



## **INSURANCE CORPORATION OF BRITISH COLUMBIA 2009 EXECUTIVE COMPENSATION DISCLOSURE STATEMENT**

### **Introduction**

In keeping with the guidelines provided by the Public Sector Employer's Council (PSEC), the following table outlines the total compensation earned by ICBC's President and Chief Executive Officer (CEO) and the next four highest paid "Named Executive Officers" (NEOs) for services during the 12 months of the fiscal year ended December 31, 2009.

ICBC is the largest auto insurance company and one of the largest property and casualty insurers in Canada. It is a complex company that requires talented staff. To attract and retain a high caliber of employees, ICBC provides competitive compensation and benefits. Despite challenging economic circumstances in 2008 and 2009, ICBC continued to record strong financial results. This success has enabled ICBC to lower rates on optional insurance by 17 per cent in the past five years, while maintaining stability on mandatory insurance pricing. Strong leadership is needed to continue generating these positive results.

In coming years, the Executive of ICBC will be responsible for the implementation of ICBC's 2014 Strategy. ICBC will invest significant resources into streamlining processes and systems, enabling customer-centric pricing, products and services, and replacing and renewing aging IT infrastructure and associated processes. These changes will require high caliber leadership, involving the retention of critical talent and knowledge, and the recruitment of new executive level leaders capable of guiding the Company through a period of transformational change.

## 2009 Executive Disclosure Statement

The grid below provides a summary of total compensation for ICBC's CEO and next 4 highest paid NEO's for 2009 (organized by earnings).

### 2009 Executive Compensation Summary - ICBC

Name and Position	Base Salary (a)	Hiring Incentive (b)	Incentive (c)	Pension (d)	Health & Wellness Benefits (e)	All Other Compensation (f)	Grand Total (2009)	Previous Year's Total (2008)	Previous Year's Total (2007)
Jon Schubert President & CEO	\$ 330,000	\$ -	\$ 115,500	\$ 49,170	\$ 9,198	\$ 3,438	\$ 507,306	\$ 103,710	NA
Gei Prior Chief Financial Officer	\$ 288,811	\$ -	\$ 145,308	\$ 43,033	\$ 10,003	\$ 27,835	\$ 514,990	\$ 489,810	\$ 457,091
Craig Horton Senior Vice President Claims	\$ 261,429	\$ -	\$ 122,382	\$ 38,953	\$ 7,278	\$ 22,277	\$ 452,319	\$ 426,609	\$ 115,855
Donnie Wing Senior VP Insurance, Marketing & Underwriting	\$ 241,519	\$ -	\$ 100,381	\$ 35,986	\$ 9,632	\$ 22,328	\$ 409,846	\$ 411,472	\$ 387,267
Camille Minogue Chief Actuary/VP Bus. Intelligence Competency Ctr	\$ 245,118	\$ -	\$ 91,797	\$ 36,523	\$ 8,962	\$ 20,184	\$ 402,584	\$ 376,201	\$ 367,993

- (a) Value of the base salary earned during the year
- (b) Hiring incentive paid pursuant to employment contract
- (c) Dollar value of all amounts paid under the Short Term Incentive Plan (STIP) in recognition of performance in the fiscal year specified but paid the following fiscal year
- (d) Current service cost for contributory defined benefit pension plan and the supplemental employee retirement plan (SERP)
- (e) The dollar value of employer contributions to non-statutory benefits for each NEO such as: Extended Health, Dental, Group Life, Accidental Death and Dismemberment, Long-term disability, MSP Premiums, Other life insurance policy
- (f) All other compensation not reported elsewhere, including:
- Perquisite allowance
  - Signing bonus
  - Dollar value of statutory employer contribution such as CPP, EI and Workers Compensation
  - Vacation or leave payouts

Donnie Wing's title is SVP Corporate Affairs effective Jan 18, 2010

In 2009, the CEO's total compensation was actually exceeded by the total compensation of the Chief Financial Officer (CFO). Performance at the corporate, divisional and individual level triggered a STIP payment to the CFO which, coupled with the CFO's other compensation, resulted in a "pay inversion". This may occur again in the future given the cap on CEO total compensation.

## **Discussion of Executive Compensation**

### **Responsibilities of Human Resources and Compensation Committee**

The Human Resources and Compensation Committee (the "Committee") is a standing Committee of the ICBC Board of Directors.

The purpose of the Committee is to assist the Board of Directors in fulfilling its obligations relating to human resources and compensation policy and related matters and to establish a plan of continuity and development of Executive Management for the Corporation.

The Committee is responsible for guiding Executive Management and assisting the Board of Directors in determining appropriate human capital practices and compensation strategies that support Corporate objectives. The Board of Directors approves all compensation matters, but is governed by overall direction provided by the Public Sector Employers' Council (PSEC).

The duties and responsibilities of the Committee include the following, subject to the powers and duties of the Board of Directors:

- Review and recommend the Corporation's compensation and benefits philosophy, strategy, and guidelines and review their compliance with laws and any applicable guidelines established by PSEC.
- Review executive management succession planning and leadership development.
- Review and recommend to the Board of Directors the Corporation's strategy respecting human capital planning, employee development, performance management and related matters and to report to the Board of Directors on the implementation of these strategies at least once a year.
- Review and recommend to the Board of Directors the Corporation's strategy respecting labor relations as required.

