Financial Report

Discussion of Results

Financial Resource Summary Table

This report contains statements regarding the business of the Corporation. The table below provides an overview of ICBC's 2016/17 financial performance relative to its 2016/17-2018/19 Service Plan.

($ millions)[1]	2013 Actual	2014 Actual	2015 Actual	2016/17 Budget[1]	2016/17 Actual[1]	2016/17 Variance	2015-2016/17 Variance
Premiums earned[2]	3,928	4,159	4,448	6,022	6,051	29	1,603
Service fees and other	56	88	94	123	130	7	36
Total earned revenues	**3,984**	**4,247**	**4,542**	**6,145**	**6,181**	36	1,639
Provision for claims occurring in the current period	3,167	3,379	3,798	5,024	5,660	(636)	(1,862)
Change in estimates for losses occurring in prior periods[3]	(54)	181	244	(24)	306	(330)	(62)
Net claims incurred	**3,113**	**3,560**	**4,042**	**5,000**	**5,966**	(966)	(1,924)
Claims service and loss management[4]	321	335	321	424	445	(21)	(124)
Insurance operations expenses[4]	173	218	217	291	284	7	(67)
Transformation Program[4]	23	24	27	36	38	(2)	(11)
Premium taxes and commissions[4, 5]	541	468	601	688	819	(131)	(218)
Total expenses	**4,171**	**4,605**	**5,208**	**6,439**	**7,552**	(1,113)	(2,344)
Underwriting loss	**(187)**	**(358)**	**(666)**	**(294)**	**(1,371)**	(1,077)	(705)
Investment income	671	852	920	444	615	171	(305)
Restructuring[3]	(3)	-	-	-	-	-	-
Income (loss) - insurance operations	**487**	**494**	**254**	**150**	**(756)**	(906)	(1,010)
Non-insurance operations expenses[4]	91	99	100	130	126	4	(26)
Non-insurance commissions[4]	28	28	30	39	38	1	(8)
Non-insurance - other income	-	(5)	(7)	(8)	(7)	(1)	-
Net income (loss)	**368**	**372**	**131**	**(11)**	**(913)**	(902)	(1,044)
Excess Optional capital transfer to the Government of British Columbia	237	139	138	150	-		
At year end:							
Long-term debt	Nil	Nil	Nil	Nil	Nil		
Total liabilities	11,507	12,267	13,552	14,500	15,098		
Equity:							
- Retained earnings	3,146	3,380	3,372	3,198	2,459		
- Other components of equity	497	236	(262)	(211)	(32)		
- Non-controlling interest	-	-	36	-	19		
Total equity	**3,643**	**3,616**	**3,146**	**2,987**	**2,446**		
Capital Expenditures							
Transformation Program	62	50	54	49	32		
Non-Transformation Program	17	31	40	70	49		
Total Capital Expenditures	79	81	94	119	81		
Autoplan policies earned[6]	3,429,000	3,493,000	3,596,000		4,613,000		
Average premium ($)[7]	1,130	1,153	1,196		1,280		
Claims reported during the period[8]	917,000	900,000	858,000		1,182,000		

1 Financial information for all years is prepared based on International Financial Reporting Standards (IFRS). The 2014 numbers reflect revenue and expense reclassifications, which had no impact on net income. Fiscal period 2016/17 is a 15 month transitional fiscal period from January 1, 2016 to March 31, 2017.

2 Premiums earned are net of mid-term changes and cancellation refunds.

3 ( ) denotes a favourable adjustment, i.e., a reduction in expense.

4 See note 17 to the consolidated financial statements for details of Operating Costs by Nature.

5 Premium taxes and commissions include deferred premium acquisition cost adjustments.

6 Annualized values have been used for policies with a term of less than 12 months. Autoplan policies earned include Basic, storage and temporary operating permit policies.

7 Average premium is based on Autoplan premiums and policies earned.

8 Claims reported represent the number of claims reported against purchased insurance coverages.

ICBC has changed its fiscal year-end date from December 31 to March 31 to align with the Province of B.C.'s fiscal year-end date. This change was effective immediately after the fiscal year ended December 31, 2015. As a result of this change, 2016/17 is a 15 month transitional fiscal period from January 1, 2016 to March 31, 2017, with comparative financial information for the 12 months ended December 31, 2015. This change is one of the main drivers for the period over period variances. For 2017/18 and thereafter, ICBC's fiscal year will be the 12 month period from April 1 to March 31.

