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REPORT OF PROCEEDINGS  
(HANSARD)

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SELECT STANDING COMMITTEE ON  
CROWN CORPORATIONS

**Victoria**

**Monday, July 17, 2006**

**Issue No. 3**

IAIN BLACK, MLA, CHAIR

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SELECT STANDING COMMITTEE ON  
CROWN CORPORATIONS

Victoria  
Monday, July 17, 2006

- Chair:* \* Iain Black (Port Moody–Westwood L)
- Deputy Chair:* \* Guy Gentner (Delta North NDP)
- Members:*
- \* Ron Cantelon (Nanaimo-Parksville L)
  - Daniel Jarvis (North Vancouver–Seymour L)
  - \* Blair Lekstrom (Peace River South L)
  - \* Dennis MacKay (Bulkley Valley–Stikine L)
  - \* John Rustad (Prince George–Omineca L)
  - \* David Chudnovsky (Vancouver-Kensington NDP)
  - Corky Evans (Nelson-Creston NDP)
  - \* Chuck Puchmayr (New Westminster NDP)

*\*denotes member present*

*Clerk:* Craig James

*Committee Staff:* Jonathan Fershau (Committee Research Analyst)

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*Witnesses:*

- Anwar Chaudhry (Insurance Corporation of British Columbia)
- Paul Taylor (President and CEO, Insurance Corporation of British Columbia)
- Rick Turner (Chair, Insurance Corporation of British Columbia)
- Mark Withenshaw (Insurance Corporation of British Columbia)



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MINUTES

# SELECT STANDING COMMITTEE ON CROWN CORPORATIONS



Monday, July 17, 2006

11 a.m.

Douglas Fir Committee Room  
Parliament Buildings, Victoria

**Present:** Iain Black, MLA (Chair); Guy Gentner, MLA (Deputy Chair); Ron Cantelon, MLA; David Chudnovsky, MLA; Blair Lekstrom, MLA; Dennis MacKay, MLA; Chuck Puchmayr, MLA; John Rustad, MLA

**Unavoidably Absent:** Corky Evans, MLA; Daniel Jarvis, MLA

**Others Present:** Jonathan Fershau, Committee Research Analyst

1. **Resolved**, that today's agenda be approved.
2. The following witnesses appeared before the Committee:
  - Insurance Corporation of British Columbia
  - Paul Taylor, President and Chief Executive Officer
  - Rick Turner, Chair, Board of Directors, ICBC
  - Mark Withenshaw, Vice President, Loss Management & Operations Support
  - Anwar Chaudhry, Corporate Controller
3. The Committee met in-camera to consider its review of the Insurance Corporation of British Columbia in the context of the Committee's Terms of Reference.
4. The Committee met in public session.
5. The Committee adjourned at 1:56 p.m. to the call of the Chair.

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Iain Black, MLA  
Chair

Craig James  
Clerk Assistant and  
Clerk of Committees





MONDAY, JULY 17, 2006

The committee met at 11:06 a.m.

[I. Black in the chair.]

**I. Black (Chair):** Good morning, and welcome. First I'd like to make welcome our guests from ICBC. For those of you who haven't had a chance to say hello, perhaps I could ask if I could have each of you just briefly introduce yourselves and the role you play within ICBC before we get started.

**P. Taylor:** Good morning. My name is Paul Taylor. I'm the president and CEO of ICBC.

**R. Turner:** Rick Turner, board chair, ICBC.

**A. Chaudhry:** Anwar Chaudhry, corporate controller, ICBC.

**M. Withenshaw:** Mark Withenshaw, vice-president, loss management and operations support.

**I. Black (Chair):** Welcome to all of you. Thank you for being here.

We're going to move right to your presentation. The format of our meeting is that we welcome your presentation. Take about an hour if you can. Try to keep it to an hour. Normally the challenge is keeping it within, not going beyond. Then we'll go into a question-and-answer session thereafter.

I would encourage committee members, if you have questions that are clarification-based as the presentation is given.... If that's okay for those of you presenting, we'd like to ask them as we go, if there's a particular question. Beyond that, we'll save the rest of our questions until the end.

The floor is yours.

### **Insurance Corporation of British Columbia**

**P. Taylor:** Thank you, Mr. Chairman. Leading off our presentation this morning is going to be our chairman, Rick Turner. Rick is going to talk about some of the governance issues that the corporation has been facing.

Following Rick's introductory comments I'll take over and lead you through the rest of our presentation. At that time the four of us would be happy to answer your questions.

**R. Turner:** Thanks, Paul.

On slide two, which is up now, I'll lay out the governance of ICBC, and then leave it to others to talk to you about operations.

The board of directors comprises nine people, which is consistent with the other Crowns. Our board has gone through a rotation because our initial terms are three years. Our board has gone through one re-

freshment or rotation at the three-year mark, which would have been in 2004.

We have five directors who were appointed in July of '01 whose second three-year term expires next July — about this time next year. We are working as a board to come up with a board rotation plan that is sensible for the corporation and reflects what its needs are.

In a very big, broad brush the purpose of the board from the board's perspective is, at a very high level, three things. One is management oversight, which is overseeing management in every sense you could imagine. It means making sure that things are running properly and everything else you could imagine in the concept of management oversight.

The second thing that we do is strategy. While strategy is brought forward by management, in effect, the board owns strategy. It's our responsibility to make sure the strategy reflects the needs of the shareholder and is consistent with public policy at that time.

The third thing we are responsible for is succession, which answers the question: "If these guys aren't here, who's next?" We are always making sure at the board level that we have a proper succession plan in place to ensure the longevity and the knowledge base of the corporation.

To address those three high-level principles we have established four committees. One is governance, which is on the slide before you. I won't read what's on the slide, because you can, or you've read it already. Governance deals with what I've just discussed.

The audit committee deals with the management oversight aspect of the corporation. The investment committee is not unique to companies generally, but it is somewhat unique to Crowns. We manage, on behalf of policyholders, about \$8.2 billion. We have a board committee that is involved in overseeing the investment policies of the Insurance Corporation of British Columbia. We do have an investment division, as you can imagine, that actually manages these funds, but we also have a board committee that oversees that.

[1110]

We have a human resources and compensation committee, which deals somewhat with the succession issue and makes sure that from the shareholder's perspective we have the correct people in place to do the job that we're supposed to do.

Those four committees are there at the board level to ensure that we achieve the management oversight strategy and the succession role that is principally the board's responsibility on behalf of the shareholders and the policyholders.

In this company we also have a subsidiary, Surrey Central City Mall. It's a large development in Surrey that's completed, in one sense, but needs some renovations and a retooling. This investment is held in a subsidiary. It has its own board that comprises myself; Bob Quart, who's the board's vice-chair; Paul Taylor; and Paul Reilly, who is the president of that particular company. I'd be happy, or the folks here would be

happy, to talk about that particular subsidiary if you choose to go there. I just thought I'd mention that we have a subsidiary that is within ICBC as well.

Each of the board committees I mentioned has three members. I won't go through who's on them unless you choose to ask, but each board committee has three members. The members are chosen for their expertise in that particular area of the committee. They are there on your behalf. They're people who understand what is going on in that committee and who can contribute and ensure that we execute the duties that are given to us. Other than that, that is the governance structure.

We do have a shareholders' letter of understanding, and we report to others including the minister responsible. We report to a lot of places, including here, for accountability, but that is the broad-brush outline of how this is governed. I'd be happy in the question time to answer anything you might wish to raise.

**I. Black (Chair):** That's great. Thank you.

**P. Taylor:** The changes I'll cover off as we work our way through, so what I'd like to do is to jump through to the agenda, just to give you a quick overview of where we're going to go in terms of the presentation.

First off, we want to talk about the industry in general, the P-and-C industry in Canada, and ICBC in the context of that. Then we want to cover off the planning or reporting framework that ICBC operates under, the mandated activities and responsibilities, what performance measures we monitor and the results associated with those performance measures. Briefly, we'll touch on the issue of risk and risk management. Being an insurance company, risk is certainly an issue, and being a large enterprise, risk is an issue. I want to just briefly cover off some of the accomplishments that we've achieved in the last couple of years — I'd be happy to spend an hour or so talking about those if you like — and then look forward and try to identify some of the issues that we see on the horizon.

Just quickly, the purpose of insurance. It really provides an indemnity and spreads risk across a greater number of insureds. Premiums from all pay the losses of a few. Just to give you a statistic that might be of interest, about 46.3 percent of our current customers have had no claims in the last six years. Generally, we can have a number of customers who will go through their whole lifetimes not having a claim with the corporation, but they continue to pay their premiums to protect their interests over the long term.

The other characteristic that's a challenge for the insurance business is that claims costs are unknown for a long period of time and are difficult to control. In particular, on our bodily injury claims, at the end of a particular year we will have only paid out 5 percent of the claims costs that we ultimately will incur coming from that year. In the simplest terms, as I say, auto insurance provides customers with financial protection should they be in a crash.

This slide gives you a quick overview of the auto insurance models in Canada, and for just about every

province there's a different model. That makes it extremely difficult to provide comparisons across the country. We in British Columbia are the only jurisdiction that has both a tort system and a Crown corporation delivering mandatory basic insurance and competing for the optional. Then you have, as I say, a variety of options across the country, and I would be happy to talk briefly about that later if you'd like.

[1115]

In the Canadian P-and-C industry the nature of the business is that it is relatively volatile. From 1998 to 2002 the property-and-casualty industry in general had below-average returns. That translated into significant rate increases for a variety of coverages. Then in more recent times, 2003 through 2005, you've seen the industry return to profitability.

Auto is a significant component of the P-and-C business. It constitutes about 51 percent of the Canadian P-and-C market. In recent times, to deal with some of the claims-cost pressures that others have experienced, especially in places like Alberta, Ontario and the Maritimes, there has been a significant number of regulatory reforms put in place — caps, deductibles, rate freezes, rollbacks — all focused on returning the industry to profitability and on trying to manage some of the challenges that it was facing.

We're now seeing, more recently, that rates are moderating and in some provinces are actually coming down.

This next slide is based on Statistics Canada methodology. There are many different ways to evaluate auto insurance across the country. None of them is perfect; the data can always be questioned. But this gives you some sense of the rate of change in auto insurance from December 2001 to December 2004 in the blue bars and in the dark bars, December 2001 to December 2005.

You saw a significant bump-up in insurance rates in the eastern provinces, Ontario and Alberta. There were more modest rate changes in B.C., Saskatchewan and Manitoba, although Manitoba just put out a release in the last few days saying that they, too, are starting to experience increases in their costs. I think their BI — bodily injury — claims number in the last quarter went up 12.3 percent, and they're seeing their material damage number go up close to 9 percent. So no jurisdiction is immune from the pressures that come from claims costs.

There's always an interesting debate on who has the lowest insurance rates and insurance premiums. On any particular day in any particular city with any particular car and any particular driver, you can always find somewhere that somebody has the lowest rates compared to somebody else with those similar circumstances.

At the end of the day, what we try and do is focus on a basic principle: low and stable rates. A variety of studies — and you can either accept them or question them — say that in British Columbia we generally have among the lowest rates in the country. That's our story, and we're sticking to it.

In terms of the ICBC overview, we have two main sets of business that we operate. One is a regulated business; one is a competitive business. In terms of

how we run the business, we really operate on an integrated basis. When you go in to see a claims adjuster or you phone our call centre with a claim, you don't phone the basic claims adjuster. You don't phone the basic call centre. You don't phone the optional call centre. You phone the ICBC call centre. We manage the portfolio business on an integrated basis, and we believe that provides a significant benefit to our customers.

On the regulated side, we have the coverages that are up there. We also make a significant investment in loss management and road safety. Then as government's agent we operate a number of non-insurance services, which a conventional insurance company won't necessarily do — vehicle and driver licensing, vehicle registration. We also collect debt on behalf of government.

On the competitive side, the three main coverages are extended third-party legal liability, collision and comp. Then we have other coverages like motorhome insurance and vehicle travel protection. Basically, those are the coverages we offer. We continually look at fine-tuning them.

The coverages on the left side, the regulated ones, are governed by the B.C. Utilities Commission in terms of rates and services. The offerings, or what we provide to people, are determined by government in legislation and regulation.

The stuff that happens on the right-hand side in the competitive is more subject to the corporation's decisions around what it needs to do in a competitive marketplace.

This next slide gives you a thumbnail sketch of the company and who we interact with. It's a bit of a starburst. I'll start off by going top-left corner and around. We have about 2.9 million customers and total premiums just in excess of \$3.15 billion. About \$1.6 billion of that is collected for our basic business and about \$1.3 billion for our optional business.

