CAC (MPI)

CAC (MPI) 3-1

Reference: **CAC (MPI) 1-3 <u>and</u> PUB (MPI) 1-75 Collaborative Estimating Initiative**

Preamble: With respect to the detailed Collaborative Estimating Initiative project costs, the response refers to PUB (MPI) 1-75(b).

a) Please confirm that the collaborative estimating project cost is the line labeled "Optimized Adjusting"; if not, please identify the line in PUB (MPI) 1-75(b) that relates to collaborative estimating.

b) With respect to PUB (MPI) 1-75(c), please reconcile the 2013 GRA PDR budget of $56.4 million to the 2015 GRA budget of $65.5 by itemizing and justifying the additional costs of $9.1 million.

RESPONSE:

a) The Collaborative Estimating project is a subcomponent of the Optimized Repair Project. Please see Volume III A1.10, PDR Charter for more details on the Optimized Repair Project. The costs for the Optimized Repair Project are reflected on the line so titled in PUB (MPI) 1-75.

b) The budget amount of $65.5 million for PDR project includes all implementation costs associated with deferred development, capital and expenses. This is the Board approved overall budget for the PDR project. Allocations between deferred development, capital and expenses will fluctuate as the type of expenditure becomes finalized as the project progresses. The forecast amount of $56.4 million provided in PUB (MPI) 2-33 from the 2014 General Rate Application was the deferred development aspect of the project budget only at that time.

CAC (MPI) 3-2

Reference: CAC (MPI) 1-5 Claims frequency, Severity and Incurred statistics

Preamble: On page 1 of the response to CAC (MPI) 1-5 it indicates that the Corporation's forecasts are based on claims counts.

a) Please explain the reason for the change from forecasting based on cover count to claim count. Please explain the difference between cover count and claim count by way of an example.

b) Please advise whether the Corporation is continuing to track claims cover counts by coverage in its claims systems.

c) Please recast and re-file the schedules from page 1 to 9 based on claim count in CAC (MPI) 1-5.

d) On page 2 of CAC (MPI) 1-5 severity for Collision for 2014/15 is projected to be $2,769, a reduction of $246 from 2013/14 of $3,015. Please provide a detailed explanation for this projected reduction of $246 in collision severity.

e) On page 2 of CAC (MPI) 1-5 severity for PIPP Total for 2014/15 is projected to be $1,805, a reduction of $1,149 from 2013/14 of $2,954. Please provide a detailed explanation for this projected reduction of $1,149 in PIPP severity.

f) On page 2 of CAC (MPI) 1-5 severity for Post Mar 1/94 Public Liability for 2014/15 is projected to be $28,734, an increase of $11,377 from 2013/14 of $17,357. Please provide a detailed explanation for this projected increase of $11,377 in post Mar 1/94 Public Liability severity.

g) On page 30 of Volume II Claims Incurred, it indicates that collision frequency increased significantly above historical norms from December to February. Please elaborate as to whether the severity, for this period, was higher or lower than the historical norms and provide a detailed analysis supporting the response.

h) For the Collision Severity by Claim Type @ 12 Months as shown on page 30 of Volume II Claims Incurred, please provide a schedule (similar format) showing the claim count and claims incurred, by year, supporting the Repair Severity, Total Loss Severity and Total Severity.

RESPONSE:

a) For forecasting purposes, the Corporation made a change from cover counts to non-zero claim counts two years ago. When an accident occurs there is a unique physical damage claim number (i.e. claim count) assigned to each vehicle involved in the accident. If the accident results in any injuries, then there is a unique injury claim number (i.e. claim count) for each individual that is injured. The cover code provides information on the peril type (e.g. collision, theft, hail, etc) or the coverage type (e.g. income replacement, medical expenses, etc). For physical damage claims there is only one cover count per physical damage claim count, so there is no difference between covers and claim counts. However, for injury claims there can be many cover counts related to one injury claim.

The main reasons for making the change to claim counts in the forecasting process are as follows:

- For forecasting purposes, the number of injury claims and the cost per injury claim are more meaningful measures to describe the experience of the PIPP program than the number of covers or the cost per cover. For example, in the 2010/11 accident year @ 12 months there were 12,124 non-zero injury claims reported of which 1,799 had income replacement benefit payments. Compare this to, in the 2010/11 accident year there were 62,984 PIPP covers reported @ 12 months of which 2,512 covers were for income replacement benefits.
- For stochastic modeling purposes, using injury claims allows for the modeling of correlations among the injury cover codes.

- By eliminating zero dollar claims, the forecast is improved as only claims with a financial impact to the Corporation are included in the forecast.

b) No change has been made to remove the tracking of cover counts from claims systems.

c) See attached. Original and revised forecasts are not available for years prior to 2014/15 as a cover count forecast was used in those years, not a claim count forecast. Claim counts broken down by attempted theft, total theft, and partial theft categories are not forecasted.