Our 15 month 2016/17 net loss of $913 million was $1,044 million worse than the 12 month 2015 net income of $131 million. This is due to increasing claims costs and lower investment income compared to the previous period, partially offset by higher premiums earned. The change also reflects the difference in reporting periods between the two years (transitional 15 months versus 12 months). Compared to budget, the corporation's net loss was $902 million higher than the budgeted net loss of $11 million. This is largely due to higher than expected claims costs, partially offset by higher than expected premiums earned and investment income.

The higher claims costs are driven by a higher crash frequency and a higher number of bodily injury claims per crash. These trends are exacerbated by an increased number of legally represented claims as well as an increased number of large and complex claims, which typically result in larger settlements. In addition, material damage repair costs are higher than expected. These external pressures are expected to continue in the foreseeable future.

ICBC remains focused on improving the bottom line and building capital levels to withstand the above mentioned pressures. In fiscal 2016/17, ICBC added additional injury claims handling staff to manage the higher claims volumes and to reduce the growth in pending claims which has shown positive results. This effort has resulted in significant positive impacts on severity results for bodily injury claims and in achieving claims closure targets. In addition, ICBC, in concert with the Province of B.C., continues to identify and implement new initiatives to help alleviate the pressure that rising claims costs continue to put on insurance rates. These initiatives include stepping up efforts to combat fraud, road safety initiatives and continuing the fight against distracted driving. Also, the comprehensive independent review of ICBC is underway. This review will help ICBC identify key factors impacting Basic insurance rates and provide a broad range of options available to help ensure rates are affordable for years to come. ICBC will work with the Province of B.C. to implement potential independent review recommendations.

Premiums earned

Premiums earned increased to $6,051 million in 2016/17 from $4,448 million in 2015. This is due to the impact of the Basic insurance rate increase of 5.5 per cent effective November 1, 2015, Optional insurance rate increases and a growth in the number of insured vehicles. The increase over 2015 is also due to the longer fiscal period in 2016/17, as discussed above. Compared to budget, premiums earned increased by $29 million due to higher than expected vehicle growth.

Service fees and other

Service fees and other are primarily comprised of interest and other fees received from policyholders who have chosen to finance their insurance premiums over the policy period. In 2016/17, service fees increased by $36 million from 2015 due to higher premiums earned and the longer fiscal period. Compared to budget, service fees increased by $7 million due to higher premiums earned.

Claims costs

Cost of claims incurred account for approximately three quarters of our total expenditures. They are comprised of the expected costs to settle claims for all crashes that have occurred during the fiscal period, regardless of when the crash is reported to us, and the change in estimates for losses that occurred in prior periods. Claims incurred costs include payments made to settle claims, adjusters' case reserves, and actuarial estimates of the additional costs that will be paid on known claims and claims not yet reported.

Claims incurred costs are affected by the growth in the number of policies, the chance of having a claim (frequency) and the average expected costs to settle those claims (severity). Frequency is influenced by factors that include driving and claimant behaviour, driver experience, weather and the effectiveness of road safety and loss management programs. Severity is influenced by factors that include legal representation, litigation, settlement awards, legal fees, medical inflation, vehicle parts/repair inflation and independent adjusting costs.

In 2016/17, ICBC observed higher than expected crash frequency and an increased number of bodily injury claims per crash. As well, there was an increase in the proportion of legally represented claims. Bodily injury costs were also higher this period due to a greater emergence of large and complex claims from prior periods.

Partially offsetting the trends in current and prior periods' claims in fiscal 2016/17, benefits to bodily injury claim severities were recognized during the period resulting from hiring more injury adjusters in an effort to manage the increasing volume of claims. The effort has contributed to favourable severity results as compared to target levels.

An increase in material damage claims has also been observed as a result of the higher crash frequency, which worsened in the last two quarters of 2016/17 with the adverse winter weather experienced in the Lower Mainland. As well, the material damage repair costs were higher than expected. The higher severity is consistent with trends affecting other jurisdictions.