[1120]

We deliver or sell our product. ICBC in itself doesn't actually sell the insurance policies. We sell our insurance policies through an independent broker network, which we believe does a great job on our behalf and which also provides our customers with independent advice as to what their needs are going to be. In the most recent year we had 924,000 claims.

The next two elements here, material damage and bodily injury payments, make up the majority of the claims. Interestingly, though, a lot of times people, when they're purchasing their insurance, are really thinking about protecting their vehicle. When you look at it, though, the bodily injury payments are actually higher than the amount we spend to protect people's vehicles. It's the protection of the human body — returning the human body to the condition it was in prior to the crash or compensating for that — that we spend the majority of our money on.

Then, at the bottom, we operate driver and vehicle licensing business on behalf of government, and we do collect fines. In the most recent year we did 970,000 driver's licence transactions, and we did 370,000 driver

exams. As I mentioned earlier, we operate a road safety program.

We have just under 5,000 employees in the company. We operate 40 claim centres around the province and 21 driver services centres. We think one of the things that makes us unique and that we're committed to is the strong, community-based presence that we have through our claim centres and driver services centres, and through other providers, like independent brokers, in the community. We cover the province from corner to corner to corner.

Our mission and our vision. We've had this existing vision, mission and set of goals for a number of years. While they've remained relatively constant over the last few years, the corporation itself has gone under a fair bit of change.

In 2002, as part of the core review process, functions were realigned. Most notably, the commercial vehicle compliance group was transferred back to government, although ICBC did continue to pay for that until March 31, 2006.

In 2003 there were legislative changes put in place to appoint the B.C. Utilities Commission as the independent regulator of ICBC's basic insurance rates. In that year we submitted our first rate application to the B.C. Utilities Commission.

Other changes that have taken place in recent years are that we've had government prescribe the set of capital targets for the corporation to operate at for our basic business, our optional business and the total company, and it has passed all the necessary legislation and the regulations to put in place a new regulatory and legal framework to govern both ICBC and the auto insurance sector in British Columbia.

That framework is targeted for full introduction in June of 2007, so we're busy working and getting ready for that. Following that implementation date of June 2007, we have a one-year phase-in period as people move from the old framework to the new framework, as policyholders rotate through.

Our focus for the last several years has been on improving business operations, achieving solid financial results and careful management of controllable costs. Now that we've spent our time working on that, we are turning our attention to dealing with customer needs and employee engagement, all the while maintaining our commitment to fiscal discipline and addressing the emerging issues that we face, especially the rising claims costs in the bodily injury area.

Some might facetiously say that there isn't somebody that we don't report to, but we do have a fair number of organizations, through government, that we are accountable to. Both cabinet and cabinet committees are responsible, in general terms, for setting the policy direction for the corporation. We are accountable to the Minister of Public Safety and Solicitor General as the minister responsible.

We have a shareholders' letter of expectation, which I'll briefly walk through. As Rick talked about, we have a conventional board, just like any other large

organization. Our mandatory businesses are governed by the Utilities Commission.

We also participate in support of the Minister of Public Safety and Solicitor General through the estimates process, and we have the Crown agencies secretariat providing governance advice to us. We are also here before the select standing committee, and I'm always mindful of the Auditor General, as he sits behind me. We are also accountable to our external auditor, and we have an independent, appointed actuary that works closely with the corporation. All of those folks have some say or input into how we run our business.

[1125]

All of that feeds into our strategic planning exercise, which is the mission, vision, goals and objectives, and determines the measures and targets and the development of corporate strategies that we put in place. Then we try to operationalize that at a business-unit level, and establish for ourselves targets that we work to achieve. The budgeting exercise is all about ensuring the appropriate resources are in place — people, money and infrastructure.

Finally, at the end of the day, part of the reason we're here is to report on performance. We follow a conventional reporting cycle in terms of our financial results. Those come out on a quarterly basis, plus we issue annual reports and other documents that are required of us, also, consistent with good governance in terms of financial reporting. That's sort of an overview of our accountability structure.

I just want to briefly walk through the shareholders' letter of expectation. The current one we have covers the period 2004 through to 2006. The basic message is that we're on track in meeting our commitments. A number of these have been completed, and others are ongoing. The transfer of the commercial vehicle compliance back to government has taken place. The establishment of the BCUC as the regulatory authority has now taken place, and they're in full control of that area of responsibility.

We did negotiate an arrangement with government where 1 percent of basic premiums go to the province for enhanced road safety enforcement, and that is an ongoing commitment. We have implemented the changes to the graduated licensing program, and we continue to look at that program to make sure that it meets its objectives.

We ensure on an ongoing basis that we operate within the service agreement that is in place to meet both the province's needs and our needs. We do work hard to comply with the legislation and regulations and the capital requirements. We're all responsible for ensuring that we're aware of the compliance obligations. We have put in place risk mitigation strategies, and I'll briefly talk about those a little later.

Our goal is to continually manage our costs for the benefit of our customers. We define that as keeping rates low and stable. We prepare, as do most other organizations in government, service plans and targets that we operate against, such as net income. We did achieve the 33 percent reduction in regulations as required of us.

The last time we were here before the committee was in late 2004. We were starting to think you didn't care about us. We hadn't heard from you for a while, so we're glad to be back. At that time the committee gave us a number of recommendations, and I'd like to give you a quick update on where we're at.

The first was about referencing employee staffing, satisfaction and development. Since that time we include our FTEs in our annual report, but more importantly, we've taken the issue of employee engagement seriously. Since the last time we were here, we do an annual survey of our employees to measure employee engagement. We use the services of a company called Hewitt, who are in the business of this. We've built that employee engagement measure into our performance reporting, and we've reported on it at the end of each year.

The second one is working with government to develop a strategy to reduce automobile and wildlife collisions. That is a bit of an ongoing piece of work for us. It is a challenge for us. We are part of a wildlife collision working group that was formed in 2005, and we're working on a business plan on potential mitigation strategies. Our road safety work also focuses on this. We're also involved in and supporting research done by UNBC on wildlife patterns near transportation corridors as well as education initiatives. It's something that we do continue to work on and monitor.

The third point was working with government to minimize gravel damage to windshields. This is a piece of work that we continually dialogue on with the Ministry of Transportation. It's what the right trade-off is between the size of the aggregate and the safety that's attached to that aggregate versus smaller-sized material that's put on the road that may not create the windshield problem but may not be as safe. It's that trade-off between windshield damage and overall safe travel on the road. We have an ongoing discussion with them.

[1130]

The fourth point was working to provide enhanced customer satisfaction and reduce reliance on claim centres. We have done a significant amount of work in this area. Just to give you a sense of that, we've signed a collision repair industry agreement, which has enhanced the ability of customers to go directly from the call centre to the body shop, depending on a certain set of criteria. That's supportive of the direction we were given.

The other thing we've done is put in place a new call centre process for minor injury claims. We've also invested a significant amount of money in improving our response times at our call centre so that people don't have to wait on the phone. Our target on that is 80 percent of the calls answered within 100 seconds.

The other thing we've done is expanded the operating hours at a number of our claim centres and driver services centres so that people can actually purchase a driver's licence or get a claim dealt with at a claim centre while driving into work in the morning or driving home at the end of the day. They don't have to go just during working hours. Those are a number of things we've done this past year.

There was a request for more information in the service plan. What we've tried to do is provide in the service plan and the annual reports the level of documentation on that issue that's consistent with how we deal with other things. But if people want more details, they can go to our website or the B.C. Utilities Commission website, and there's a substantial amount of information on our enforcement support and road safety programs, both in our filings with the commission or directly available on the website. We've chosen not to use the service plan or the annual report to specifically highlight that issue. We just want to deal with it on the same basis as other issues, but we have substantially increased the amount of information that is available through the website.

Finally, you were looking for comparative information on the analysis of education and road safety programs. We did not do a lot of work on this, frankly, because it was very difficult to get an understanding of the different systems across the provinces and do the comparative analysis. We didn't think there was significant cost benefit to maintain that on an ongoing basis, so that's the one area that we haven't done a lot of work on.

I just want to talk about the B.C. Utilities Commission. Since the last time we were here the commission has increased the amount of engagement between the corporation and the commission in terms of setting rates. They have been the regulator since 2003, so we no longer go before cabinet to set our basic rates. They are set by the commission.

The government direction was that there should be no cross-subsidization of ICBC's optional insurance business by our basic business. The commission identified one issue in a report they issued on January 19, 2005, where there was a degree of cross-subsidization related to the capital. Government dealt with that and directed us to transfer \$530 million. In general, though, since that time the commission's general view is that there is no cross-subsidization between the optional and basic business. However, we continue to fine-tune that and to make sure we've got the cost allocation right.

Basic rates do continue to include the non-insurance services provided on behalf of the province, and the B.C. Utilities Commission does monitor the service levels. In terms of the process, it's a fairly conventional one. ICBC submits their application to the B.C. Utilities Commission. It's reviewed by the B.C. Utilities Commission — their staff. They hire professionals to look at it. They have actuaries who help them with that.

Then our intervenor group makes up a number of folks. It can be our competitors. It can be organizations that we work with, like our union, our brokers' association. It can also be consumer advocate groups who can participate in the process, like the Consumers Association of Canada. It also can include individual citizens, who have the right to come forward and raise any issues that they want to. In particular, there are a number of individuals who do participate in the process, so we get the full gamut of folks participating in a review of our rates and services.

[1135]

Submissions detail a whole bunch of things, like financial allocations and revenue requirements. The next one coming up is rate design. The commission does take a deep dive on many of these issues. Most recently, we just had our basic rate increase of 6.5 percent, which was approved on an interim basis in March. It was confirmed by the Utilities Commission last week.

Capital requirements. I just want to cover off this issue briefly. It is an issue that gets some discussion when it relates to the insurance company. The government has prescribed some capital levels that the corporation is to achieve.

We use the test that is put in place and monitored by the federal office of the superintendent of financial institutions. So we're not fabricating a new measure here. It's really an objective test of solvency to make sure that the corporation is always able to protect its policy holders. It takes a look at the risk that the insurance company is facing. There's some analysis done around that to make sure that we have the right MCT target, and that's what was done in our case.

The money that we raise for capital purposes stays in the company to protect our customers. In fact, last year, when we did have a significant rate shock because of the bodily injury thing, we did have capital available to protect us, and we didn't have to go and assess our customers to deal with that. The regulatory targets that we have are 110 percent for the total corporation, 100 percent for the basic insurance business and 200 percent for the optional insurance business. We have till December 31, 2014, to achieve that.

In terms of the corporation, to date we have been able to meet our optional capital target at the end of December 31, 2005, and the capital target for the total corporation. We do have a number of years to go before we'll be able to achieve our basic insurance target.

Non-insurance services. This is the piece of the business that we run on behalf of government as their agent. It includes vehicle registration and licensing; driver's licensing; government fine collections, both related to vehicles and non-vehicle issues; and funding for commercial vehicle compliance. This is governed by a service agreement that we have in place between ICBC and the province, and it costs in the neighbourhood of \$100 million a year to provide these services on behalf of government. Those services are paid for out of the basic insurance rates.

The legislative and regulatory framework. I mentioned that government had been working on this for the last couple of years. The previous change, as I mentioned, was that BCUC is the regulator for ICBC's basic rates. Government has also set out the prescribed capital targets that I just talked about, and they've established that we shall govern our investments under the prudent person standard similar to other insurance companies.

The legislative and regulatory frameworks were most recently passed in the spring session of the Legislature. Bill 31 finalized that. So now we're getting on with implementation. With the regulations being

passed at the start of June, we've got 12 months to get the job done, so we're hard at work doing that.

On the competitive environment, our board of directors is accountable for setting our rates on the competitive side. Primarily Bill 93 provides some features that ensure consumers know that they have choice, and this new competitive environment will have a positive impact on the corporation and also on our customers over time as we continue to work on improving our pricing, our products and our service.

The next set of slides is really just running through the four key goals that we have in the corporation and the specific objectives for each of those goals. This is information that's gleaned from the annual report and the service plan that you have in front of you.

Our financial results over the last number of years. In 2001 we had a very difficult year. We undertook significant restructuring at that time. We had a \$100 million write-down related to Surrey Central City and a \$40 million restructuring cost. Because of cost control and a rate adjustment, we began to dig ourselves out of the hole in 2002 and put ourselves on the road to a more sustainable financial picture.