For responses in (d) through (f):

The information presented in CAC (MPI) 1-5 is on a fiscal year basis. The calculation of severity on this basis is very misleading because the claims incurred in a given fiscal year are not necessarily associated with the claims reported in that fiscal year. This mismatch is especially problematic for injury claims. For example, the actual claims incurred for PIPP in fiscal year 2010/11 of (59,668,000) (i.e. negative) has almost no relationship to the 72,570 PIPP covers reported in 2010/11. The negative claims incurred is a result of the large actuarial adjustment that was made in 2010/11, which impacted all previous PIPP loss years, while the majority of the 72,570 PIPP covers are related to injury claims that occurred in the 2009/10 and 2010/11. The Corporation recommends that severity be calculated on an accident year basis when calculating trends or performing year-to-year comparison.

d) The reduction of $246 in collision severity for the 2014/15 forecast year is a result of an IBNR adjustment made due to significant lag in claim reporting as explained on page 34 of Volume II Claims Incurred.

e) 2013/14 claims incurred was significantly higher than budget due to a review of all existing PIPP claims reserves, as a result severity increased for 2013/14. Going forward this abnormal increase is not expected to continue. See page 13 of

Volume II Claims Incurred and the October 2013 and February 2014 Appointed Actuary's Report (Volume III AI.7).

f) Public Liability claim severity is highly variable. Low claim frequency and high claims incurred create severity levels that may not follow year to year increases. The 5 year average claim severity for Public Liability is $21,800 while the highest has been in 2009/10 at $37,500. For more information on the Public Liability coverage forecast, see pages 25 through 28 of Volume II Claims Incurred.

g) See attached. In addition to an increase in collision frequency, severity also increased significantly throughout the 2013/14 year. For example, in June 2013, the year to year increase over last year was 10.1% compared to the historical average increase of 1.9%.

h) See the tables on the following page.

Collision Counts by Claim Type @ 12 Months

Accident Year	Repair Counts	% Change	Total Loss Counts	% Change	Total Counts	% Change
2004/05	77,936		16,288		94,224	
2005/06	76,453	-1.9%	15,840	-2.8%	92,293	-2.0%
2006/07	82,198	7.5%	17,223	8.7%	99,421	7.7%
2007/08	83,635	1.7%	17,722	2.9%	101,357	1.9%
2008/09	85,906	2.7%	18,586	4.9%	104,492	3.1%
2009/10	83,353	-3.0%	18,804	1.2%	102,157	-2.2%
2010/11	88,326	6.0%	20,544	9.3%	108,870	6.6%
2011/12	86,718	-1.8%	20,595	0.2%	107,313	-1.4%
2012/13	92,643	6.8%	21,713	5.4%	114,356	6.6%
2013/14	91,199	-1.6%	23,091	6.3%	114,290	-0.1%
Straight Average						
3 year	90,187	1.2%	21,800	4.0%	111,986	1.69%
5 year	88,448	1.3%	20,949	4.5%	109,397	1.88%
10 year	84,837	1.8%	19,041	4.0%	103,877	2.24%

Collision Incurred by Claim Type @ 12 Months

Accident Year	Repair Incurred	% Change	Total Loss Incurred	% Change	Total Incurred	% Change
2004/05	$123,125		$71,809		$194,934	
2005/06	$126,095	2.4%	$75,177	4.7%	$201,272	3.3%
2006/07	$137,555	9.1%	$82,503	9.7%	$220,058	9.3%
2007/08	$138,882	1.0%	$87,464	6.0%	$226,346	2.9%
2008/09	$146,190	5.3%	$91,687	4.8%	$237,877	5.1%
2009/10	$145,578	-0.4%	$92,198	0.6%	$237,776	0.0%
2010/11	$158,988	9.2%	$101,482	10.1%	$260,470	9.5%
2011/12	$161,600	1.6%	$104,391	2.9%	$265,991	2.1%
2012/13	$179,539	11.1%	$115,428	10.6%	$294,967	10.9%
2013/14	$190,141	5.9%	$134,649	16.7%	$324,790	10.1%
Straight Average						
3 year	$177,093	6.2%	$118,156	10.0%	$295,249	7.71%
5 year	$167,169	5.5%	$109,630	8.1%	$276,799	6.53%
10 year	$150,769	5.0%	$95,679	7.3%	$246,448	5.91%

Manitoba Public Insurance
Automobile Insurance Division - Basic
Six Year Claims Frequency Comparison
For the Insurance Year Ended February 28/29,

	2010/11	2011/12	Increase (Decrease) To Previous Year	2012/13	Increase (Decrease) To Previous Year	2013/14	Increase (Decrease) To Previous Year	Projection 2014/15	Increase (Decrease) To Previous Year	Outlook 2015/16	Increase (Decrease) To Previous Year
	#	#	#	#	#	#	#	#	#	#	#
Accident Benefits											
- Pre P.I.P.P.	0	0	0	0	0	0	0	0	0	0	0
- P.I.P.P.	16,331	15,812	(519)	16,178	366	15,435	(743)	15,508	73	15,529	21
Collision	102,255	103,590	1,335	108,045	4,455	109,542	1,497	112,111	2,569	114,164	2,053
Comprehensive	55,550	56,439	889	55,618	(821)	53,843	(1,775)	56,765	2,922	57,331	567
Property Damage	39,554	38,234	(1,320)	41,663	3,429	41,863	200	39,196	(2,667)	39,863	667
Public Liability											
- Pre Mar 1/94	0	0	0	0	0	0	0	0	0	0	0
- Post Mar 1/94	77	73	(4)	64	(9)	80	16	76	(4)	77	1
	213,767	214,148	381	221,568	7,420	220,763	(805)	223,656	2,893	226,964	3,308