Overall 2016/17 net claims incurred costs of $5,966 million were $1,924 million higher compared to 2015. This increase was driven by current period claims costs increasing by $1,862 million, and a greater unfavourable adjustment by $62 million to the estimate of prior periods' claims costs compared to 2015. These increases are due to increases in both bodily injury and material damage costs, as well as the longer fiscal period in 2016/17, as discussed above.

Net claims incurred costs in 2016/17 were $966 million higher than budget, with an increase of $636 million in current period claims costs and $330 million in prior periods' adjustments. These increases are attributable to higher than expected crash frequency and material damage repair costs as well as a greater emergence of large and complex bodily injury claims from prior periods.

ICBC's management has been working with government to develop strategies including various claims and financial mitigation initiatives that will assist in keeping Basic insurance rates as low as possible.

The overall average cost of current period claims that occurred in 2016/17 increased by approximately 22 per cent over 2015, due to increases in both average costs of injury and material damage claims.

($ millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016/17 Actual[1]
Net Claims Incurred Costs	**2,953**	**3,113**	**3,560**	**4,042**	**5,966**
Injury	1,944	2,039	2,438	2,748	3,955
Material Damage and Other	1,009	1,074	1,122	1,294	2,011

Data Source: ICBC financial systems

[1] 2016/17 Actual represents the fiscal period January 1, 2016 to March 31, 2017.

Injury claims

Current period injury claims account for approximately 65 per cent of current period claims incurred costs in 2016/17, and include bodily injury claims and accident benefit claims. Injury claims include amounts for pain and suffering, future care, past and future wage loss, medical expenses and external claims handling expenses.

Overall, the total cost of current period injury claims have increased in 2016/17 compared to 2015. This reflects an increased frequency of injury claims, as well as the longer fiscal period in 2016/17, as discussed above. However, injury adjuster recruitment and favourable severities from ICBC initiatives are helping to mitigate the cost increases.

Bodily injury claims costs accounted for over 90 per cent of all injury claims costs and increased by $928 million to $3,308 million in 2016/17 compared to 2015.

($ millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016/17 Actual[1]
Current Period Injury Claims Incurred (major categories)	**2,001**	**2,089**	**2,295**	**2,563**	**3,570**
Bodily Injury	1,857	1,930	2,130	2,380	3,308
Accident Benefits	144	159	165	183	262

Data Source: ICBC financial systems

[1] 2016/17 Actual represents the fiscal period January 1, 2016 to March 31, 2017.

Material damage (non-injury) claims

Material damage claims can largely be categorized into property damage, collision, comprehensive and windshield claims. Overall, the total cost of current period material damage claims is higher than 2015 due to increases in the average cost of material damage claims, increased crash frequency and the longer fiscal period in 2016/17. The acceleration of severity trends of material damage claims is consistent with the trends seen in other jurisdictions.

($ millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016/17 Actual[1]
Current Period Material Damage Claims Incurred (major categories)	**967**	**980**	**1,038**	**1,156**	**1,755**
Property damage	370	382	401	433	704
Collision	403	416	427	491	727
Comprehensive	138	126	150	166	222
Windshield	56	56	60	66	102

Data Source: ICBC financial systems

[1] 2016/17 Actual represents the fiscal period January 1, 2016 to March 31, 2017.

Change in estimates for losses occurred in prior years

Adjustments to the prior periods' claims reserves are due to the re-estimation of future payments for claims incurred in prior periods that are in progress and for those that are not yet reported. As time passes, more claims are paid and more information becomes available, enabling the estimate of the remaining future claims payments to be refined.

In 2016/17, the change in estimates for losses that occurred in prior periods was unfavourable as compared to 2015. This is a result of higher material damage claims from prior periods that have cost more than anticipated. This is also due to increasing legal representation of claims and the greater emergence of more large and complex claims, as discussed previously. Complex claims take longer to settle and, in general, cost more; therefore, additional reserves have been set aside to reflect this shift.