[1140]

In 2003 we continued to improve our position. Then in 2004 we had a record-setting year. A lot of that, though, was driven by significant gains in terms of our investments, and we had strong premium growth in the year as well.

In 2004 we saw an increase of 19.8 percent in our investment income. Now, that's not something you can count on each and every year. I think it's reflective of the volatility of our business, but it was a significant contributing factor to our positive results.

In 2005 we saw a strong a financial performance again, due to an increase in policies sold. We continued to manage our controllable costs, and we saw a 46-percent increase in our investment income. On the negative side, we did see the emergence of claims cost problems, particularly in the bodily injury area, as overall claims costs increased by about \$288 million or just shy of 13 percent over the previous year.

In terms of our go-forward net income, as reported in our service plan, we're looking at in the neighbourhood of annual net income results of around \$120 million to \$130 million a year. All of that net income stays in the corporation for the benefit of our customers over time. We don't pay a dividend to anybody, whether it's the province or anybody else.

The next slide is just to try and provide you with a little bit of an overview of our cost structure and the revenue streams that come in. The key point in this is that when you look at our claims costs and the costs of managing those claims, both the operating costs that we have associated with those and the acquisition costs associated, we do not take in enough revenue in a particular year to cover those costs. We need our investment income to put us over the top.

In terms of the premiums we take in each and every year, without the investment income that we had coming in, we would consistently run in the red. So this

slide is really to reinforce the important role that our investment income plays in our financial picture. Also, the investment income provides a significant benefit to our policy holders. It actually reduces the cost of an insurance policy by about \$200 per customer.

**I. Black (Chair):** Paul, just before you move on. When you have the acquisition costs, what are you acquiring?

**P. Taylor:** That includes commissions that we pay to brokers. It includes premium taxes that we pay to government and something called deferred premium acquisition cost, which relates to the accounting of the costs attached with acquiring those premiums. I'm sure Anwar would be happy to walk you through a detailed explanation of it.

Now, just turning to the results to the end of December 31, 2005. I'll give you two pictures of it. One is against plan. You saw our positive results: a net income of \$198 million. You saw the clear impact of investment income against the plan and the emergence of claims cost problems, constituting about \$180 million in prior-year adjustments and current-year claims incurred. Then we saw a positive result from premiums-earned, which is reflective of the positive growth in the economy, offset by the associated cost of selling those extra premiums — things like commissions and premium taxes. That's against plan.

The next slide is against 2004. Again, the claims picture shows up: a \$288 million increase in claims cost versus the previous year, both the current-year and the prior-year adjustments. You see premiums-earned rising, but offset again by commissions and premium taxes. The biggest jump is in the DPAC thing that we just talked about, and our situation on the accounting treatment of that had to flow through the income statement.

Then you see the positive results that investment income played. That's the cautionary tale in all of this. Investment income can't bail you out every year, so you need to find a balance between your claims costs and your expenses and a prudent assumption around your investment income.

[1145]

Claims costs cover about 70 percent of our total expenditure, about \$2.5 billion. Those increased by 12.9 percent in 2005 versus 2004. The biggest component of that is bodily injury claims. About 60 percent of the claims incurred are bodily injury claims. In total, BI, the bodily injury piece, is about 42 percent of our total cost structure. If the bodily injury costs go up, then it can have a significant effect.

It wasn't that we saw more claims come in. We actually saw our claims drop slightly in 2005, but the average cost of each claim increased substantially — by 8.2 percent. And it wasn't across the board. It mostly took place in the larger claims, the claims that are over \$40,000. We also saw, as a component of that, increased payments for general damages and future wage loss.

This is a troubling development for us. It's something that we're focused on to try and manage. We clearly understand that this level of growth in claims

costs is not sustainable over the long term, but it is also the nature of the business that bodily injury costs do pop up from time to time. As I've said, it's something that's also just shown up in Manitoba, with their BI claims costs going up about 13 percent in their first reporting quarter of 2006.

Controllable costs. This is a good-news story in terms of the company. We have worked very hard to get our costs down and then keep them under control. Going back as far as 2000, our controllable costs added about \$646 million. We were able to take that down to about \$482 million in 2002 and have generally kept it around the rate of inflation since then. So we're quite proud of the work that we've done to ensure that our controllable costs remain one of the contributing factors to achieving low and stable rates in the province.

Just on a comparative basis, just to throw out a few numbers for you. In comparing our operating expenses with other insurance companies, whether in Canada or the United States, on a per policy in-force basis our numbers are just about \$300. The Canadian benchmark is about \$370, and the U.S. benchmark is about \$372. That's one of the questions we always find we get: how do you know that your costs are at the right level? Well, we measure ourselves against both Canadian and U.S. insurance companies to see where we come out.

Now I want to talk about each of the four goals that make up our strategy. Within each of those four quadrants I want to talk about the objectives, some of the accomplishments in the last year, and then some of the go-forward issues that we're facing and the strategies we're putting in place to deal with them.

Our objectives in this quadrant, which are to become more competitive, are up there. I'm not going to read them for you. You've got them in your material.

In terms of 2005, what did we do to try and fulfil those objectives? First off, we were able to lower our optional insurance rates in June of 2005: 1.6 million better-risk customers saw their rates come down. On average, the reduction was just over 7 percent. That had an impact of about \$100 million in terms of reducing our premiums. At the same time, to ensure that all customers who had renewed their policies in 2005 were able to take advantage of that lowering of rates, we also provided refunds for anybody who renewed a policy in 2005 in advance of the reduction that we'd put in place. From the time forward on the reduction, they got the benefit right away.

We've also worked hard to improve on-line brokers services. Brokers are our point-of-sale network, and it's important that we continue to support them and provide the services they need to sell our product. We've also improved how they can look at our claim-rated scale system, so it's more transparent for them in meeting the needs of our customers.

In terms of the strategies on a go-forward basis, we want to work really hard to maintain the stability of the basic insurance product. We have our challenges here — there's no doubt about that — in terms of the bodily injury claims pressures that we're facing, and we want to continue to manage the option product to ensure we

remain competitive. There are four other key companies in the marketplace that are competing with the hearts and minds of British Columbians to sell them insurance. We understand that, and we work hard to make sure our product, our price and our services are competitive.

[1150]

We want to improve our analytical capabilities to improve the regulatory process. Being regulated is a new business for us. The demands are significant in terms of the information that people want, and so we need to make sure that we're providing that information that they're asking for.

Importantly, we've got to implement the new legislative regulatory framework that's been put in place and goes into effect in June 2007. We need to make sure we get that right and that it's a seamless implementation in terms of how our customers look at it.

I want to talk about the measures that we used to judge whether we're doing a good job or not. On this particular goal, the first one is combined ratio. Combined ratio is a key measure within the insurance industry for overall profitability. It's also made up of two components: loss ratio and expense ratio. I'll talk about them a little later.

The other thing that's included in our combined ratio that other insurance companies may not include is the issue of non-insurance costs. That's reflected by the little yellow bar at the top. This is really a calculation of taking our about \$2.8 billion in claims and related costs, about \$600,000 of expenses, adding to that about \$109,000 of non-insurance costs, and then dividing that by about \$3.2 billion in premiums. That's how you get this ratio. A ratio below 100 percent indicates an underwriting profit, while a ratio above indicates an underwriting loss — in other words, premiums were insufficient to cover costs. As I mentioned, often premiums are insufficient to cover costs. You need your investment income to fill in that hole.

Our combined ratio in 2005 was higher than planned mainly due to the higher costs for claims that I talked about, and the associated adjustments to the deferred premium acquisition cost that was mentioned.

Our target ratio for 2006, though, is lower than what we achieved in 2005. The next measure that we use in this quadrant is a minimum capital test. I've talked about MCT in relationship to the targets that the government has set out for us, and we continued to improve our capital position and improve the sufficiency of our capital levels. Our targets for the corporation are 110 percent for the corporation, 100 percent for basic insurance and 200 percent for optional insurance. As I mentioned, as of December 31, 2005, we are ahead of target and have met the total corporation and optional insurance targets that were prescribed for us in regulation passed by government.

In terms of our investment return, we talked about the importance of investments to being financially viable. The return on the overall portfolio is measured against a policy benchmark. ICBC's target for performance is set at 26.8 basis points above the industry benchmark. ICBC has exceeded its target during the

four-year periods that ended December 31, 2004, and 2005. We have been both lucky and, because of good work by the investment team, successful in providing a decent return for the corporation.

Of the four, the next goal that I want to talk to you about is revenue-driven and fiscally responsible. Again, I won't run through the three objectives. They are up there for you to view. What did we work on in 2005 and successfully accomplish? First was the signing of the collision repair industry agreement that streamlined processes and improved customer service. We also improved our loss management and road safety investments — the bait car program in particular. We've seen a reduction in the theft from and theft of cars in the last couple of years, in large part due to the bait car program and the emphasis that has been put on that.

In terms of strategies, I won't walk through them. I think the most important one is to deliver programs to manage the frequency and cost of claims and ensure that we find a way to have a positive impact on bodily injury claims cost increases.

[1155]

Next I want to just quickly walk through the performance measures that we use to measure this quadrant. The first one is the loss ratio. As I mentioned before, loss ratio and expense ratio are combined for the total ratio, which we use to measure overall position of the corporation. This is a key measure that is used in the business. It basically takes the \$2.8 billion in claims and related costs and divides that by the \$3.2 billion in premiums we have.

The loss ratio is lower in 2005 but remains higher than 2004 and reflects expected continuation of cost pressures from the rising injury claims costs that I've talked about. In terms of the expense ratio, as we talked about before as well, it's somewhat different than in other insurance companies in that we have the non-insurance costs that factor into that. It is a standard measure that's used in the business for assessing operational efficiency and the ratio of non-claims cost to insurance premium dollars earned.

In my view, this measure demonstrates the benefit of the corporation operating as an integrated company. For example, our expense ratio in 2004 was 19.4 percent compared to the industry benchmark of 27.9 percent. That's significant value that's delivered to our customers.

Third goal — customer focused. This is increasing emphasis on our part to get this right, especially as we move into a competitive marketplace on the optional side and with the significant oversight we face from the B.C. Utilities Commission and interveners on the basic side of our business. In this one we did reduce rates, as I mentioned. We've also improved the service. We opened a Richmond drivers services expressway. As I mentioned earlier, we have extended the hours of operation at ten service and claims locations with the support of our union, ultimately, and we've been able to improve information services available through icbc.com. This is a significant area of emphasis for us — achieving competitive levels of customer service — and

we're going to put a lot of effort into this over the next number of years.

I want to talk about the measures we use to test whether we're getting the results we want. The first one is insurance services satisfaction. This is the first of three measures. The other two are driver services and claims services. In insurance services we survey about a thousand customers a year. Overall, we see a high satisfaction with the transaction — people buying their insurance through brokers. People are generally very happy with the service they're getting from brokers and the product those brokers are providing on behalf of us.

The next one is drivers services satisfaction. This relates to renewing your drivers licence and the other functions we provide. Again, here we survey about 4,000 customers a year. Strong results, although we did forecast a small downward trend, not really significant, because of the changes in the GLP program that were scheduled to come through and that did have a minor effect. But generally, if you think that nine out of ten customers are happy, it's actually a pretty good result.

Claims satisfaction. This has been a bit of a challenge for us. We set ourselves a goal of 84 percent in 2005. We fell short of achieving that goal. We continue to work on this one. This is one area where you're not always going to get everybody happy. There's always debate about how much of a claim should be paid, but generally, we think we're in the right range at 80 percent plus.

The elements that go into assessing whether a customer is satisfied are things like timeliness, our helpfulness in them understanding the issue, our knowledge and expertise and our informing customers of coverage. So there are a variety of factors that go into measuring whether a customer is satisfied. Just to give you a sense... We had about 446,000 claims customers in 2005. That would mean about 361,000, or just over that, would be classified as satisfied. We have about 85,000 who would be classified as dissatisfied. That's generally a reasonably positive number, but it tells us that we've got more work to do with the 85,000 who were dissatisfied.

The final goal is personally accountable and capable, engaged people. Without a great team of people we wouldn't be able to do the job we do year after year. One of the things we wanted to do — and this was part of the advice we got from the committee the last time we were here — was to focus more on employees.

[1200]

One of our goals is increasing employee engagement. We did conduct the survey in 2005. We so far have not seen a significant uptick in the employee engagement numbers that we are trying to move the yardsticks on, but it is an area of focus for us. I've spent a significant amount of my time trying to improve the communication between the leadership of the corporation and our individual employees.