Manitoba Public Insurance
Automobile Insurance Division - Basic
Six Year Claims Severity Comparison
For the Insurance Year Ended February 28/29,

	2010/11	2011/12	Increase (Decrease) To Previous Year	2012/13	Increase (Decrease) To Previous Year	2013/14	Increase (Decrease) To Previous Year	Projection 2014/15	Increase (Decrease) To Previous Year	Outlook 2015/16	Increase (Decrease) To Previous Year
	$	$	$	$	$	$	$	$	$	$	$
Accident Benefits											
- Pre P.I.P.P.	0	0	0	0	0	0	0	0	0	0	0
- P.I.P.P.	(3,654)	14,091	17,745	13,864	(227)	15,801	1,937	9,599	(6,202)	10,695	1,096
Collision	2,693	2,709	17	2,948	239	3,415	467	3,128	(287)	3,305	177
Comprehensive	1,361	1,233	(128)	1,344	111	1,441	96	1,395	(46)	1,436	41
Property Damage	908	986	78	1,017	31	1,151	134	1,041	(110)	1,084	43
Public Liability											
- Pre Mar 1/94	0	0	0	0	0	0	0	0	0	0	0
- Post Mar 1/94	55,065	34,356	(20,709)	9,000	(25,356)	30,375	21,375	46,594	16,219	47,529	935

Manitoba Public Insurance
Automobile Insurance Division - Basic
Six Year Claims Incurred Comparison
For the Insurance Year Ended February 28/29,

	2010/11	2011/12	Increase (Decrease) To Previous Year	2012/13	Increase (Decrease) To Previous Year	2013/14	Increase (Decrease) To Previous Year	Projection 2014/15	Increase (Decrease) To Previous Year	Outlook 2015/16	Increase (Decrease) To Previous Year
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Accident Benefits											
- Pre P.I.P.P.	2,091	(821)	(2,912)	754	1,575	732	(22)	1,727	995	(450)	(2,177)
- P.I.P.P.	(59,668)	222,805	282,473	224,290	(58,183)	243,891	19,601	148,855	(95,036)	166,085	17,230
Collision	275,345	280,675	5,330	318,570	37,895	374,107	55,537	350,666	(23,441)	377,325	26,659
Comprehensive	75,597	69,584	(6,013)	74,772	5,188	77,579	2,807	79,170	1,591	82,321	3,151
Property Damage	35,925	37,713	1,788	42,371	4,658	48,193	5,822	40,795	(7,398)	43,196	2,401
Public Liability											
- Pre Mar 1/94	(459)	(427)	32	(45)	382	504	549	0	(504)	0	0
- Post Mar 1/94	4,240	2,508	(1,732)	576	(1,932)	2,430	1,854	3,563	1,133	3,660	97
	333,071	612,037	278,966	661,288	(10,417)	747,436	86,148	624,776	(122,660)	672,137	47,361

Manitoba Public Insurance
Basic Insurance
Ten Year Claims Frequency Comparison
For the Insurance Year Ended February 28/29,

	2014/15			2013/14			2012/13			2011/12			2010/11			2009/10		
	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual
Accident Benefits																		
- Pre P.I.P.P.		0				0			0			0			0			4
- P.I.P.P		15,508				15,435			16,178			15,812			16,331			14,764
Collision		112,111				109,542			108,045			103,590			102,255			96,026
Comprehensive		56,765				53,843			55,618			56,439			55,550			58,760
Property Damage		39,196				41,863			41,663			38,234			39,554			35,670
Public Liability (*)																		
- Pre Mar 1/94		0				0			0			0			0			0
- Post Mar 1/94		76				80			64			73			77			94
	0	223,656				220,763			221,568			214,148			213,767			205,318

	2008/09			2007/08			2006/07			2005/06		
	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual
Accident Benefits												
- Pre P.I.P.P.			0			5			9			6
- P.I.P.P			13,245			15,713			15,964			13,872
Collision			99,999			95,759			92,996			86,867
Comprehensive			44,016			62,915			55,248			51,857
Property Damage			38,237			36,871			36,860			33,521
Public Liability												
- Pre Mar 1/94			0			0			0			0
- Post Mar 1/94			94			102			121			102
			195,591			211,365			201,198			186,225

Manitoba Public Insurance
Basic Insurance
Ten Year Claims Severity Comparison
For the Insurance Year Ended February 28/29,