Provision for unpaid claims

The provision for unpaid claims is the largest liability on the consolidated statement of financial position. It is an estimate of future claims payments relating to claims that have already occurred. The adequacy of this unpaid claims liability is reviewed and adjusted periodically throughout the period based on revised actuarial estimates, which include a provision for adverse deviations (see note 2d to the consolidated financial statements).

The provision for unpaid claims as at March 31, 2017 was $10.52 billion; however, estimates for future payments can change significantly due to the time frame in which certain types of claims are settled, which can be over a number of years. The provision for unpaid bodily injury claims accounts for approximately 90 per cent of total unpaid claims costs. As illustrated in the following table, only a small percentage of bodily injury claims costs are paid and known in the first year of the claim's occurrence with a greater portion of the costs being an estimate of claims costs payable in future years.

	End of Year 1	End of Year 2	End of Year 3	End of Year 4	End of Year 5	End of Year 6
Breakdown of Bodily Injury Costs (%) (typical fiscal loss year)	**100**	**100**	**100**	**100**	**100**	**100**
Paid	4	15	28	46	66	82
Unpaid	96	85	72	54	34	18

Data Source: ICBC financial systems

ICBC commissions the services of an external actuary to provide an independent assessment of the provision for unpaid claims and, as part of the annual audit of the financial results, the external auditor's actuary also reviews the adequacy of the unpaid claims reserves.

ICBC earns investment income on funds set aside for unpaid claims from the premiums that are collected for the related policies. Investment income is earned until the claims are ultimately paid. In accordance with accepted actuarial practice in Canada, ICBC reports our provision for unpaid claims on a discounted basis to reflect the time value of money. The discounted amount takes into account the expected timing of future payments related to unpaid claims (see note 13 to the consolidated financial statements). The discount rate is based on the expected return of our current investment portfolio. An increase in the discount rate applied to claims costs will reduce the unpaid claims balance while a decrease in the discount rate will increase the unpaid claims balance. In 2016/17, the discount rate of 2.75 per cent decreased by 21 basis points from prior period's discount rate of 2.96 per cent, which increased the balance of unpaid claims.

Road safety and loss management

In 2016/17, ICBC invested $61 million in road safety initiatives and loss management programs, which include auto crime and fraud prevention, investigation and detection to help reduce claims costs, giving customers the best insurance coverage at the lowest possible costs.

Using a safe systems approach, we target our road safety investments on the major risks that impact customers and costs in our business, including distractions, high-risk driving, impaired driving and vulnerable road users. We work with a network of partners across the province to deliver road safety programs that help protect customers from risks on the road by reducing the frequency and impact of crashes and crime.

Distracted driving related crashes continue be one of the leading causes of car crash fatalities and serious injuries in B.C. In 2016/17, ICBC continued its partnerships with law enforcement and government to raise awareness of the consequences and penalties associated with distracted driving to reduce injury and death on B.C. roads. This included working with government and police to support B.C.'s new, stronger penalties for electronic device use by drivers.

ICBC remains committed to the Road Improvement Program and Intersection Safety Camera Program and continue to partner with the provincial government and police across the province on enhanced traffic enforcement. ICBC supports enhanced enforcement initiatives through a funding agreement with the Ministry of Justice. In 2016/17, ICBC invested approximately $32 million in enhanced enforcement, such as CounterAttack, distracted driving, speed enforcement and seat belt checks. We also invested in advertising and community initiatives to help change driver behaviours.

ICBC continued to invest in auto crime programs like Bait Car, Stolen Auto Recovery and community partnerships that work towards reducing auto crime in B.C. Initiatives such as Auto Crime Enforcement Month, Lock Out Auto Crime notices and awareness signage help educate vehicle owners on ways to prevent auto crime.

ICBC has been fighting fraud for decades and is taking steps to detect and deter even more cases of fraud. ICBC's Cyber Unit leverages the internet and social media to combat exaggerated and fraudulent claims. While the overwhelming majority of customers make honest claims, exaggerated and fraudulent claims are an increasing area of focus for all insurers. In 2016/17, ICBC boosted its fraud prevention efforts through the initial phase of the launch of a new fraud analytics tool. The tool uses data, algorithms and statistical methods to help spot potentially fraudulent claims by helping investigators and adjustors identify fraud earlier, faster and at a level not previously available. ICBC also launched a public awareness campaign that included TV advertisements, intended to educate the public on the concept that when claims are falsified or exaggerated, it ultimately costs everyone in the system.