Our employee engagement score is a score determined by Hewitt, who do the survey for us. We set ourselves a goal of achieving 50 percent. We did not achieve that. We were at 47 percent, and our hope is that in 2006 we'll be able to break that indicator free



and see it begin to move up. Certainly, a number of things have happened.

Last year we were able to settle a collective agreement, a four-year agreement — the first time in the history of the corporation that we've had a collective agreement settled before the current one expired. We did it in a way that I think most employees would comment was in a relatively positive environment, as opposed to past labour negotiations in which there had been some tension.

Risk and risk management. ICBC does have a corporate risk-management framework and actively monitors our risks and develops strategies. We've got five areas of risk. I won't run through them, because we are getting short on time. I'd be happy to come back and answer any questions that you have on that later.

In terms of the accomplishments, quickly: positive net income results the last number of years and through to 2008. We have met our corporate and optional capital targets. We continue to control our controllable costs. We've seen solid investment management performance over the last number of years. We have been able to reduce our optional rates to our better-risk customers, and because of that, most customers today pay less for their insurance in 2006 than they did in 2004.

We have improved premium financing. We put a new plan in place that's more understandable for our customers. We've expanded the hours of service at a number of our locations. We've inked the collision repair industry agreement, which is focused on providing improved service to our customers. We've conducted a number of loss management and road safety programs, including things like the community crash reduction challenge and bait cars, which have been successful.

In a look forward, a key issue for us is addressing the BI claims cost issue — the bodily injury claims cost issue — and improving road safety. Just in general terms, 400 people die on our roads, on average, every year. That's a number we'd like to see come down over time. There is no single answer to that, but many of those deaths could be prevented if people drove more safely, if we found ways to encourage that. That's going to be a focus of ours.

In terms of looking forward, we want to continue focus on the financial and service performance. We've got to implement the new legislative framework the government has put in place — June 2007. We continue to interact with the B.C. Utilities Commission. The next round of hearings will be about rate design. We continue to look at ways to improve our services to our customers and also at building the right team of people.

We want to ensure the ongoing security of B.C.'s drivers licence. It is now the primary ID in our society, and we want to get a handle on the bodily injury claims costs and address the road safety issues I've talked about.

Mr. Chairman, those are our comments, and we'd be happy to answer questions.

**I. Black (Chair):** Let me begin by saying that I don't think I've ever heard a presentation within one hour on a \$3 billion corporation before. Well done.

ICBC is an organization that affects everyone in the province. Everyone has an opinion on it, and I'm sure you're about to hear some by virtue of questions and whatnot. Let me make a suggestion before we get there, however. I was remiss in the opening of our meeting today in that I did not give the MLAs around the table an opportunity to introduce themselves.

My suggestion is that we take a short recess to fill our plates with food and make it a working lunch. Before we go charging off to the table to do so, may I suggest we start with Blair Lekstrom, to my right. Just very quickly go around the table and introduce yourselves to our guests from ICBC.

**B. Lekstrom:** I'm Blair Lekstrom, MLA for Peace River South. A lot of glass problems, and I'm sure we'll get to talk about that.

**J. Rustad:** John Rustad, the MLA for Prince George-Omineca.

**R. Cantelon:** Ron Cantelon, MLA, Nanaimo-Parksville.

**D. MacKay:** Dennis MacKay, Bulkley Valley-Stikine.

**C. Puchmayr:** Hi, I'm Chuck Puchmayr, MLA for New Westminster.

**D. Chudnovsky:** Hi. David Chudnovsky, Vancouver-Kensington.

**G. Gentner (Deputy Chair):** Guy Gentner, Delta North.

**I. Black (Chair):** And my name is Iain Black. I'm the MLA for Port Moody-Westwood.

With the introductions done, why don't we fill our plates and continue the meeting. A five-minute recess.

The committee recessed from 12:05 p.m. to 12:14 p.m.

[I. Black in the chair.]

**I. Black (Chair):** All right, ladies and gentlemen. We'll call the meeting back to order and work through our meal, through the question-and-answer period.

I'll start, if I may. I have just one or two financial questions. Actually, I have a long list of them, but I'm not going to go through them all. I'll just go with one or two, and then I'll start taking a speakers list.

Interjection.

**I. Black (Chair):** Actually, thank you.

On second thought, I'm going to save my own questions for just a moment. One of our members does have a deadline where he has to excuse himself a little early, so I want to make sure he's got the opportunity.

**D. MacKay:** Thank you, Paul and the rest of your staff, for that informative presentation. There was a lot of detail in there, and I have to say it. If my questions

were answered in your presentation, I apologize, but I would like to get clarification on a couple of issues.

[1215]

The one issue that I'm having up in my part of the province has to do with the fact that ICBC came into being in 1973, I think it was, and the areas were based on electoral districts. There are different rates based on the areas or the zones within the province. Are there any plans to review those areas, to adjust from the 1973 jurisdictions?

**P. Taylor:** I talked about the next round of B.C. Utilities Commission hearings. They deal with rate design. Rate design has a number of components in it. One is the territory or the group that you're rated in with. It also has to do with the categories between one territory versus another. And then it also has to do with the type of vehicle you drive versus the type of vehicle somebody else drives, the use that you have for that vehicle and whether you're paying the right rate relative to that other person.

The B.C. Utilities Commission plans to hold hearings on that in 2007. That issue is likely to be dealt with in the context of that rate design discussion. At this point we don't have any plans to change our rating territories, but again, that kind of decision has to be done in the context of the review by the B.C. Utilities Commission.

**D. MacKay:** So if I understand your response, then, if BCUC suggests that the territories be adjusted, you would be obliged to follow the recommendations from BCUC?

**P. Taylor:** Depends if they made it an order or if they told us to look at it. If they made it an order that something.... Our general rule is that we comply with the B.C. Utilities Commission as long as they're within their bounds.

We're still having discussions with the Utilities Commission about the whole magnitude of the rate design hearing, but the item you're talking about would likely be addressed in the context of that discussion.

**D. MacKay:** Thank you.

I have one more question. Just looking at the chart on the performance results for net income, I was quite surprised at the difference. There's almost a \$600 million difference between net incomes, between losses and profitability, for the corporation going back to 2001 when.... The question would be....

**P. Taylor:** Is it that slide?

**D. MacKay:** Yeah, that's the one there.

The question would be around the financial viability of ICBC to refund \$100 per customer in British Columbia in the year 2001, given the fact that we've got about 1.3 million customers, I believe, in the province.

**P. Taylor:** We've got 1.3 million optional customers — right? No, sorry — 1.3 million customers. Right.

**D. MacKay:** So based on that and given the \$100 rebate per vehicle, obviously, the Insurance Corp. of B.C. was not in a financial position to be able to refund moneys to the people of British Columbia if we were looking at a \$251 million loss in 2001. Would that be a fair assumption?

**P. Taylor:** I think what I'd rather just talk about is on a go-forward basis. What we try and do at the corporation today is to make our decisions based on actuarial analysis that looks at the expected costs of our claims, determines the viability of our financial picture and then says.... The optional rate reduction was done based on the actuarial analysis that said we could afford the lower rates and that that was sustainable over time. That's the approach we've taken in recent years — to look at the actuarial analysis.

At the end of the day, in terms of the basic side of our business, B.C. Utilities Commission makes that decision. On the optional side, that decision is made by our board of directors.

**D. MacKay:** You skirted around the question, I guess. My question was: was ICBC in a financial position to be able to afford a \$100 refund to all the drivers in the province in 2001, given the fact that we had a \$251 million loss in 2001?

[1220]

**P. Taylor:** We certainly have had to dig our way out of a capital deficiency since 2001. There were a variety of factors that contributed to that. One was the write-off that was associated with the Central City Mall property — in general terms, the restructuring costs that we went through to turn around the corporation and bring our operating costs down from the 600-plus number to just slightly over \$400 million.

There were a number of factors that went into the financial position that we had in 2001. It has taken a couple of years to dig our way out of that hole.

**D. MacKay:** Thank you. You guys have done a tremendous job on it. Thank you for those few questions.

**I. Black (Chair):** I have a speakers list developing. I think I'll just insert my own, because they may lead to other questions further on. Let me cherry-pick from my list here.

I think the one question there has been some commentary on is.... One of the things that I think many of us feel in B.C. when we think about ICBC is we start out with a premise or presumption that in the basic side of the business where there's a monopoly-type situation, that the corporation, ICBC, would be quite profitable. On the side of the business where you are competing, where, using basic business assumptions, you would assume that the margins are tighter because you are in a competitive situation and, indeed, that you would have a much lower profitability performance, we actually have a phenomenon that's kind of the inverse of that, where you've got a net loss of about

\$208 million on the basic side of the business, on the revenues of about \$1.7 billion. Then on the other side you've got a net profit of \$406 million on revenues of \$1.4 billion on the optional side.

Could you just make some comments on that? Reconcile that one for me, because that's a performance indicator that's kind of inverse to the way I think a lot of people would perceive the public insurance corporation net results to be.

**P. Taylor:** Mr. Chairman, you need to go back to: what is the driver of the cost problem we face? It's our bodily injury claims cost. On the other side, our material damage claims — the costs to repair the tin, the vehicle — have basically stayed around the rate of inflation and been manageable. The bodily injury claims costs are the ones that have taken off significantly.

The vast majority of those costs are covered by the basic side of our business, so it's directly related to what is driving the cost. It's not an issue of whether we compete or don't compete. It is where the bodily injury claims costs are covered — on basic. That's where we're seeing the rapid rise in those costs.

**I. Black (Chair):** Is the situation that I just described something that has existed for, going backwards, a series of years? Or is this a relatively recent phenomenon — as you say, related directly to the bodily injury side of the business?

**P. Taylor:** I think it's fair to say — and Mark and Anwar have been around a lot longer than I have and might give you a more historic perspective than I can provide — that my review of what's happened in the company is that it comes and goes. The bodily injury claims costs start to escalate. The company puts in place mitigation measures and gets that under control, but you can't keep it there for very long. A couple of years later it starts to rise again. So there's a cycle that drives the corporation to try and address the issue on a regular basis.

**M. Withenshaw:** Just to elaborate, if you look back over the last 15 years within British Columbia, we've had two spikes on our bodily injury claims costs that caused us to implement new programs to try and mitigate that increase. That goes back as far as 1992.

In 1997, as a result of those programs, we were able to put the curve into the right direction for what those BI costs were in our company. When you compare our results, as was identified earlier, versus the rest of Canada, we're doing a very good job on maintaining a good control, good management of our BI costs. But it does pop up again, and it has now popped up again. We're very focused towards trying to get a handle on that, what we can do to control them, and turn that corner and get them back in line.

**A. Chaudhry:** If I could also add, from a financial perspective.... Basic versus optional is a new way of looking at our business. It started in 2003, and that was our first year.

Before that we always managed our company as an overall company. Claims were not broken out this way. Also, in 2002 and 2003 we were trying to keep our basic rates as low as possible.

[1225]

We took some pretty significant increases on the optional. There was 8.9 and 8.7 percent in those two respective years on the optional. I think our optional rates were already set quite high by the end of 2003, and we're reaping the benefits from that, but we're also looking at our business more separately now. The analysis our actuaries are doing on basic and optional is understanding our cost structure more so now than before.

**I. Black (Chair):** Do you foresee the ability to retain the margins on the optional side to allow you to get through a cycle, to use your term, with respect to bodily injury claims? On a consolidated basis will you still be able to perform the same way?

**P. Taylor:** On a consolidated basis we look at it in terms of our capital targets, because we don't cross-subsidize the one side of our business with the other side. Our view is that we can maintain a positive net-income number on a go-forward basis as long as we find a way to manage the bodily injury costs.

If they continue to escalate at the level they were last year, it would put us into difficult territory. Our view is that we've got to get them down to something that's more manageable. That's the assumption that we've put into our plan, and we see the company continuing to be profitable on a go-forward basis, on a total basis. We also look at the capital targets that have been set for us, achieving those capital targets on our optional business and on our total company business on a go-forward basis, and then beginning to build up capital on the basic side of our business over the next number of years.

**I. Black (Chair):** You've given me the setup three times now, so I have to take the bait. Given the focus on bodily injury reductions, where does that factor into your business planning? What can you do? What are the different things you can look at doing in this area? How can you manage and mitigate against that exposure?

**P. Taylor:** That's a piece of work we're continuing to focus on. The first is appropriate analysis of what the drivers were to the problems. As Anwar talked about, we've now gone through the last couple of years of splitting our business apart and starting to understand the distinct components of the company, which we didn't do before. As we start to understand that relationship, then we also look at the drivers for the cost.