	2014/15			2013/14			2012/13			2011/12			2010/11			2009/10		
	Original	Revised	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual
Accident Benefits																		
- Pre P.I.P.P.																		
- P.I.P.P		9,599				15,801			13,864			14,091			(3,654)			11,851
Collision		3,128				3,415			2,948			2,709			2,693			2,442
Comprehensive		1,395				1,441			1,344			1,233			1,361			1,043
Property Damage		1,041				1,151			1,017			986			908			983
Public Liability																		
- Pre Mar 1/94																		
- Post Mar 1/94		46,594				30,375			9,000			34,356			55,065			57,000

	2008/09			2007/08			2006/07			2005/06		
	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual
Accident Benefits												
- Pre P.I.P.P.												
- P.I.P.P			14,051			10,642			11,563			14,020
Collision			2,476			2,520			2,521			2,387
Comprehensive			1,094			1,212			1,365			1,318
Property Damage			883			969			939			885
Public Liability												
- Pre Mar 1/94												
- Post Mar 1/94			40,436			29,196			33,413			45,647

Manitoba Public Insurance
Basic Insurance
Ten Year Claims Incurred Comparison
For the Insurance Year Ended February 28/29,

	2014/15			2013/14			2012/13		
	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual
Accident Benefits									
- Pre P.I.P.P.	424,000	1,727,000		528,000	583,000	732,000	885,000	623,000	754,000
- P.I.P.P	184,387,000	148,855,000		210,923,000	208,476,000	243,891,000	203,489,000	204,156,000	224,290,000
Collision	337,593,000	350,666,000		310,688,000	321,025,000	374,107,000	295,850,000	295,720,000	318,570,000
Comprehensive	76,633,000	79,170,000		72,466,000	72,950,000	77,579,000	66,107,000	69,634,000	74,772,000
Property Damage	41,854,000	40,795,000		39,099,000	40,569,000	48,193,000	38,414,000	37,901,000	42,370,000
Public Liability									
- Pre Mar 1/94	0	0		0	0	504,000	0	0	(45,000)
- Post Mar 1/94	3,805,000	3,563,000		4,438,000	3,596,000	2,430,000	5,599,000	4,300,000	576,000
	644,696,000	624,776,000		638,142,000	647,199,000	747,436,000	610,344,000	612,334,000	661,287,000

	2011/12			2010/11			2009/10		
	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual
Accident Benefits									
- Pre P.I.P.P.	784,000	981,000	(821,000)	1,381,000	783,000	2,091,000	1,462,000	993,000	3,658,000
- P.I.P.P	253,323,000	197,346,000	222,805,000	252,869,000	244,576,000	(59,668,000)	249,834,000	236,182,000	174,963,000
Collision	284,780,000	281,993,000	280,675,000	274,193,000	270,217,000	275,345,000	266,466,000	261,468,000	234,523,000
Comprehensive	63,946,000	62,653,000	69,584,000	56,012,000	60,606,000	75,597,000	63,354,000	55,360,000	61,282,000
Property Damage	39,211,000	37,005,000	37,713,000	37,588,000	37,756,000	35,925,000	38,651,000	36,571,000	35,077,000
Public Liability									
- Pre Mar 1/94	6,000	0	(427,000)	10,000	6,000	(459,000)	15,000	0	926,000
- Post Mar 1/94	5,339,000	5,458,000	2,508,000	5,240,000	5,232,000	4,240,000	5,091,000	5,131,000	5,358,000
	647,389,000	585,436,000	612,037,000	627,293,000	619,176,000	333,071,000	624,873,000	595,705,000	515,787,000

	2008/09			2007/08			2006/07			2005/06		
	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual	Original Projected	Revised Forecast	Actual
Accident Benefits												
- Pre P.I.P.P.	1,612,000	2,911,000	345,000	1,870,000	3,178,000	2,018,000	1,905,000	2,059,000	1,558,000	1,340,000	1,978,000	16,693,000
- P.I.P.P	242,099,000	239,312,000	186,107,000	237,294,000	231,265,000	167,223,000	221,175,000	226,156,000	184,589,000	215,185,000	211,179,000	194,489,000
Collision	253,015,000	253,568,000	247,647,000	241,146,000	238,919,000	241,329,000	220,639,000	228,011,000	234,405,000	221,900,000	208,209,000	207,346,000
Comprehensive	75,976,000	66,166,000	48,132,000	60,645,000	75,322,000	76,263,000	72,514,000	61,964,000	75,426,000	61,527,000	71,848,000	68,342,000
Property Damage	36,751,000	36,494,000	33,747,000	34,025,000	34,615,000	35,722,000	32,394,000	32,139,000	34,608,000	31,544,000	31,036,000	29,675,000
Public Liability												
- Pre Mar 1/94	17,000	14,000	(238,000)	27,000	17,000	(246,000)	43,000	26,000	231,000	12,000	41,000	(239,000)
- Post Mar 1/94	6,407,000	4,966,000	3,801,000	7,412,000	6,147,000	2,978,000	7,315,000	7,107,000	4,043,000	8,026,000	7,106,000	4,656,000
	615,877,000	603,431,000	519,541,000	582,419,000	589,463,000	525,287,000	555,985,000	557,462,000	534,860,000	539,534,000	531,397,000	520,962,000