Operating costs

Operating costs include compensation and other costs required to operate the insurance and non-insurance businesses with the exception of claims payments, commissions and premium taxes.

In 2016/17, ICBC continued to focus on managing operating costs prudently. Claims related operating costs of $445 million were higher than 2015 operating costs, primarily due to higher compensation costs as a result of hiring more injury adjusters in an effort to manage the rise in claims volumes. As a result of these additional claims staff, significant benefits were realized in ICBC claims costs through the timely resolution of claims files and achieving claims closure targets, which improved severity results. In addition, operating costs were higher compared to 2015 due to the longer fiscal period in 2016/17 compared to prior period, as discussed above. Claims related operating costs in 2016/17 were higher than budget due to higher than expected compensation costs, as discussed above.

The Transformation Program, a multi-year initiative, was completed in 2016/17 on time and below budget. The project operating expenses in 2016/17 totaled $38 million including operational costs and depreciation expenses. The spending levels in 2016/17 were within budget.

Included in total operating costs are non-insurance operating expenses of $126 million, which consist of costs for administering driver licensing, vehicle registration and licensing and government fines collection. Non-insurance costs are funded from Basic insurance premiums.

($ millions)	2013 Actual	2014 Actual	2015 Actual	2016/17 Budget	2016/17 Actual[1]
Operating Costs	**606**	**676**	**665**	**881**	**893**
Claims related costs	321	335	321	424	445
Insurance	173	218	217	291	284
Transformation Program[2]	23	24	27	36	38
Non-Insurance	92	99	100	130	126
Restructuring costs	(3)	-	-	-	-

[1] 2016/17 Actual represents the fiscal period January 1, 2016 to March 31, 2017

[2] Transformation Program operating costs include depreciation.

Below is a table of total operating costs by nature, including the Transformation Program.

($ millions)	2015 Actual	2016/17 Actual[1]
Operating Costs by Nature		
Employee benefit expense	423	570
Professional, administrative and other	172	227
Road improvements and other traffic safety programs	33	41
Depreciation & amortization	37	55
	665	**893**

[1] 2016/17 Actual represents the fiscal period January 1, 2016 to March 31, 2017

Completion of the Transformation Program

ICBC's Transformation Program was a multi-year, multi-project program to modernize ICBC’s processes. Completed in 2016/17 with the launch of a new insurance system, the Transformation Program is changing the way ICBC does business with customers.

In addition to the insurance system, key projects included a new claims handling system, which has made the claims process more efficient and convenient for customers, and a new enterprise data warehouse with a single source of data for users and the ability to generate new claims and insurance reports.

The Transformation Program has created a foundation for electronic claims handling and injury claims reporting. Customers no longer need to come into a claim centre and can now do more business with ICBC over the phone and online. It has also allowed for other claims service improvements. Customers now immediately have their claims assigned to the next available adjuster, regardless of location. This means less wait time for customers and allows ICBC to better respond to its customers’ needs.

Overall, the Transformation Program is forecasted to provide an annual savings of approximately $90 million to ICBC – savings which are long-term and ongoing.

The key elements, original projected financial benefits and service improvements of the Transformation Program, as outlined in the original Order in Council, have been delivered within the $400 million funding allocation. The program was entirely funded from ICBC’s Optional insurance capital, so no Basic insurance rate increase was needed to pay for its development.

Acquisition costs

Acquisition costs represent the amounts paid to brokers for the sale of our insurance products and the administration of driver and vehicle licensing transactions. Acquisition costs also include premium taxes (4.4 per cent of premiums) collected and paid to the provincial government.

Consistent with the recognition of premium revenue earned over the duration of the policy, premium acquisition costs are expensed on a similar basis. At period-end, the unexpended portion of these costs is deferred and reflected as deferred premium acquisition costs (DPAC). When future claims and related expenses, after consideration of investment income, are expected to exceed unearned premiums, deferred premium acquisition costs are written down and recognized as a premium deficiency. Conversely, where there has been a previous premium deficiency, a positive adjustment is made to eliminate the premium deficiency when unearned premiums are expected to exceed future claims and related expenses.