### **Compensation Policy**

The Corporation compensates its Executive Management within a policy that is linked to its strategic business interests and objectives. The policy is intended to sustain a competitive position in the labor market, allowing the Corporation to attract and retain key talent while rewarding performance. The policy applies to all Executives and Management group employees, except the CEO. Annual salary increases and incentive compensation are variable and are based on individual, divisional, and corporate performance.

The Board of Directors sets the CEO's compensation program within the guidelines determined by the Public Sector Employers' Council.

### **ICBC's Adopted Labor Market Position**

ICBC has adopted a labor market position based on the markets in which ICBC competes for

talent. That market position is expressed as a Corporate policy and is stated as the market median (P50) for similar positions within the following three, equally weighted comparator groups;

- Canadian Insurance Companies – Assets between \$1 - \$15 billion
- Canadian Broad Industry – Revenue between \$1 - \$10 billion
- Canadian Government, Quasi-Government and Crown Corporations

In the view of the Board, this mix of market comparators most accurately reflects ICBC's role as a Crown Corporation which competes with the private sector in the provision of optional insurance coverage. It is in this market that ICBC competes for the talent necessary to run a company with \$3.7 billion in revenues, \$11.4 billion in assets and 5000 FTE employees. The median (i.e. typical) comparator in each group has lower annual revenues, fewer assets, and fewer FTE employees than ICBC.

### **Base Salary**

The Committee annually reviews, for recommendation to the Board, adjustments to the salary range structure by referencing a number of compensation outlook surveys to determine current compensation trends. The salary range adjustment allows the Corporation to maintain its desired position in a competitive labor market.

The Board of Directors also adopts an annual salary budget for performance-based salary increases. This budget is based on salary increase trends in the comparable labor market. Salary increases for Executives and Management group employees are based on individual employee performance and salary position in the range. At the beginning of the year, a performance plan is developed for each employee, which outlines the responsibilities and objectives for the year. At the end of the year, the employee is rated against the targets. Movement within the salary range is predicated on the employee's performance.

### **Short-Term Incentive Pay (STIP)**

Short-Term Incentive Pay (STIP) is awarded to the CEO based on corporate and individual performance, while for Executives, STIP is awarded based on corporate, divisional, and individual performance.

For the CEO, Jon Schubert, corporate performance carries a weight of 75%, while individual performance is weighted 25%. The STIP maximum target for the CEO is 35% and the actual award can range from 0% to a maximum of 35% of base salary. There is no longer a Long-Term Incentive Pay (LTIP) program.

For the Executives, except the Chief Actuary, corporate performance carries a weight of 50%, divisional performance carries a weight of 30%, and individual performance carries a weight of 20%. The STIP target for executives is 35% and the award can range from 0% to a maximum of 52.5% of base salary.

In the case of the Chief Actuary, all performance weightings are the same as for other senior Executives, but the STIP target is 28%. An award can range from 0% to a maximum of 42%.

On an annual basis, the Board of Directors approves the corporate performance targets to be

used for determining Short-Term Incentive Pay (STIP) for all management group employees. Corporate performance for 2009 was measured against four components, each carrying an equal weighting:

- Customer Focus: Measured through customer satisfaction surveys for insurance services, claims services and driver licensing.
- Financial Responsibility: Financial measures include Loss Ratio, Expense Ratio, and Combined Ratio.
- High Performing, Engaged & Capable People: Employee Engagement, as measured from an annual employee opinion survey, absenteeism, voluntary attrition.
- Operational Excellence: Operational measures in terms of insurance cost per policy, and cost per driver services transaction.

The following table provides a summary of the corporate measures which were the basis for 2009 STIP.

Corporate Goals	Corporate Measure	2009 Plan	2009 Result	Weight
<b>Customer Focus</b>	Insurance Services Satisfaction	93%	96%	25%
	Driver Licensing Satisfaction	91%	93%	
	Claims Services Satisfaction	83%	88%	
<b>Financial Responsibility</b>	Combined Ratio	104.20%	100.50%	25%
	Loss Ratio	84.70%	81.20%	
	Expense Ratio (excluding Deferred Premium Acquisition Cost)	19.30%	19.30%	
<b>High Performing, Engaged &amp; Capable People</b>	Employee Engagement	48%	49%	25%
	Absenteeism	10.0 days	10.25	
	Voluntary Attrition	Below 4%	1.40%	
<b>Operational Excellence</b>	Insurance operating cost per policy	\$196	\$194	25%
	Driver Licensing cost per transaction	\$10.30	\$10.00	

	Plan Exceeded
	Plan Met
	Plan Not Met

ICBC's incentive program is tied to meeting corporate, divisional and individual performance objectives. Despite the economic challenges of 2009, our employees were able to meet or exceed corporate goals in all areas except absenteeism where a reduction from 2008 results was achieved notwithstanding the impact of the H1N1 virus in Q4 of 2009.