We know the drivers are around the bodily injury area, around the speculative portion of claims costs, so one of the initiatives we're looking at is: are there things we can do on improved claims handling? One of the comments we heard from time to time from customers was: "Well, if you dealt with my claim faster and more efficiently, then I'd be less likely to be aggravated." So we'll look at the claim in the context of

the whole need of the customer and find a way to manage that.

We've got a significant effort underway now to ensure that all customers are dealt with as quickly as we can. Every customer who comes in for a bodily injury claim gets a phone call from an adjuster early on in the process to try to identify their needs and solve their problem.

The other thing we're doing is focusing on the fraud side, making sure that the claims we are paying are appropriate.

Road safety is an area that we think there can be increased emphasis on. We all know, when we drive down the road and see that odd lunatic weaving in and out of traffic, that we can do more to try and address those people — dangerous driving, aggressive driving. We're looking and thinking about a number of initiatives in there to improve that.

We're continuing to work with the police on enhanced enforcement. They're just in the process of getting all of the integrated traffic units up and running across the province. We hope to see positive results from those initiatives as well, but it's still a work in progress.

**I. Black (Chair):** Thank you. I had others, but I'm going to let someone else get a chance here.

**C. Puchmayr:** Thank you very much for your presentation. I have a few questions. I'd like to start off with the 33-percent reduction in regulations that you spoke of in your report. Your report stated that you have now completed that. What document is available to the public to look at precisely what the 33-percent cut in regulations entailed?

**P. Taylor:** I think a lot of the reduction in regulations was driven by the wholesale change in the legislation that took place from the old framework that governed ICBC in the auto insurance sector. I don't have it with me today, but I can get you the material.

[1230]

It was fairly cumbersome and had been around for a fair length of time — the legislative and regulatory framework. In moving to the new framework that comes into place in June 2007, a lot of those older regulations, and the cumbersome nature of them, were taken out. So we have a much more modern, up-to-date statute, which makes it easier for us to do our job.

**C. Puchmayr:** I'm sort of looking at the experience in other ministries where a lot of pressure was put on to reduce regulations or regulatory compliance. And the end result.... What we're seeing in some of the ministries is a need to reintroduce some, because the cuts have gone too far.

Was there a certain amount of pressure put on to meet that threshold, or was it fairly easy to meet that threshold without having to reintroduce something different down the line to make up for something that may have been reduced, just by virtue of trying to meet a goal?

**P. Taylor:** Certainly, government direction is something we're mindful of. It's laid out on in our shareholders' letter that we should achieve our reduction of 33 percent, which we did. Our view is that the new regulatory framework, the new legislative framework, is a significant improvement over the old one and went a long way to our achieving our target by improving that legislation. So I don't think I or my colleagues feel any undue pressure from the regulatory changes that took place.

We've certainly got challenges around being a competitive organization and fully implementing some of the requirements. There's going to be enhanced transparency for consumers, because every consumer will now get an optional policy contract when they purchase their insurance from ICBC. That will help them to understand their choices and provide comparative information for judging whether they're getting the insurance policy they want. That creates an increased responsibility for us, but I think in the long run people would argue that that kind of transparency is a good thing for the marketplace.

**M. Withenshaw:** If I could just add, from an action perspective at the time, we knew what the corporate objective was of a one-third reduction. There was a very methodical approach in going through all our procedures to make sure that if they were to be kept, they were appropriate. But if they could be reduced or taken out, that would go towards attaining the corporate results. In a number of the areas they have reduced maybe only by 10 percent. It wasn't to try and get a one-third reduction in every review that was underway.

**C. Puchmayr:** No, obviously not. It's overall....

**M. Withenshaw:** Right. But that speaks to our mindset — to go through it methodically to see what could be pulled out. If an area could only pull out 5 percent, fair enough. If another area had a 40-percent reduction, then that was terrific as well.

**C. Puchmayr:** So there's a specific report on that process?

**A. Chaudhry:** I believe there was a reporting mechanism in place. This was accomplished almost two years ago now, so we could look at that. We don't have it with us here.

**C. Puchmayr:** The other question I have....

**I. Black (Chair):** We're going to go around once per.... Is this a completely new question?

**C. Puchmayr:** Well, I mean they're all tied in.

**I. Black (Chair):** I'll give everyone a chance to speak once, and then we go to the second round of questions. We'll do it that way, unless you're staying right on the same topic. That way we'll give everyone a chance to speak.

**C. Puchmayr:** We can pass it around.

**J. Rustad:** I've got three questions, but I will focus on one of them, because they are separate questions. First of all, thanks once again. I extend my thanks, as well, for the presentation. I think it was very comprehensive, and it was good to get a handle on just where things are at with the corporation.

I want to ask a question about the 2 percent of your investment portfolio with the Surrey city centre malls. In particular, I've got a couple of little questions around that. You mentioned that there was a \$100 million write-down in 2001 on the value of that operation. The decision, I suppose, to go into that property management was made in the '90s.

The question I've got, I guess, is: is that a direction that ICBC and the board wanted to move in, or was that a direction that was brought to the board as a suggestion? And I've got a couple of other related questions, if I may, around that.

[1235]

**R. Turner:** If I could attempt to answer your question. By the time July 2001 rolled around — when the original board of ICBC, as it is more or less today, was created — Surrey centre mall and the tower were well on their way. The challenge wasn't to do anything other than manage your way through that process and complete the development of the tower and complete what you could with the mall.

Where we are today is that the tower is complete. It's finished. We've either sold airspace parcels or leased the vast majority of the tower. The mall is 50 or 60 percent leased, and we're working our way through that too.

We didn't receive, as a board, any direction specifically about how "you ought to do this or do that." We were a board with a commercial Crown attempting to complete a development that was sort of in the middle of two different mandates. By the time the new board came on, it was already on its way. Our job was to do the best we could with that mall, conclude the development of the tower and complete the mall.

The tower, I would say, is more or less done. It's the mall that remains somewhat vacant, at 40 or 45 percent vacant. We have plans to enhance that too, but we're still working our way through the mall.

Did that answer your question?

**J. Rustad:** Not really, but that's okay. The question was more about the decision to ultimately go ahead with the project, which is before the current board. I realize that you may not be able to give an answer about that.

**R. Turner:** No, we weren't there.

**J. Rustad:** That's fine.

**I. Black (Chair):** Is it related to the first one?

**J. Rustad:** It is related.

The other question I have around that is: given, of course, the size of the portfolio and ICBC's mandate around automobile insurance, do you see the corporation wanting to extend operations as an investment around property management? Or is that actually something you may consider at some point to get out of in terms of a business and an investment side?

Actually, along with that I'd also like to ask the question about the management of the mall. Obviously, 45 percent is vacant at the moment. There's a lot of effort, of course, that has to go into trying to attract tenants to the property. Are your management costs associated with that particular investment significantly higher than on other investments? And in terms of a return....

I guess the purpose and the reason around these questions is that I find it very odd that a Crown corporation which is dedicated towards insurance and that whole side of things would be in the property management, the property development business. I'm trying to rationalize why that is happening.

**R. Turner:** If I may, I could answer the policy side and Paul would answer the operational side of your questions, because there are, I think, two in there.

On the policy side, the board took direction from government in implementing the prudent-person rule with respect to the investment portfolio. If you want it in more detail at another time, we can send you the breakout of investments, because what we have is \$8.2 billion allocated through a variety....

**J. Rustad:** I understand that this is only 2 percent of the overall investment portfolio.

**R. Turner:** Yeah. We've got a broad range of investments in different areas in different funds with different managers in different asset classes to ensure stability and income for the benefit of our policyholders.

When you speak specifically of real estate, I can tell you that we're not in the real estate development business, so that question I'll answer directly. No, we're not.

We do have other.... We own apartment buildings in different geographical areas, and in the prudent-person rule that we have — if you break it down to the real estate, which is your question — we've got guidelines for how much real estate of what class in what geographic location, etc. We have a variety of stopgap and oversight measures at the board investment committee level to ensure that we're not investing too much or too little in any asset class, including real estate.

Does that answer the policy side? We are not a real estate developer, but we do not plan to get out of owning real estate at all. We are still acquiring real estate, but it's completed real estate with a history that we would buy. We're also in mortgages.

[1240]

**J. Rustad:** Yeah, I understand about investment properties in terms of revenue from rental properties and those sorts of things. I'm more curious about

SCCM and plans and plots around that particular model.

**R. Turner:** On a policy basis, we are at the smaller board level because it's a different company. It's owned by ICBC. It's a different company with a smaller board. Both Paul and I sit on the board. Our direction to management is to conclude the lease-up of the mall. The tower, as I mentioned earlier, is more or less done. Conclude the lease-up of the mall, and do what you can with the mall to make it a profitable investment for us.

We're not looking to acquire more like properties. I think what we're trying to do is still work our way through what we inherited in 2001 with respect to the mall and the tower.

**J. Rustad:** Okay. Just before we go to Paul then, what I'm understanding from what you're saying is that the mall is actually losing money at this particular point in terms of operation? Is that what I just heard?

**P. Taylor:** The mall's not losing money. It's certainly not providing the returns that one would want it to provide if we were making an investment today for real estate objectives. It doesn't fulfil the standard that we would apply to a new investment. But we still consider the mall a work-out situation.

**D. Chudnovsky:** Thanks for your presentation.

I have a couple of questions about particular insurance challenges and particular areas of the province that you might be able to help me with.

One of the phenomena that we've seen over the last couple of years with the pine beetle epidemic is a tremendous increase in the number of vehicles using roads in the north and in particular in areas where there is a rush to get the fibre, the pine beetle wood, out of the forest.

I've heard from numerous folks about maintenance problems on the roads. Getting to the question eventually, my question is: is the corporation noting an increase in accidents and various other kinds of claims from that area of the province? If you are, what's the difference and what do you see happening? And finally, where can we find the data on this question?

**P. Taylor:** From our perspective, what we're seeing is more on the back roads than on the main highways. This year we've seen a small uptick in the number of claims, but we attribute that to the rainier weather in the spring this year, as opposed to....

Over the last number of years we've continued to see the number of crashes come down. So in terms of the number of claims, I think it would be fair to say that the jury is still out on whether we're going to see an uptick in material damage claims and what the actual causes are. At this point actuaries believe it's weather-driven.

Maybe Mark could give you some specifics in terms of the north and specific loss data that he might have at his fingertips.

**D. Chudnovsky:** Thank you for shedding some light on my questions.

**M. Withenshaw:** Unfortunately, I don't have the loss data that Paul referred to, but I can offer two comments. Your question and concern, I've heard from two areas as well. One is from the RCMP, in particular from the traffic side — the RCMP identifying these crashes that are occurring on the logging roads up north and trying to identify what type of approaches they could take to assist in trying to reduce the uptick in the number of crashes.

The other item that's unfolded in about the last eight or nine months is a multidisciplinary approach towards trying to reduce the crashes, especially in the forest industry, and having ICBC, the health providers, the enforcement community, key business partners and community groups get together and do some brainstorming around what approach we could collectively take to try and reduce the crashes and fatalities on these roads. That's just gotten some legs in the last eight to nine months.

**D. Chudnovsky:** If I can just pursue that for a second. I appreciate the answer, but if I were seeking data both on the number of claims and on the cost of those claims in particular areas, where do I look for that information?

[1245]

**M. Withenshaw:** My hunch is that we're going to be challenged on accidents that are not on the Motor Vehicle Act definition of highways.

**D. Chudnovsky:** Aha.

**M. Withenshaw:** We have extremely good data for our highways and roads and streets across the province for auto crime or for crashes, but for off-road, which aren't highways, I'm not sure we would be able to respond to queries of that nature.

**P. Taylor:** The other issue we have is data lag. It takes us almost two years from the close-out of a year for us to have really good data.

**D. Chudnovsky:** I now understand better what you were saying. I just want to get a precise sense of the parameters of what you are able to do and what you aren't able to do in the two years, and that is highways and provincial roads as opposed to private roads and logging roads. Is that where you're drawing the line?

**M. Withenshaw:** That's right. On someone reporting a traffic crash loss to us, we try to get very specific details on where it happened. If it was on the Coquihalla, okay, whereabouts on the Coquihalla? That's versus: "I'm five kilometres just off the Coquihalla." It doesn't help us — right?

**D. Chudnovsky:** I have another question that I'll do in my turn, when it comes up.

**I. Black (Chair):** I'll put you on the secondary list.

Interjection.