As at March 31, 2017, the net Corporate DPAC asset was $17 million, and the premium deficiency adjustment expense was $93 million (see notes 17 and 18 to the accompanying consolidated financial statements).

Acquisition costs (including non-insurance commissions) of $857 million were $226 million higher than 2015. This is mainly due to an unfavourable DPAC adjustment from higher claims costs that resulted in decreased profitability. Broker commissions and premium taxes are also higher by $128 million and $72 million, respectively, due to higher premiums earned over the 15 month period.

Investments

ICBC has an investment portfolio with a carrying value of $15.5 billion, which represented 88 per cent of the Corporation's total assets as at March 31, 2017.

Funds available for investment purposes come primarily from the premiums collected and set aside for unpaid claims. ICBC maintains a conservative investment portfolio, which has a significant allocation to high-quality fixed income securities.

As at March 31, 2017, 72 per cent of the carrying value of the portfolio took the form of high-grade corporate and government bonds, money market securities and mortgage instruments, while 23 per cent of the portfolio was invested in equity and real estate investments. A further five per cent of the portfolio has been allocated to high yield bonds.

Investment income

In 2016/17, investment income was $615 million. This was $305 million lower than 2015, as the prior period experienced a higher equity gain related to the transition of U.S. and International equity mandates to a Global equity mandate. In addition, the current fiscal period recognized a foreign exchange loss on U.S. high yield bonds due to the strengthening of the Canadian dollar in the first quarter of 2016/17. The decreases were partially offset by higher equity dividends received. Overall, these results equate to an accounting investment return of 4.1 per cent in 2016/17, compared to 6.5 per cent in 2015, based on the average investment balance during the period on a cost basis. The lower accounting return is reflective of weaker investment income in 2016/17.

Investment income was $171 million higher than budget due to equity gains from the portfolio transactions and higher than expected equity dividends, partially offset by a foreign exchange loss on U.S. high yield bonds, as discussed above.

($ millions)	2013 Actual	2014 Actual	2015 Actual	2016/17 Budget	2016/17 Actual[1]
Investment Income	**671**	**852**	**920**	**444**	**615**
Interest, dividends & other income	338	418	333	437	515
Gains	333	434	587	7	100

[1] 2016/17 Actual represents the fiscal period January 1, 2016 to March 31, 2017

Equity

Our equity included retained earnings of $2,459 million and accumulated loss in other components of equity of $32 million as at March 31, 2017. Retained earnings help to absorb significant unexpected increases in claims costs and volatility in the financial markets. We have a significant capital base enabling us to withstand adverse claims experience and unfavourable financial market situations, protect our policyholders and continue to provide our customers with the best coverage at the lowest possible price.

Bonds and equities are measured at fair value on the consolidated statement of financial position, with changes in fair value (unrealized gains and losses) included in other components of equity, which increased ICBC's unrealized gain position by $152 million at March 31, 2017. This increase primarily reflects the upturn in the fair market value of our equity portfolio due to the strengthening performance of the equity markets at the end of the period.

Similar to the private insurance industry, the adequacy of equity or capital base is an important factor in assessing the financial stability of a company and is closely monitored by regulators.

The common industry method used to measure financial stability is the Minimum Capital Test (MCT) ratio, a risk-based capital adequacy framework which assesses assets, policy liabilities and other potential liabilities to determine appropriate capital levels set by the Office of the Superintendent of Financial Institutions Canada (OSFI). OSFI requires its regulated property and casualty insurers to meet minimum capital test targets.

Although not regulated by OSFI, we have established management targets for MCT ratios in excess of ICBC's regulatory targets to take into consideration relevant factors such as business risks and requirements, and the volatility inherent in the insurance business, such as changes to claims costs and in the investment markets. As at March 31, 2017, our total corporate MCT level of 112 per cent was lower than the prior year. This was due to the increase in claims costs and ICBC's inability to set rates to cover costs due to the Basic insurance rate smoothing framework, which limits the range of allowable rate changes, and instead uses Basic insurance capital to smooth through volatility in Basic insurance rates. For further information on the Basic insurance and Optional insurance capital framework, please refer to notes 9, 20 and 22 to the accompanying consolidated financial statements.