ICBC's performance was strong thanks to a moderation in claims, strict control over operating costs and continued customer transaction satisfaction.

Divisional and individual performance for NEOs is measured against division targets approved by the CEO, except in the case of the Chief Actuary, whose department and individual performance plan is approved by the CFO. STIP awards are made in recognition of performance in the fiscal year specified, but paid in the fiscal year following once all corporate, divisional and individual performance results are finalized.

STIP is one part of an Executive's total annual compensation and is not guaranteed. It is not paid until after the Executive has been evaluated against individual, divisional and corporate performance objectives.

### **Perquisite Allowance**

The perquisite allowance is a cash allowance paid to the NEOs. The CEO does not receive a perquisite allowance. The NEOs have the flexibility to allocate the cash allowance toward various personal expense matters such as a health spending account, vehicle allowance and fuel. The perquisite allowance is \$18,500 per year for the Executives and \$17,000 for the Chief Actuary.

### **Vacation**

The Corporation provides four weeks of vacation per year to the CEO and NEOs. NEOs are provided with an additional two weeks of vacation in every fifth year.

Unused annual vacation can be carried forward to the following calendar year, which will be paid out if it is not been used by the end of the second calendar year.

### **Pension**

The Corporation provides a contributory defined benefit pension plan for all Executive and Management group employees. The benefit provided is 2% of the best 5 years' average earnings multiplied by years of plan participation. The Plan is integrated with the Canada Pension Plan and provides guaranteed indexing, capped at 3%.

In addition to the basic pension plan, Executive employees are also eligible for the Supplemental Employee Retirement Plan (SERP). The SERP plan compensates for Income Tax Act maximums that apply to the basic pension plan, thus preserving the income replacement objective for higher income employees. Such SERPs are common in both the private and public sectors.

Both the basic pension plan and the SERP are valued at the current service cost, which is the estimated actuarial present value of the pension benefits earned in the year, minus the Executive's own pension contributions. Current service cost is related to base salary, varies by gender and increases with age.

### **Health and Wellness Benefits**

ICBC provides a comprehensive benefit program for executive employees and their immediate families. Programs include provincial medical, extended health, dental, group life, short and long term disability, travel accident insurance, Executive Health Assessment, and an Employee and Family Assistance Program. All programs are paid by the Corporation. Voluntary, employee funded programs are available for life insurance, accidental death and

dismemberment insurance, group RRSP and a health spending account.

## **Activities of Committee in 2009**

During 2009, the Committee achieved the following:

- i.) In accordance with Government guidelines, issued the Executive Compensation Disclosure Statement in July 2009.
- ii.) Effective January 1, 2010, amended the Short Term Incentive Plan (STIP) for excluded employees (including members of the Executive) in order to increase plan rigor, and ensure that STIP targets and measures are aligned with corporate strategic objectives. Highlights of these changes include:
  - a) Amended governance process providing for Board and Executive oversight on Corporate/Divisional measures and targets to ensure consistency and rigor of measures;
  - b) Clearly defined measures at Divisional and Corporate level, with identified threshold (minimum), target, and performance maximum levels of performance.
  - c) Replaced a 4 point scale for assessment of outcomes with calibrated scale to increase correlation between actual performance and level of reward.
- iii.) Effective January 1, 2010, introduced a series of amendments to ensure the sustainability of ICBC's Pension Plan for Excluded Employees by implementing the following:
  - a) Post-retirement inflation indexing will be capped at 3% (previously unlimited) for benefits earned after January 1, 2010;
  - b) Eliminate pre-retirement indexing for deferred vested members for pensionable service earned after January 1, 2010. This measure eliminated pre-retirement indexing for members who leave ICBC prior to retirement.
  - c) STIP payments for the 2010 and subsequent fiscal years will be treated as pensionable income, to a maximum of 15% of base salary for excluded employees up to the Executive level, and 100% of base salary for Executive members
- iv.) Directly retained the services of an external service provider (Western Compensation and Benefits Consulting ("WCBC")) to conduct a review of Executive total compensation to ensure alignment with ICBC's labor market. ICBC employees were not involved in the preparation of the report, and instructions were provided directly to the service provider by the Chair of the Committee.

Participants in the WCBC survey include:

- Canadian Insurance: Aviva Canada, Co-operators General Insurance Company,



Saskatchewan and Manitoba Public Insurance

- Canadian Broad Industry: Finning International, Terasen Inc., Teck Resources Limited
- Canadian Government Quasi-Government and Crown Corporations: Fraser, Northern and Vancouver Coastal Health Regions, Worksafe BC, BC Hydro and BC Lottery Corporation

This review indicated that Executive total compensation is generally aligned to the 50<sup>th</sup> percentile of our market comparators, with the exception of the CEO whose total compensation ranks below comparator companies and organizations.

This disclosure statement has been reviewed and approved by ICBC's Board of Directors. The payments it describes are consistent with ICBC's Board-approved Compensation Philosophy.

  
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Nancy McKinstry, Chair of the Board  
Insurance Corporation of British Columbia