**I. Black (Chair):** You're on the list as well.

**B. Lekstrom:** Thank you, Paul and gentlemen. It was a great presentation, and I think ICBC is a solid Crown corporation. The more people start to look at the insurance industry, particularly over the last number of years, I think they realize how fortunate we are. Having said that, I do have a couple of questions.

Certainly, one of primary importance to the people I represent in the north is glass coverage and the issue of our deductibles that have taken place over the last, I believe, 18 months to 24 months. The situation we face is that as we travel in the north — and I'll speak particularly to the north — we face some challenges with rural road conditions, gravel roads, that possibly the lower mainland wouldn't. The vast majority of our 2,900 kilometres of road in my particular area, I would think, are gravel.

The other issue is the winter months. We travel, and although they lay liquid calcium, and there's salt and sand, there is gravel. I note that — on slide 14, I think it is — you've been working with government to minimize gravel damage to windshields. We do have quality assurance people within the ministry, and we make sure all of that aggregate is checked for size. I'm not sure, regardless of the size, that you'll eliminate the problem, to be honest with you.

Having said that, it's my understanding that ICBC, rather than just having your basic deductible, is based now on the number of claims you have. I believe it's so many claims over a set number of years. We're seeing people's deductibles, based on whether it be a wildlife collision or a rock through the windshield, increase to \$500 or \$1,000 or \$2,500.

I guess this is a company and a corporation that is there for all of British Columbia. We try and offset it. We have the monopoly in the basic, and I know we're talking about the optional side, but it has created some real challenges for the drivers in the north. These aren't people who get a small rock chip and have their window changed immediately. I understand that we had people who possibly in the past may have abused that.

A small rock chip in the high passenger side, to me, doesn't mean I want to go spend a couple of hundred dollars to get a new windshield. I'll give you an example. I have an older Jeep. It just had a new windshield put it in, roughly two years ago. Twenty minutes out of the glass shop, I had to travel to Fort St. John. Good highway. I took a rock through the window, so right off the bat, there's a new window. Rather than go back and change it, I didn't do it. You wait.

The other day, Thursday, I'm coming back from Fort St. John — a nice summer day, beautiful highway. I took another rock through the same windshield. Now, if you take three, a windshield a year is certainly not in excess for many people. I understand — and this is a long-winded question — the numbers and the

percentages. The vast majority of people do not go through a windshield a year. I've looked at those numbers.

I would think that if you can break that down to the vast majority of people that actually have to travel to work, not in communities but on highways in the back country or on our rural roads, where a vast majority of our agriculture, our mining, our forestry, our oil and gas are.... Anybody that works in the service sector many times goes through more than a windshield a year — and not just rocks but moose and deer, because of the abundance there. We're now to the point where people can't afford to replace windshields.

[1250]

Along with that come the many companies, individuals that enter into a lease agreement for a vehicle. They cannot lease a vehicle in British Columbia now — and I'm working with some people — because of the high comprehensive deductible they have. I guess what I'm looking for is whether there is any discussion going on right now to look at a fair and equitable way — it may be through, possibly: "Blair Lekstrom, you will pay \$50 a year higher on your insurance premium" — so that you don't see a \$500, a \$1,000 or a \$2,500 deductible.

To me, it's just impossible to insure for glass right now in the north. I say the north because of — I'm sure that in downtown Vancouver or downtown Victoria I can't imagine going through a windshield a year, to be honest with you — the conditions we drive in. It's a huge issue in my area. It's got ramifications far beyond just me, but for industry, for individuals who work.

I'll just close with this and then look for your answer. People work in Taylor, for example, 35 minutes up the road from Dawson Creek, and travel that road every day to work at the gas plant. There would be nobody — I could probably do my own study — who wouldn't go through a windshield a year, just because of the conditions we work in.

I'm looking for some response on that. I don't believe the direction we've headed with that is the right one. I say "we" in the best possible manner.

**P. Taylor:** The collective we.

**B. Lekstrom:** The collective we.

**P. Taylor:** This is clearly a difficult issue. The corporation put in place escalating deductibles beginning in January of 2003. In the past these costs would have just been passed on to everybody else in terms of higher rates. What the decision was, was to look to customers who had an extensive history of comprehensive or specified peril claims over a three-year period. The factor is that they have a claims history that would be six times what their neighbours in the area where they live would. That's what we do. We look at the area they live in and apply a factor to that.

The view is that rather than asking their neighbours to pay for those claims, we would ask the person who's having those claims to effectively self-insure them-

selves. It's not that they lose the insurance. They just lose the insurance on the first part of the deductible.

Just in general terms, for our comprehensive coverage, our average premium is about \$206. If you took your factor of a windshield a year, we can't afford to charge.... That's not enough to pay for a windshield a year. You mentioned \$50. I don't think \$50 is enough to cover a windshield a year. What ICBC does is.... We believe that it's a reasonable apportionment of risk that's attached to the claims that are coming in. It is optional insurance. People have other choices that are available in the marketplace.

Options we are looking at? You're aware, from your former colleague on council, Mr. Bumstead.... He has a keen interest in this subject as well. One of the ideas we're looking at is comprehensive coverage without glass. That affords people the opportunity to remove their glass coverage and effectively insure their glass coverage but not lose the coverage on the catastrophic collision, which would be a moose or a deer or something like that. That's one suggestion. It's one that our competitors employ, and it's one we're looking at. But in terms of walking away from the concept of customers picking up or sharing some of the risk on these claims, it is not something, at this stage, that we're looking at moving away from.

Can we do it better, or are there options to look at? Those are all on the table, but the notion that people with a high number of claims have to bear some accountability for those claims, whether they caused them or not, is a principle that we're going to continue to embody.

**B. Lekstrom:** If I could follow through, Chair.

Certainly, and understanding the basics of the business and how that works.... The issue, though, when we share the risk and share the ability for people to afford insurance, I fully understand. But we look at the regions. We do have regional differences, and that's how it works. It seems — we'll use 90 percent as the number — that 90 percent of the people who live in my region may not have the same claim schedule that Joe down the street from me does.

[1255]

Again, it will go back to work environment — where you're working. If you're working downtown in the city, chances are that you're not taking a rock, although it happens on Main Street in Dawson sometimes in the middle of winter. Do you consider that at all? Is there a risk factor built into...? I don't know how you would do it, but I'll ask the question.

We drive the province with resource revenue, and traditionally, it's rural British Columbia — and I'll speak to northern British Columbia — that generates billions of dollars. Yet to me, it seems that here's another burden on the people living in northern B.C. to insure their vehicles and pay higher for glass claims than they ever used to. I've had an individual come into my office who can no longer be insured.

I have no problem going after the person that abuses the system. There would have to be a call and

some bit of work done within ICBC. Like I said, going through a windshield a year based on one rock chip in the top right corner doesn't make sense. But the ability to have glass insurance without jeopardizing the safety of the people on the road....

That's what's happening. As people have windows that need being replaced, first of all, they aren't going to pay their \$1,000 deductible to get a windshield. Nobody would. They probably aren't going to pay \$600 to replace a windshield, because it's money. So they drive with a cracked windshield, to the point where the RCMP pull them over and say: "You have to."

They can't catch everybody, much though I'm sure people would like them to. But there has to be the ability, at least in my mind, to offset this risk for the individuals that are helping to drive the economy. These aren't people abusing the system. The system we have now — and again, I'll go on about this — was implemented. I had people go to reinsure their vehicle and find out their deductible had gone up without them knowing it.

How do we, or how does ICBC as a corporation, implement a policy and then notify the people of that policy? I think we're two years into this now. I believe it may have been '03 or '04. I forget the exact date.

**P. Taylor:** January 2003.

**B. Lekstrom:** Thank you. How do we let anyone in this room, or any British Columbian who's insured right now, know of that policy change within the corporation?

**P. Taylor:** Well, we do write letters to people that are approaching or at the threshold that we've got established. They can certainly find out about it from their broker to help them manage it.

We do something that other insurance companies don't do. We allow people to buy back their claims if they want to buy down their claims history. Say they'd had a couple of glass claims in the \$200 range, and that put them into the escalating deductible thing. We allow you to back those claims out as if they'd never existed. I don't know any other insurance company that allows that to happen. With other insurance companies, if you even inquire about a claim, you show up on their radar screens. We don't do that.

In terms of public policy objectives, we generally don't apply a public policy screen to our optional insurance products. We as a company have decided to apply a different rating approach on our optional insurance. We made a conscious decision, as a competitive advantage, not to discriminate based on age, sex and marital status on our optional business, but that's basically where we've drawn the line in terms of trying to apply a different screen than, say, our competitors might provide.

Could we do a better job in terms of helping people understand the impact of rising claims? It's probably a fair comment. It's one that Dale and I are looking at and thinking about — that we need to be more prospective than retrospective in looking at some of these.



This isn't just people who have glass claims. If we have people in the urban environment who have multiple theft claims, we apply the escalating deductible to them as well. I accept that the people who have multiple theft claims are a smaller group of people than people who might have multiple glass claims, but my view is that we don't necessarily discriminate against one region of the province in the application of this policy. If you have a claims history that runs you five or six times your neighbour's in any of these coverages, we will look at applying an escalating deductible to you, to apportion the risk back to you as an individual.

**B. Lekstrom:** Just two quick.... On this very subject, the issue of the leasing that takes place. Certainly, many of our service sector individuals lease, and they may have had these claims. Has that been brought to your attention? Are you looking at that?

[1300]

I know of people that have now had to go from my area, particularly in the northeast, over to Alberta to lease their vehicle and try to pro-rate their vehicle based on how their work is from the Alberta side. It's hurting our leasing opportunities, certainly for some of our people in British Columbia. Have you thought about that when you look at the escalating deductible?

**P. Taylor:** It is something we're looking at. I don't have an answer for you right now, but it is a factor that we're looking at. In general, there are a number of issues related to leasing. We have a vicarious liability issue that's emerged that we need to address. It's the replacement cost coverage that we only run out three years on our vehicles, when most people lease for four. There are a variety of things that we need to do to be more user-friendly to folks who lease vehicles. That's not the only one we're looking at.

**B. Lekstrom:** Okay. If I could close on this issue, and I thank you for your indulgence, Chair.

You know, we've worked on this, Paul. I know that your staff are looking at it and finding ways, I think, to be innovative in this. Hopefully, we can find a way to help offset some of these issues.

In closing, could you look at a policy through ICBC for notification of drivers upon any policy change that takes place within your insurance coverage, so that two years after the fact of a new policy that may have been implemented by ICBC, drivers aren't caught unaware? That's what has happened.

If I walked into a broker who was going to insure it and they said, "Oh" — the screen pops up — "you've had three claims in two years," or whatever it would say.... That's not happening right now. You can even go to our ICBC in — we'll give an example — any one of my areas, ask where they're at on that coverage and not be able to get the information.

I would encourage, if it's at all possible, that if a decision is made based on an escalating deductible, a letter go out to every policyholder who could be affected so that they know. "Here is the new policy, just

to let you know," or possibly, "Here's where you're at," or even, if that was too in-depth: "If you're interested in knowing where your claim history is at, get a hold of us."

I think that's vitally important, so people aren't caught off guard. I have had a steady flow of people into my office dealing with this issue.

In closing on this subject, I would encourage you to put those letters forward — I believe you're working on it now — and let people know, and make this policy decision retroactive to the day. Eliminate it from '03, and start it the day they get their letters. I think that would be fair, equitable and the right thing to do.

**I. Black (Chair):** I can confidently say that I've never hit a moose in Port Moody.

**R. Cantelon:** I would first like to compliment the presentation but also the obvious turnaround to what I view as the very strong operating and fiscal policies of ICBC over the last four years. It's a pretty impressive turnaround.

My question comes to bodily injuries. I noted that they're down 2 percent in terms of number but up 8 percent in claims. Specifically, \$40,000 and over are up. I think you commented, Mr. Taylor, on the trend over six years that the longer you leave it, the higher the claim gets and that you're looking at addressing that.

Aside from that, specifically, do you see any other trends, either in judgements or litigations, that are evident? Are BI claims, just by their nature, in total going up? Is there a trend to more successful litigation means in ICBC, or are there other factors?

**M. Withenshaw:** There are a few factors, I think, that are influencing the upwards spike in the dollars. An obvious one is that we are paying more for past wage loss.

**R. Cantelon:** Past wage loss?

**M. Withenshaw:** More people are employed, so when they get injured, it costs us additional dollars. There is a definite connection to the employment status as to what we end up paying on the wage loss side. When the claim comes in, it is what it is, and that's what we have to pay.