Excess Optional capital transfer to the Province of B.C.

Excess Optional capital to be transferred to the Province of B.C. is calculated based on a capital management target set by ICBC. The target is based on the Minimum Capital Test (MCT) guideline and the Guideline on Stress Testing issued by Office of the Superintendent of Financial Institutions Canada (OSFI) or as directed by the Province of B.C. In 2016/17, there was no excess Optional capital transfer to the Province of B.C. compared to the Service Plan amount of $150 million. This reflects a decision of the Province of B.C. to cancel Optional transfers over the four fiscal periods from 2016/17 to 2019/20 in order to assist the corporation with working towards financial stability.

Optional capital and income transfers to Basic

In 2015, the British Columbia Utilities Commission (BCUC) approved ICBC's plan to transfer $450 million of capital from Optional insurance to Basic insurance in order to restore the Basic MCT level to above the required regulatory minimum MCT, which has been set at 100 per cent. This transfer was completed on January 1, 2016.

ICBC filed another plan with BCUC on May 31, 2016, and further updated it on August 31, 2016, as the outlook for the period end Basic MCT level was below 100 per cent for both the first and second quarters of 2016/17. The update stated that, in addition to the $300 million income transfer referred to below, ICBC needed to transfer $172 million of capital from Optional insurance to Basic insurance in August 2016 in order to restore the Basic MCT level to be above the 100 per cent regulatory minimum.

$300 million of current period's income was transferred from the Corporation's Optional insurance business to the Basic insurance business. This transfer ($201 million on November 1, 2016 and subsequent to period end, $99 million) occurred under the Province of B.C.'s direction and was accepted by the Corporation's Board of Directors. This transfer of income helped to achieve a Basic insurance rate increase that was as low as possible given the cost pressures. With the income transfer, the projected 2016/17 premium revenue at the current rate level was $2.94 billion as compared to the required premium revenue of $3.08 billion, resulting in a lower Basic insurance rate increase of 4.9 per cent. Without the income transfer, the required premium would have been higher at $3.38 billion, which would have instead given rise to a required Basic insurance rate increase of 15.5 per cent.

Basic and Optional insurance operations

ICBC operates as an integrated company providing Basic and Optional insurance products and services. Integrated operations provide benefits to our customers, such as ease of service and savings achieved through economies of scale.

The majority of premium revenues and claims costs are specifically identifiable as Basic or Optional; however, certain costs are not tracked separately. For those costs that are not specifically identified as Basic or Optional, a financial allocation methodology, as approved by the BCUC, is used to allocate costs between these two lines of business. ICBC manages and reports the financial results of its operations on an integrated basis. Detailed financial information on the Basic and Optional lines of business is included in note 22 to the accompanying consolidated financial statements. The following paragraphs provide a high-level summary of results for both the Basic and Optional lines of business, while the balance of the annual report discusses results based on integrated operations.

The Basic insurance business incurred a net loss of $381 million after the Optional income transfer to Basic noted above. This net loss was $124 million higher than the 12 month 2015 net loss of $257 million. Basic net loss is worse than the prior period due to higher claims costs and lower investment income, as well as a longer fiscal period in 2016/17 compared to prior period, as discussed above. The increased claims costs and lower investment income are partially offset by higher premium revenues from the Basic insurance rate increase of 5.5 per cent effective November 1, 2015 and 4.9 per cent increase effective November 1, 2016.

In 2016/17, the Optional insurance business incurred a net loss of $532 million after the Optional insurance income transfer to Basic noted above. The Optional insurance net loss is worse than 2015 net income of $388 million, mainly due to higher claims costs and lower investment income, as well as longer fiscal period in 2016/17 compared to prior period, partially offset by higher revenues from vehicle growth and Optional rate increases.

Risks and uncertainties

As a provider of vehicle insurance products, effective risk management is fundamental in protecting earnings, cash flow, and ultimately to ICBC's financial stability. ICBC is exposed to various types of insurance and financial risks. Refer to note 9 to the accompanying consolidated financial statements for further details.