Manitoba Public Insurance
Automobile Insurance Division - Basic
Ten Year Comprehensive - Theft Claims Frequency Comparison
For the Insurance Year Ended February 28/29,
(#)

	2014/15			2013/14			2012/13			2011/12			2010/11			2009/10		
	Original Projected 14 Rate App	Revised Forecast 15 Rate App	Actual	Original Projected 13 Rate App	Revised Forecast 14 Rate App	Actual	Original Projected 12 Rate App	Revised Forecast 13 Rate App	Actual	Original Projected 11 Rate App	Revised Forecast 12 Rate App	Actual	Original Projected 10 Rate App	Revised Forecast 11 Rate App	Actual	Original Projected 09 Rate App	Revised Forecast 10 Rate App	Actual
Attempted Theft	1,187	1,143		1,320	1,187	1,143	2,932	1,320	1,187	4,030	2,932	1,320	3,744	4,030	2,632	7,408	4,452	3,632
Total Theft	2,240	2,296		2,141	2,240	2,296	2,397	2,104	2,241	3,526	2,361	2,104	3,576	3,526	2,904	4,829	4,018	3,525
Partial Theft	489	350		632	489	350	878	632	459	1,062	878	557	1,315	1,062	807	2,008	1,299	1,044

	2008/09			2007/08			2006/07			2005/06		
	Original Projected 08 Rate App	Revised Forecast 09 Rate App	Actual	Original Projected 07 Rate App	Revised Forecast 08 Rate App	Actual	Original Projected 06 Rate App	Revised Forecast 07 Rate App	Actual	Original Projected 05 Rate App	Revised Forecast 06 Rate App	Actual
Attempted Theft	11,480	8,514	4,957	7,185	11,851	9,218		7,185	11,670			7,185
Total Theft	9,667	6,590	4,603	8,491	10,809	8,179	23,117	10,207	12,670	16,960	24,488	12,541
Partial Theft	3,136	2,008	1,103	3,908	3,136	1,622	10,079	3,908	2,907	9,164	9,613	3,670

Note: Attempted Theft was not forecasted separately prior to 2006/07

Manitoba Public Insurance
Automobile Insurance Division - Basic
Ten Year Comprehensive - Theft Claims Severity Comparison
For the Insurance Year Ended February 28/29,
($/cover)

	2014/15			2013/14			2012/13			2011/12			2010/11			2009/10		
	Original Projected 14 Rate App	Revised Forecast 15 Rate App	Actual	Original Projected 13 Rate App	Revised Forecast 14 Rate App	Actual	Original Projected 12 Rate App	Revised Forecast 13 Rate App	Actual	Original Projected 11 Rate App	Revised Forecast 12 Rate App	Actual	Original Projected 10 Rate App	Revised Forecast 11 Rate App	Actual	Original Projected 09 Rate App	Revised Forecast 10 Rate App	Actual
Attempted Theft	1,224	1,233		1,230	1,190	1,227	1,017	1,192	1,139	1,061	984	1,146	979	1,016	966	865	923	985
Total Theft	3,595	3,458		3,358	3,469	3,365	3,040	3,239	3,309	3,189	2,957	3,124	3,053	3,058	2,881	2,991	2,903	2,941
Partial Theft	1,325	1,706		1,256	1,280	1,646	1,108	1,209	1,305	1,114	1,057	1,181	924	1,049	1,077	904	883	1,021

	2008/09			2007/08			2006/07			2005/06		
	Original Projected 08 Rate App	Revised Forecast 09 Rate App	Actual	Original Projected 07 Rate App	Revised Forecast 08 Rate App	Actual	Original Projected 06 Rate App	Revised Forecast 07 Rate App	Actual	Original Projected 05 Rate App	Revised Forecast 06 Rate App	Actual
Attempted Theft			868			773			724			705
Total Theft	2,343	2,778	2,743	2,027	2,245	2,533	1,531	1,959	2,135	1,510	1,482	1,981
Partial Theft	904	859	869	769	837	818	541	731	776	542	519	695

Note: Attempted Theft was not forecasted separately prior to 2006/07

Manitoba Public Insurance
Automobile Insurance Division - Basic
Ten Year Comprehensive - Theft Claims Incurred Comparison
For the Insurance Year Ended February 28/29,
($000)

	2014/15			2013/14			2012/13			2011/12			2010/11			2009/10		
	Original Projected 14 Rate App	Revised Forecast 15 Rate App	Actual	Original Projected 13 Rate App	Revised Forecast 14 Rate App	Actual	Original Projected 12 Rate App	Revised Forecast 13 Rate App	Actual	Original Projected 11 Rate App	Revised Forecast 12 Rate App	Actual	Original Projected 10 Rate App	Revised Forecast 11 Rate App	Actual	Original Projected 09 Rate App	Revised Forecast 10 Rate App	Actual
Attempted Theft	1,453	1,409		1,624	1,412	1,403	2,982	1,573	1,352	4,274	2,886	1,513	3,665	4,094	2,543	6,406	4,110	3,579
Total Theft	8,052	7,940		7,189	7,770	7,725	7,287	6,814	7,415	11,246	6,981	6,572	10,916	10,781	8,365	14,444	11,663	10,368
Partial Theft	648	597		794	626	576	973	764	599	1,183	928	658	1,215	1,114	869	1,816	1,147	1,066