The other side is that yes, there are certainly.... The plaintiff counsels' firms are very organized. There is an action underway right now to challenge the upper limit that can be awarded for pain and suffering. They're getting very focused around what the avenues are that they can pursue to try and get additional moneys for their clients.

Hence, our strategy, which we rolled out in the last couple of months, has been: how do we service our customers such that they don't feel they have a need to get a lawyer, that they know that ICBC is there trying to support them through their injury and that they can deal with us directly versus feeling they need counsel to represent them?

**R. Cantelon:** Thank you.

[1305]

**I. Black (Chair):** Gentlemen, I realized that we'd actually be here till one. If we could have your indulgence, are you able to stay for another ten minutes? We still have a list of questions here.

Committee members will need the remaining 45 minutes to get through our recommendations, so we'll cut it sharp at 1:15.

**G. Gentner (Deputy Chair):** I'm following along the lines of the member for New Westminster. Possibly, if I could come back after the member comes forward with his, I may not have to be redundant, since the member will have introduced those questions. If I can indulge the Chair to suggest that, after the member for New Westminster, I have my first go-round following him.

**I. Black (Chair):** He's first on the go-round list, so knock yourself out.

**C. Puchmayr:** My second question is.... I've got a couple here, but I know you're limited for time, so I'm going to go to the one that I feel needs more attention at this time. You talk about the money that's returned to prevention, and prevention is certainly a good way of reducing claims.

I first insured prior to 1972, so that kind of dates me a little bit. There were many, many insurance companies. In my last nine years I was a city councillor in New Westminster. I remember ICBC coming to us often and suggesting, where there was an area with a high accident rate and the calculation was that it was costing ICBC annually for accidents \$20,000 on this corner, the city partner up — \$10,000 each. We did a traffic circle — traffic calming. It has reduced that risk.

That certainly isn't going to happen when you've got a whole bunch of providers out there, because they're all going to say: "Well, I'm not worried about New Westminster. I'm worried about selling insurance nationally." Therefore, the end result is that the extra \$20,000 a year on accidents in that specific intersection will be factored into everybody's insurance. I'm certainly pleased that there is an ability to do that.

One of the concerns that I have now with preventative services is the CounterAttack. Maybe you can talk about whether there is a concern there about the fact that it isn't being funded anymore, unless something's changed recently. I know that police in my community aren't being funded through ICBC for the CounterAttack program.

Then, if you could just quickly touch on the advantages of the red-light intersection cameras. We're talking about over 400 fatalities last year in British Columbia. We have a bridge between Surrey and New Westminster where we're trying to get a speed camera, trying to get the government to implement something...

**A Voice:** To save lives.

**C. Puchmayr:** ...to save lives — right.

I'm thinking that here we're saving lives at intersections. Maybe you could give us some comments with respect to the speed camera on a bridge that you cannot police.

**I. Black (Chair):** In the context of this, that question's actually not allowed. The decision on photo radar or anything else like that is a decision that comes out of the Solicitor General's office in the Ministry of Public Safety. It's not in the purview of ICBC, within their mandate, to make those types of decisions.

**C. Puchmayr:** But specifically, maybe you can talk about the advantage of the red-light intersection cameras. Do you see an advantage to that? That's a policy that the government put to you. I'll leave the Pattullo Bridge out of the equation.

**P. Taylor:** Just on the CounterAttack. It is, actually, one of the frustrating comments I hear from time to time — that ICBC is not funding enforcement. We actually commit 1 percent of every basic insurance policy to fund traffic enforcement. In the current year \$17 million is what we're spending.

Those funds, while they're not necessarily used as much on CounterAttack, are being substantially spent on the integrated traffic units. While the CounterAttack had a public profile to it and did a good job of getting the public aware of the issue of drinking and driving, it became predictable for the habitual person who drank a lot and drove irresponsibly. The RCMP will tell you that the new strategies they are employing through the integrated traffic units are actually more effective than the old CounterAttack programs.

We continue to spend a significant amount of money on traffic enforcement. The decisions on where those dollars are spent are made by law enforcement agencies themselves. We don't tell them where to spend money.

[1310]

They believe that they are having significant success. They have just employed a targeted strategy on some main highways into the province in the last few weeks. They also employed them around a couple of communities, where they clustered enforcement, as opposed to the scattered approach that used to exist before. Mark certainly can supplement this. You talk to the law enforcement professionals, and they will tell you that the current approach is far superior in terms of results.

We've got all we can out of CounterAttack, and it doesn't mean we don't do CounterAttack. We support the advertising program that supports CounterAttack. From time to time they do CounterAttack interventions, but the integrated traffic units that target the habitual drinking driver, they feel are more effective. I'll turn it over to Mark, to supplement.

**M. Withenshaw:** As an example, New Westminster Chief Zapotichny is very active in our advisory committee around the 1-percent funding — what the priorities are for their operational plan, for how that money

is to be allocated. Their focus on impaired driving is still a key component.

Whether it's under the previous funding arrangement? It's not. It's under the 1 percent but is a very effective process for going forward and ensuring that we have a higher level of enforcement on our streets across the province.

**P. Taylor:** The funds are not dissipated out community by community. What it does is bring a stronger force together that they can apply to the issues, whether it's drinking and driving, habitual offenders, dangerous driving. They can also integrate it with the helicopter that the RCMP have in the lower mainland now to provide a much more focused, targeted approach. I'd certainly be happy to get you more information on it if you have a particular concern that we can answer.

**C. Puchmayr:** On the actual intersection cameras. I know that this committee has met for some time. Obviously, there are statistics that show the decreases in the use of those cameras. Is it significant?

**P. Taylor:** A large number of crashes take place in intersections. That's clearly a point of intervention that we can use to bring that down. The traffic cameras that we have are aging, and I know the Solicitor General has a review underway to look at expanding that program and is also looking at expanding the technology. We're supportive of the program; we think it's a good one. We'd be supportive of whatever came out of the review that they're working on, but it's not us doing the review. It's the Solicitor General, in conjunction with the police, who is looking at that at this time.

**C. Puchmayr:** So you're seeing some direct results, obviously, or you wouldn't be supportive of it. The statistic I heard was that 75 percent of all accidents happen at intersections. Would you say that intersections which advertise those cameras on those intersections...? Have you done studies, or are there studies available of before and after, to show the reduction in accidents at those intersections?

**M. Withenshaw:** We have completed an evaluation of the intersection safety camera program. They haven't just done a pure before-and-after. It's done versus comparable intersections. That's an example of the type of data and information that we've made available through the BCUC process as part of our information exchange. Very certainly, we've done data analysis on the program effectiveness, and it's shown to be a cost-effective program and helping our policyholders in the province.

**C. Puchmayr:** Is that public?

**M. Withenshaw:** Yeah. I have already filed that through the BCUC process. It is available.

**I. Black (Chair):** Just to remind members, and perhaps as a bit of a heads-up to our guests: we also can

ask questions in writing through the Office of the Clerk of Committees. If any of you would like to, they have to be in by July 21, this Friday. Then ICBC has two weeks to respond, according to the way this is set up. Just a quick passing on that.

It's been suggested to me that we extend this to 1:30, and in referring things with Craig James, he thinks that the remaining time would allow us to get the remaining work done. Does anyone have any objection to that?

Notwithstanding, I know, David, you have to leave. Gentlemen, are you okay to 1:30? You're a hot item.

**G. Gentner (Deputy Chair):** To our guests here and Mr. Taylor: I'd like to first of all thank you for the great work you're doing in my community — namely, that of insuring that there is a lessening of head-on collisions with the implementation of roundabouts in our community, a very successful program. For the record, I have yet to see a private insurance company put any money forward for the implementation of safety devices on our roads.

[1315]

I do want to touch on what the member for New Westminster started off, relative to the reduction of regulations. The members from ICBC suggested that many of them were cumbersome, and a reduction of 33 percent....

However, with the increase now of regulations relative to the process of having to go through BCUC.... I'm sure that's more to compensate the 33-percent reduction some members so willingly want to harp on. On the regulatory business, we know that in the Maritimes we've seen escalating prices in rates, and yet they themselves have seen a change in their regulatory authority in order to bring the industry on to line.

I do want to quickly move on to a frame that was shown, namely those of numbers 13, seven and 16, and that was the movement of \$350 million or thereabouts from the optional side back to the basic side. I am wondering where that money will go, what it is going to be spent towards. Will it help supplement the basic insurance? If so, why are the rates increasing to such an extent?

Secondly, I also want to know.... We're looking at a 200-percent regulatory target; 200 percent for optional insurance by December 31, 2010. Now that that money, that reserve, has been moved over, is that money going to be found through the coverage plan itself, to the rates passed on to the ICBC customer who is going to purchase the optional insurance?

**P. Taylor:** Maybe I can just go back and try and retrace this. What happened was: on January 19, 2005, the B.C. Utilities Commission issued one of its reports. In that, it identified a concern of theirs that the basic business was undercapitalized to the detriment of the basic business, and felt that was creating a concern in their minds of possible cross-subsidization.

Government took a look at that. The policy direction from government is that there should not be any cross-subsidization between optional and basic, so they directed ICBC to transfer \$530 million from our optional business to our basic business. We complied

with that and advised the B.C. Utilities Commission of that.

The \$530 million sits in the basic business and supports the capital requirements that the basic has. The goal there is to achieve 100 percent, although the B.C. Utilities Commission has questioned the adequacy of 100 percent and suggested that we should look to a capital target that is higher. I think our current capital number in our basic business is around 70 percent.

Anwar, is that correct?

**A. Chaudhry:** That's correct.

**P. Taylor:** That's correct. So the \$530 million is contributing to the achievement of the capital level that I talked about of 70 percent. In terms of the optional business we do not believe that there is any need at this stage to raise additional capital by raising rates. There should not be any capital pressure on rates on the optional side as we sit here today. That doesn't mean that that wouldn't emerge over time, but our optional business is sustaining its capital requirements, and we see no reason to raise rates to meet capital obligations.

**G. Gentner (Deputy Chair):** Therefore, on the reserve side for optional, which would be to help assist in the goal, the target of 200 percent.... You're not there yet.

**P. Taylor:** We are there.

**G. Gentner (Deputy Chair):** You're there now — 200 percent?

**P. Taylor:** Yeah.

**G. Gentner (Deputy Chair):** That's good news. Thank you. I have no more questions.

**I. Black (Chair):** We are now into the second go-round — the bonus round, as it were. We'll start with Mr. Rustad.

[1320]

**J. Rustad:** I have two questions. For one of them I would like if you could perhaps just e-mail me back a response, and the other one I'll ask.

The first question that you can just e-mail back is on.... As we know, around the province with our booming economy we have some challenges in terms of meeting the demand for skilled employees. Obviously, ICBC can't be any different than other corporations around the province that are facing these problems, as part of a \$3 billion corporation. If you could, perhaps, just e-mail me some information around what your plans are around your ability to attract and retain particular senior and middle management positions within the corporation, relative to other corporations around the province.

I didn't want to spend any time talking about that, given the fact that we're short on time, and I want to give other members a chance to ask questions.

The other question I had was: given that ICBC has some of the lowest rates in the country, have you seen an increase in the number of people living outside of B.C. trying to get B.C. insurance? Also, what kinds of checks and balances do you have in place around dealing with that particular issue?

**P. Taylor:** We haven't seen any growth in people trying to insure vehicles here. I don't know; in terms of checks and balances, you don't have to be a resident of British Columbia to actually insure a vehicle here. Corporations don't necessarily reside in British Columbia.

Rather than stumble my way through this answer, what I'd prefer to do is get you a written response and explain the checks and balances we've got in place to deal with the concern that you're talking about.

**M. Withenshaw:** That's part of the benefit of having to attend at a broker's office to secure your Autoplan policy. Through that discussion and interaction, the broker can hopefully, then, identify whether there is an inappropriate action going on or if somebody is truly deserving of a British Columbia plate and Autoplan coverage. Presumably, that would be the strongest direct connection, because everybody needs to go directly into a broker's office to initiate that insurance policy.

**P. Taylor:** And you do need to designate who your principal operator is, and if the principal operator is not somebody from the province, that would raise a flag.

**J. Rustad:** Since you're going to send some of this information back in written form, if you could also detail what would happen if somebody from outside of the province who is not living in the province but has insured a vehicle here were to have an accident, how that would impact on their actual insurance that they have, that would be great.

**I. Black (Chair):** Just a point of clarification for our ICBC representatives. The responses have to go to the Clerk of Committees, because any response goes to all members.

