another. We're an insurance company insuring risk.

What we've done in the comprehensive area is we've said if there is a significant number of claims in a three-year period — I think it's four or five claims — deductibles will escalate, because that makes a contribution to that risk. Otherwise, somebody else is subsidizing it. That is how an insurance company needs to act if it is to be financially viable. Otherwise, the people that you're asking to make a subsidy…. This is in the optional business. This is competitive. If we subsidize one group and ask another group to subsidize, they'll all go off to somebody else that doesn't ask them to subsidize, and we effectively go out of business.

As a competitive, optional provider, we must group classes so that they in fact are paying their fair share as a group. That's an approach we're trying to take. It's unfortunate for those who constantly break windscreens, but that's what costs money, and somebody has to pay for it in the long run.

D. Jarvis: But they're subsidizing teenagers too — right?

N. Geer: Yes, but that is government policy in basic, Danny, and it's not for us to set. It's for you to discuss in the House.

On optional, as we move into a marketplace which is completely open, we don't want to create massive rate shock overnight, but it will be necessary on the optional side for us to move toward a risk-based pricing. On basic, it is your decision and not ours. We administer government policy.

[1100]

K. Stewart (Chair): If we could continue. We're running out of time. I've got three people who haven't had an opportunity to get their second questions.

N. Geer: Can we get the answer back to John on the screening issue, Ken, which Bill will get back on specifically?

K. Stewart (Chair): I'm sure there's going to be some necessity for paperwork to move back after this is concluded with regard to questions.

I'll look at the three people who haven't yet got their second question. I just wonder if you have a really, really pressing question. I'd also like to give Susan an opportunity, if she has a question, to ask it.

Susan, do you have a question you'd like to ask?

S. Brice: Thanks, Chair. I apologize for having to step out for another meeting.

The screen that I thought was the most illustrative, Nick, was the one entitled "Performance Highlights: Net Income Adjusted for Prior Years' Claims Adjustments." To me, there's a tremendous amount in that chart. I'm wondering what its exposure has been to the public and media.

N. Geer: It's a very difficult concept to describe, because people look at individual years. In an insurance company you really don't know how you did until two or three years have gone by. We've tried to expose it. I gave a press conference, actually, on that. Geri's laughing because it was a bit difficult. In September 2000 I gave a press conference on this very issue. The press doesn't necessarily pick up on that stuff. It's not too juicy for headlines.

S. Brice: I found it to be probably the most telling of the screens.

N. Geer: It's very interesting.

S. Brice: Yeah.

N. Geer: Thank you. I agree with you.

I should make one other point, which I'm very excited by. If you look at our P&L, you'll see $45 million and $5 million for the first quarter. The number I really look at is cash. What's our operating cash flow, Geri, in 2002? I think it was around $330 million, but Geri will check that number.

G. Prior: Yup.

N. Geer: The difference between the two is our additional reserves for anticipated claims. We don't expect to see problems coming from this. In fact, we might see opportunities. We're building cash, as we reserve for what we expect to be a problem. It's $322 million.

K. Stewart (Chair): I see you nodding your head, Susan. Does that answer your question?

S. Brice: Yeah, that's it.

K. Stewart (Chair): Harry insists that he has a very short question. I trust the answer will be just as short.

H. Bloy (Deputy Chair): How's it going with Surrey Place Mall? You had some big tenants that were coming up.

N. Geer: We've got some tenants with leases now. We've got some tenants actually occupying, and they're all delighted. They say it's a wonderful building — the best they've ever seen. I wish I couldn't see through it quite as much as I can. We've got two or three major negotiations underway, Harry. I can't talk about them specifically, as I'm sure you appreciate. But if I'm a really optimistic person — and I tend to be more realistic — I think the five- to eight-year plan is going to be met.

P. Bell: A final question, then, Nick. I have a constituent issue, where we have a leased vehicle that was maintained within the context of what the lease required and was in a crash prior to the termination of the lease and repaired by ICBC to the standards that ICBC approved. The lessor is unwilling to accept the vehicle back from the lessee because it has had major collision damage and was not replaced to original OEM standards.

This is a policy issue around the way ICBC has approached the repair of the vehicle. Had it been repaired to OEM standards, the lessor would have accepted the vehicle back. The constituent is faced with about a $10,000 penalty by the lessor at this point. I wonder if you could comment as to how that should be dealt with. Is that appropriate for ICBC to take that approach when dealing with the repair of newer vehicles?

N. Geer: I'd like to pass that to Bill, if I could, Pat.

B. Goble: I would think that would be an unusual circumstance. It's always interesting to comment on an individual one. What I'd suggest is that if you could have that constituent or your office contact me, we will look at that specifically. That sounds highly unlikely.

[1105]

P. Bell: Actually, it's not. We have a number that deal directly to that question, as a result of ICBC's policy to not use OEM parts on new vehicles. Based on ICBC's existing policy, if I leased a new Yukon and, as I was departing the lot, was in an accident and the fender was crumpled, that fender would be replaced with a jobber part, as opposed to an OEM part. That jobber part would not meet the standards or specifications that were originally intended for that vehicle, despite the fact that the vehicle had, perhaps, 0.1 of a kilometre on it when it was in the crash. It is a specific policy that ICBC has for repairs, and it is problematic. I know many of the members will have constituents that have the same issue.

K. Stewart (Chair): If I could suggest at this point that if you've got the full gist of the issue — and it sounds like one that may need a little bit of research on your end for policy — you get that back to us.

In closing, I would just like to thank you very much for your presentation today. Over the next few weeks, we will be generating a report on this. The report will be confidential until it is released in the House. It is my anticipation, given that we're at the end of a sitting cycle, that that probably won't be until the fall, but there will be some correspondence we'll be expecting from you to the Clerk's office to help us complete that report. Again, I'd just like to thank you very much for coming.

We will be going in camera. We are in a bit of a time frame issue here, so if you could collect your issues, and we will, at the same time, clear the audience. Again, thank you very much.

N. Geer: Thank you, Ken. Thank you, ladies and gentlemen. This has been a good opportunity for us to present.

K. Stewart (Chair): We will now recess and then reenter back in camera.

The committee recessed from 11:06 a.m. to 11:10 a.m.

[K. Stewart in the chair.]

K. Stewart (Chair): Motion to move in camera?

Motion approved.

The committee continued in camera from 11:11 a.m. to 11:26 a.m.

K. Stewart (Chair): We're back out of camera, so all we have to do now is adjourn.

I would like to actually have this on record. I would like to thank everyone for being so punctual. The only person that wasn't here, other than the opposition, gave us notice and was on leave for that, so that was a very good performance. It really looks good — when we have witnesses here — when we're on time and all here. Thank you very much.

The committee adjourned at 11:27 a.m.