	2008/09			2007/08			2006/07			2005/06		
	Original Projected 08 Rate App	Revised Forecast 09 Rate App	Actual	Original Projected 07 Rate App	Revised Forecast 08 Rate App	Actual	Original Projected 06 Rate App	Revised Forecast 07 Rate App	Actual	Original Projected 05 Rate App	Revised Forecast 06 Rate App	Actual
Attempted Theft	9,235	7,031	4,305	5,513	9,087	7,129		5,291	8,452			5,069
Total Theft	22,646	18,307	12,624	17,210	24,266	20,716	35,401	19,998	27,047	25,611	36,284	24,841
Partial Theft	2,835	1,725	959	3,006	2,625	1,327	5,451	2,856	2,257	4,965	4,987	2,551

Note: Attempted Theft was not forecasted separately prior to 2006/07

Collision Severity	Month											
	March	April	May	June	July	August	September	October	November	December	January	February
03/04	$2,037	$2,258	$2,285	$2,366	$2,504	$2,564	$2,363	$2,561	$2,362	$2,368	$1,925	$2,096
04/05	$2,268	$2,267	$2,260	$2,364	$2,558	$2,474	$2,474	$2,569	$2,453	$2,264	$2,000	$2,145
05/06	$2,264	$2,300	$2,422	$2,528	$2,623	$2,427	$2,531	$2,531	$2,371	$2,488	$2,561	$2,308
06/07	$2,322	$2,338	$2,423	$2,481	$2,662	$2,679	$2,567	$2,692	$2,525	$2,369	$2,308	$2,455
07/08	$2,473	$2,298	$2,459	$2,554	$2,551	$2,577	$2,750	$2,735	$2,605	$2,383	$2,383	$2,349
08/09	$2,470	$2,368	$2,382	$2,605	$2,585	$2,707	$2,726	$2,649	$2,720	$2,367	$2,417	$2,607
09/10	$2,352	$2,386	$2,561	$2,649	$2,658	$2,670	$2,797	$2,836	$2,763	$2,589	$2,542	$2,598
10/11	$2,399	$2,488	$2,669	$2,696	$2,764	$2,715	$2,840	$2,932	$2,774	$2,532	$2,612	$2,962
11/12	$2,561	$2,564	$2,674	$2,627	$2,828	$2,807	$2,921	$3,016	$2,956	$2,813	$2,865	$3,024
12/13	$2,843	$2,737	$2,839	$2,846	$2,971	$2,998	$3,029	$3,219	$2,944	$2,771	$2,793	$3,071
13/14	$2,827	$2,846	$2,929	$3,084	$3,270	$3,398	$3,368	$3,423	$3,320	$3,223	$3,219	$4,063
3-year Avg	$2,744	$2,716	$2,814	$2,852	$3,023	$3,068	$3,106	$3,219	$3,073	$2,936	$2,959	$3,386
5-year Avg	$2,597	$2,604	$2,734	$2,780	$2,898	$2,917	$2,991	$3,085	$2,952	$2,786	$2,806	$3,143
10-year Avg	$2,478	$2,459	$2,562	$2,643	$2,747	$2,745	$2,800	$2,860	$2,743	$2,580	$2,570	$2,758

CAC (MPI) 3-3 Reference: CAC (MPI) 1-7(a) Claims severity

Preamble: On page 14 and 15 of the response to CAC (MPI) 1-7(a) Repair Claim Payments and Average Physical Damage Repair Payments ("a simple form of severity") are reported for a number of years.

a) Please complete the following table:

Fiscal Year	Repair Claim Payments ($000)		Average Physical Damage Repair Payment	
	Amount	% Inc. (Dec.)	Amount	% Increase
2006/07	$208,796		$1,499	
2007/08	219,075	4.9	1,588	5.9
2008/09	227,699	3.9	1,633	2.8
2009/10	234,304	2.9	1,656	1.4
2010/11	229,598	(2.0)	1,722	4.0
2011/12	256,405	11.7	1,775	3.1
2012/13				
2013/14				
2014/15 P				
2015/16 P				

P - Projected

b) Please confirm that the repair claim payments in a) above include all collision, comprehensive and property damage for all lines of business; if not, please state which coverages are included or excluded.

c) Please reproduce the table in a. above for basic insurance only.

d) Please reproduce the table in a. above for basic insurance collision coverage only.

RESPONSE:

a)

Fiscal Year	Repair Claim Payments ($000)		Average Physical Damage Repair Payment	
	Amount	% Inc. (Dec.)	Amount	% Increase
2006/07	$208,796		$1,499	
2007/08	219,075	4.9	1,588	5.9
2008/09	227,699	3.9	1,633	2.8
2009/10	234,304	2.9	1,656	1.4
2010/11	229,598	(2.0)	1,722	4.0
2011/12	256,405	11.7	1,775	3.1
2012/13	245,115	(4.2)	1,851	4.7
2013/14	270,707	10.4	1,960	5.9
2014/15 P	n/a	n/a	n/a	n/a
2015/16 P	n/a	n/a	n/a	n/a

The above data, up to and including 2011/12, was provided to MNP to assist in determining “the health of the autobody industry in Manitoba”. The data includes payments to Autobody, Autobody & Frame, and Frame shops only. Actual repair claim payment data has been included for 2012/13 and 2013/14 using the same vendor criteria.