**D. Chudnovsky:** I first wanted to respond to my friend from the Peace who talked about the issue of moose and agree with him that there are many fewer moose in East Van where I live than where he lives. But there's a guy named Moose who lives in East Van who's broken into my van six times in the last four or five years. So, you know, there are urban and rural problems.

I want to get back to the Pattullo Bridge, appropriately though, I think. Is there data available to indicate the numbers of accidents, the numbers of claims, on particular stretches of highway, like, for instance, the Pattullo, and can we compare that to other stretches — other bridges, for instances, other stretches of highway — with similar volumes of traffic? Is there a way for us — for you, not us; there's no way for me to do it — to isolate particular stretches of road to compare them and their number of incidents and the cost of claims

against other areas and other stretches? If you can, could you send that to us?

**P. Taylor:** I believe, on the bridge question you just asked, there was a story in the *Vancouver Sun* in the last three months that had that exact data that you were asking about. Now they focused on, I think, people killed at the bridge, but certainly the crash data.... You said accidents. Most of these aren't accidents; they're crashes. They're preventable.

**D. Chudnovsky:** Incidents — whatever the word is that you use.

[1325]

**M. Withenshaw:** I think the challenge in your question.... You would ask relative to traffic volume. We don't have that data. We only have our own data on the number of crashes that occur. Plus, you mention stretches of roads. Do we have the data, in my opinion, for Pattullo Bridge? Yes. Do we have the data for the freeway going through Vancouver, Burnaby and everywhere else? No, we wouldn't be able to isolate the freeway down quite that narrow — but bridges, I believe, yes.

**D. Chudnovsky:** If I might, Chair, on this topic. I understand you to be saying that you are able, then, to give us data on the Pattullo. You might be able to give us data on the Port Mann and on the Fraser Bridge.

**M. Withenshaw:** I believe so, yes.

**D. Chudnovsky:** That would be great. That would be very useful, and I think I could probably marry that to other information I have that might be useful.

Thank you very much.

**I. Black (Chair):** We'll give the last round of questions to Mr. Lekstrom.

**B. Lekstrom:** Going back to glass coverage.... No, I'm just kidding.

My next question would be regarding something I know that we've talked about, Paul. I want to touch on it here. Certainly, ICBC's mission statement is to be innovative, superior. I mean, there are a number of words that I think any corporation should strive towards.

As far as being innovative.... The issue of transferable plates — we've spoken on this before. It started out with the British Columbia Coalition of Motorcyclists seeking the ability to implement what's called transferable plates. An individual that may own two or three motorcycles — possibly one that's a daily driver and two vintage or something — would have the ability to not insure all three with an individual policy but go to what's called the transferable plate, which would mean they could insure the three motorcycles.

You would pay a premium, certainly more than just one motorcycle but less than three. Then as you chose which motorcycle to ride, you would transfer that plate onto the motorcycle. The other two could certainly,

depending on the premiums you paid, have fire and theft while they were sitting in your driveway at home. There's a number of things that I think we could look at to not only be innovative for motorcycles — that's where the work has been that I've done over the last couple of years — but be innovative in looking at transferable plates for vehicles as well.

Could you give me your thoughts on that? I know that we do it for farm vehicles now. I believe we can have a different truck on the farm maybe only used two or three times a year. Rather than insure it, I believe they have the ability to run transferable plates. I'm looking for your comments on that, if I could.

**P. Taylor:** As you know, we've discussed this subject a couple of times. Our view at the corporation is that this would be a significant policy change that at this stage we're not ready to consider.

The argument for doing this is lower rates, and I don't necessarily subscribe to that point of view. One has to look at all the motorcycles that are insured. If there's a loss attached to all of those that are insured, that still has to be apportioned out in some way. Just because you have one sitting in the driveway with a plate on it versus one sitting in the driveway without a plate on it doesn't mean that the rates for that motorcycle just went down.

We collect an amount of money for premiums for motorcycles. Some years we don't collect enough. By reducing the number of vehicles that are effectively insured, that would mean that the cost would have to be spread out across the smaller number of vehicles that are being insured.

You may see some differential in people that have one motorcycle versus people that have two motorcycles, but generally I don't think you'd see any reduction in the rates.

The issue comes up when people have multiple vehicles. They say: "I don't drive my one car. I'm driving the other car, so it's sitting in the driveway." We're apportioning that risk across all of those vehicles. So if there's a smaller fleet of vehicles, we still have the same loss ratio. We have to collect that money from the existing vehicles that are being used.

**B. Lekstrom:** Okay. With your indulgence on this issue, I guess we're looking at it.... My approach is somewhat different. I don't think the issue is to try and lower premiums for motorcycles. That's a different issue than the transferable-plate one. I would think there are a number of motorcycles — and, again, I think vehicles could be applied to this as well — that remain uninsured year-round because people can traditionally only drive one vehicle.

[1330]

I think it could be the opposite. Instead of paying — and I'll use just some basic numbers — \$1,500 to insure my motorcycle and \$1,500 for the second one, chances are that I'll insure one for the year — I mean, unless money is no object. For most people today, it is an object. I could see where instead of paying \$1,500 each,

you may pay \$2,000 but have a transferable plate issued, which then would increase the revenue to the Insurance Corp. of British Columbia while at the same time only having one of those vehicles on the road. So you still carry the same risk, unless I'm missing something, because there can only be one of those vehicles on the road.

That, I think, is innovative. It's something I would like to think that we could look at. We can go back in history. I thought we were looking at it. There was some communication issue going back about four years, and we thought we were well on our way to having this implemented with the Coalition of Motorcyclists. I would certainly encourage you, if it's at all possible, to crunch some numbers to see if there is the ability.

I believe the Coalition of Motorcyclists has put forward a brief on transferable plates to the corporation. I think it's reasonable — and I'll take it to the next step — not only for motorcycles but for all vehicles. I think that would be a very innovative approach to insurance in British Columbia. I think that you're leaders now. You can secure that lead even further with that type of approach.

You know, I guess I'll stretch it, because I am the last questioner going. On the road safety initiative that you utilize, I would encourage you to look and work with Transportation. The vast majority of collisions — there are a good number of them in our area — are animal-related, coming out of the ditch unseen at the last minute. Certainly, working with the Ministry of Transportation on road safety initiatives in the outlying areas of the province.... It could be looking at some of those roads that were brought up. Whether it be where they're hauling pine beetle wood or oil and gas or just general rural roads, broadening out the right-of-way width as far as clearing allows, I think, gives a substantially better chance for the driver to avoid the collision with the animal. I think it would probably save you money in the long run.

Thanks for that indulgence, Chair.

**I. Black (Chair):** Did you want to respond to that before I wrap it up for you?

**P. Taylor:** Just quickly, a couple of other issues that do relate to the transferable plate. Law enforcement agencies have some concern about that issue. We have a pretty good system in B.C. that limits the number of uninsured vehicles out there on the road. It's one of the lowest numbers for jurisdictions in North America. The law enforcement folks have expressed concern about expanding any kind of transferable-plate system, so I'll highlight that point.

Just on a closing note — so that the member is clear that we do value the support of the customers in the Peace country — when we did lower the rates in June 2005, the folks in the Peace country garnered the largest reduction in optional insurance rates at the time. We've reduced the rates on average by \$135 for our valued customers in the Peace country.

**B. Lekstrom:** I would like to thank you for that, Mr. Taylor. Unfortunately, the \$135 hasn't met up with

the deductible of some drivers, but I do thank you. I think you're doing a good job, and like you said, I think there's always room for us to improve on what we do. That's why all of us are in the positions we hold. Thank you.

**I. Black (Chair):** Rick, Paul, Mark, Anwar, thank you very much on behalf of the committee for being here. The presentation was thorough, and it was a very forthright dialogue that followed. I thank you for that as well. At this stage we'll give you a couple of minutes to make your way, and then I'll take a motion to move in camera at that point.

[1335]

Before we move in camera, Blair made a suggestion, which I think is a good one. If anyone has any questions they want answered in writing from ICBC, we'll read them into the record, and we'll get the responses coming back through the Clerk of Committees for distribution. We can do that now.

**C. Puchmayr:** The first one was with respect to the intersection cameras and the statistics they have with respect to equal roads that don't have intersection cameras.

What was the other one — the first question? It's failed me. Go around, and I'll pull it up from my reference.

**I. Black (Chair):** I know Blair had a specific one.

**B. Lekstrom:** I guess we could submit a question regarding road safety. I alluded to it briefly: the 1 percent of basic premiums that goes to road safety initiatives. Could we find out what, if anything, is being done with the Ministry of Transportation on the issue of right-of-way widening or clearing to prevent animal collisions?

**I. Black (Chair):** Can ICBC answer that, or is that a question for the Ministry of Transportation?

**B. Lekstrom:** I'm wondering. I heard the members who were presenting talk about a committee that talks about road safety initiatives. I'm curious if that's one of them they're looking at, which would be widening of rights-of-way, clearing of rights-of-way, to avoid animal collisions, which is a significant issue.

I do have just two....

**I. Black (Chair):** Just rattle them off really quickly.

**B. Lekstrom:** Okay. The next one. Under the performance measures they highlighted in their presentation today, I would like to know if they break that performance measure down by region — the numbers, the percentage that they showed on satisfaction, results and all of that. I think that would be very worthwhile.

As well, a further one is whether ICBC is in any discussions regarding the graduated licensing program — looking at any changes or issues regarding, particularly, new driver training. I know that if people can go and take a training course, their L, I believe, is shortened by three months.

I guess I do have a concern with that. These aren't cheap courses. I believe they're certainly worthy of taking, but the individual that has the ability to pay can actually go from the L to the N a little sooner. I'm just curious if they're looking at that, certainly as far as the equity goes, or at any other changes regarding the graduated licensing program.

**D. Chudnovsky:** I have a couple that I asked, and a couple more, if that's okay.

The first one was data to indicate increases in the number of claims and the volume number and cost of claims in areas where there is increased traffic because of the beetle kill. He did say that they would have trouble providing that information. They couldn't provide it for non-provincial highways and roads, so that's what I'm talking about — provincial highways and roads.

The second issue is the comparison of the Pattullo with the other bridges, which we talked about before they left.

Slide 30, I think it was: "Revenue-Driven and Fiscally Responsible." As part of the presentation they talked about the number of charges that have been laid. It's the fourth triangle under "Some 2005 Accomplishments." They didn't talk about it, but it's "zero tolerance for fraud — 175 charges laid against 94 people." I'm looking for the result of those charges. Those charges have been laid. Where are they at? Have people been convicted, not convicted?

Interjection.

**D. Chudnovsky:** Let's see what the answer is. And I think that's all.

[1340]

**J. Rustad:** I just have a couple of follow-ups. I wasn't able to quite finish off with SCCM, the Surrey Central City Mall.

The question I have in terms of follow-up with that is: given the rules that are in place today, is that something the board would have considered in terms of an investment, given the prudent investment strategy that is in place for the corporation? It would just be interesting to know whether or not SCCM and the investment

to the mall would have been something that they could actually have done today.

The second question is, given the loss projected in net income in 2001, whether or not the \$100 per user that was handed out contributed to that loss, and whether or not the board would consider that sort of a rebate to users in the future. What kind of conditions would the corporation have to be in before they would consider that sort of thing?

Basically, what I'm driving at is, obviously, that there was a \$251 million loss in 2001, and there are certain conditions around that versus the \$198 million gain last year. What would the conditions have to be, or should the conditions be, before that kind of decision would be looked upon favourably by the board?

**C. Puchmayr:** My question was respect to the 33-percent reduction in regulations. They said there was a report completed two years ago that explained what that is. I'd like to see that.

The one I didn't have a chance to get to was in the presentation where they speak of "a new competitive environment that is expected to impact ICBC." I'd like them to answer with respect to allowing competition in some sectors where the competition can actually prohibit someone or prevent someone from buying that product because of age or driving record or something like that.

What impact will that have on our insurance, where we don't discriminate against anybody purchasing that product? I'd like to know where the competitive environment is that may impact the rest of the users by contract or by privatizing some of the services.

**I. Black (Chair):** We have two items left on our agenda. One of them is discussion of meeting dates, and the other is to start formulating the context of the comments we'd like to have included in our report. I think both of those should be done in camera, so I'd like a motion to move in camera, if I may, please.

The committee continued in camera from 1:43 p.m. to 1:55 p.m.

**I. Black (Chair):** Motion to adjourn?

The committee adjourned at 1:56 p.m.





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