We cannot provide projections for 2014/15 and 2015/16 because the data requested is a subset of repair claim payment data for which we do not forecast separately.

b) This data includes payments made to Autobody, Autobody & Frame, and Frame shops during the specified fiscal years. The data includes all types of claims for all lines of business.

c) Basic Only

Fiscal Year	Repair Claim Payments ($000)		Average Physical Damage Repair Payment	
	Amount	% Inc. (Dec.)	Amount	% Increase
2006/07	$170,794		$1,467	
2007/08	181,906	6.5	1,552	5.8
2008/09	191,158	5.1	1,597	2.9
2009/10	197,636	3.4	1,622	1.6
2010/11	195,063	(1.3)	1,690	4.2
2011/12	219,030	12.3	1,741	3.0
2012/13	210,725	(3.8)	1,819	4.5
2013/14	235,235	11.6	1,914	5.2

d) Basic Collision Only (includes Collision and Collision with Wildlife)

Fiscal Year	Repair Claim Payments ($000)		Average Physical Damage Repair Payment	
	Amount	% Inc. (Dec.)	Amount	% Increase
2006/07	$136,443		$1,742	
2007/08	139,602	2.3	1,768	1.5
2008/09	156,484	12.1	1,792	1.4
2009/10	161,874	3.4	1,828	2.0
2010/11	156,364	(3.4)	1,913	4.7
2011/12	182,330	16.6	1,962	2.6
2012/13	174,379	(4.4)	2,093	6.7
2013/14	202,457	16.1	2,193	4.8

CAC (MPI) 3-4 Reference: CAC (MPI) 1-39

Preamble: The response to CAC (MPI) 1-39 states "Ongoing IT systems optimization is critical to the long term goals of the Corporation. MPI depends on highly integrated, quality systems to serve Manitobans and to support the Corporation's cost containment initiatives."

Please elaborate on the financial impact qualified and trained claims adjusters and claims estimators have on controlling MPI's claims incurred costs vs. IT systems.

RESPONSE:

Highly integrated, quality systems assist the Corporation in meeting the benchmark results such as claims expense per reported claim. See SM.2, page 19 found in Volume I of 2015 Rate Application.

CAC (MPI) 3-5 Reference: CAC (MPI) 1-40(b)

Preamble: The response to CAC (MPI) 1-40(b) indicates annual cost savings of $5,400,000 for Special Investigations Unit (SIU) and $6,700,000 for Special Account Services (SAS).

Please provide details as to the source of the mentioned incremental annual claims incurred savings in the preamble. Are these cost savings expected to be over and above the normal annual claims recoveries made by SIU and SAS?

RESPONSE:

SIU and SAS cost savings are compiled into department databases using data from multiple corporate systems including the Corporation's Claims Administration & Reporting System (CARS), Lawson, Business & Injury Improvement Initiative (BI3), and Insurance Work Station (IWS).

The SIU and SAS cost savings reported in CAC (MPI) 1-40(b) are for the 2013/14 fiscal year and are not incremental.

CAC (MPI) 3-6 Reference: CAC (MPI) 1-46(a)

Preamble: The response to CAC (MPI) 1-46(a) shows the budget for 2014/15 and not 2013/14 as per the IR.

Please confirm that the Corporate and Basic Budget as per the response to CAC (MPI) 1-46(a) represents the 2013/14 budget, if not please re-file attachment a) with the 2013/14 budget.

RESPONSE:

Confirmed. The response in CAC (MPI) 1-46 (a) is labeled incorrectly and is the 2013/14 budget.

CAC (MPI) 3-7 Reference: CAC (MPI) 1-48

Preamble: The response to CAC (MPI) 1-48 indicates the following "Therefore, it is not possible to put forward a comparable adjustment while maintaining the existing business model and adhering to the Corporation's not-for-profit mandate."

Please confirm that the "FTE per $100 million of GPW" benchmark is meaningless for MPI compared to the industry.

RESPONSE:

The Corporation has not indicated that the benchmark of "FTE per $100 million of GPW" is meaningless. In CAC (MPI) 1-48, the Corporation has described the reasons that it is not possible to put forward an adjustment to make the benchmark comparable to other insurers. The metric does illustrate the differences in the mandates between Manitoba Public Insurance and other insurers.

An alternative metric that illustrates the Corporation's focus on claims efficiency is "FTE per 1000 claims reported".

	MPI 2012	Canadian Personal Auto Group	Canadian Benchmark Group	US Personal Auto Group
FTE per 1000 Reported Claims	5.60	10.41	13.27	8.01

(These ratios are an internal calculation derived from The Ward Group's data.)

CAC (MPI) 3-8 Reference: CAC (MPI) 1-56

Preamble: The response to CAC (MPI) 1-56(a) indicates the audit fees from 2013/14 to 2014/15 are budgeted to increase by about 104% from $173,262 to $353,380.

Please explain the reason for the budgeted increase of $180,118 in audit fees from 2013/14 to 2014/15.

RESPONSE:

The budget numbers in CAC (MPI) 1-56 were 2013/14 budget numbers. The 2014/15 budget numbers are:

Audit Fees: $320,230 budgeted
Valuation Fees: $92,900 budgeted

The 2014/15 budget was based on the average of the 2011/12 and 2012/13 actuals. In 2011/12 & 2012/13, we experienced higher than normal auditor expenses due to the implementation of IFRS.

CAC (MPI) 3-9 **Reference: CAC (MPI) 1-57 and 1-45(b)**

Preamble: The response to CAC (MPI) 1-45(a) indicates the claims expense cost per reported claim for 2012/13 is $263. The response to CAC (MPI) 1-57 (line 6 of the attachment) indicates the claims expense per claims for 2012/13 is $453.29.

Please provide the source data for each statistic; reconcile and explain the differences between the two claims expense per claim values shown in the preamble.

RESPONSE:

The two data points being compared are provided via two different sources of information. The $263 claims expense cost is external benching marking data where as the $453.29 is internal data. The $263 figure is also based on Basic, Extension, and SRE claims whereas the $453.29 is Basic claims only.

With respect to the benchmarking data being different to internal data, companies operate with different distribution systems, product focus and operating models. Therefore, Ward's proprietary benchmarking process involves obtaining information from each organization, including FTE related data, and normalizing the data to ensure an apples-to-apples comparison. As a result, the ratios calculated by the Corporation will not be the same as those calculated by Ward and it would not be practical to reconcile the differences.

CAC (MPI) 3-10 Reference: CAC (MPI) 1-58

Preamble: The reference PUB (MPI) 1-32(c) should have read PUB (MPI) 1-52(c) from the 2014 GRA.

Please update and file the PUB (MPI) 1-52(c) schedule from the 2014 GRA to include 2018/19.

RESPONSE:

Please refer to PUB (MPI) 1-55 (a) and (d).

CAC (MPI) 3-11 Reference: CAC (MPI) 1-62(a)

a) Please provide the source of the starting values (2009/10) in Tables 3 and 4 in Column 3 of $83.79 and $47.63 respectively.

b) Please reproduce Tables 3 and 4 updating Column 3 in Table 3 with the starting value of $88.29 instead of $83.79 and Table 4 with the starting value of $48.24 instead of $47.63.

RESPONSE:

a) The source of the starting values (2009/10) of Tables 3 and 4 in Column 3 of $83.79 and $47.63 respectively have been provided for in prior year GRAs. Please refer to tables 3 and 4 in CAC (MPI) 1-21 from the 2014 GRA.

b) Please see attached.

Table 3

Basic Claims Expenses $000						
Year	Basic Earned Vehicle Units					
	Manitoba CPI %	Average Claims Expense per Unit	Number	CPI Claims Expense	MPI Claims Expense	Inc (Dec)
1	2	3	4=(col.4 Table 1)	5= (3 X 4)	6=(col.2 Table 1)	7= (6 - 5)
2009/10	0.6%	88.29	951,585	84,012	84,012	-
2010/11	0.8%	88.99	974,707	86,742	97,182	10,440
2011/12	3.0%	91.66	1,006,627	92,270	105,924	13,654
2012/13	1.6%	93.13	1,041,448	96,989	111,697	14,708
2013/14	1.6%	94.62	1,064,070	100,681	114,552	13,871
2014/15	1.7%	96.23	1,093,331	105,209	116,249	11,040
2015/16	2.0%	98.15	1,123,398	110,264	120,486	10,222
2016/17	2.0%	100.12	1,154,291	115,562	126,010	10,448
2017/18	2.0%	102.12	1,186,035	121,115	127,314	6,199
2018/19	2.0%	104.16	1,218,650	126,934	138,319	11,385

Table 4

Basic Operating Expenses $000						
Year	Basic Earned Vehicle Units					
	Manitoba CPI %	Average Operating Expense per	Number	CPI Operating Expense	MPI Operating Expense	Inc (Dec)
1	2	3	4=(col.4 Table 2)	5= (3 X 4)	6=(col.2 Table 2)	7= (6 - 5)
2009/10	0.6%	48.24	951,585	45,904	45,904	-
2010/11	0.8%	48.63	974,707	47,396	52,569	5,173
2011/12	3.0%	50.08	1,006,627	50,416	62,879	12,463
2012/13	1.6%	50.89	1,041,448	52,995	65,415	12,420
2013/14	1.6%	51.70	1,064,070	55,012	67,982	12,970
2014/15	1.7%	52.58	1,093,331	57,486	73,568	16,082
2015/16	2.0%	53.63	1,123,398	60,248	74,791	14,543
2016/17	2.0%	54.70	1,154,291	63,143	79,063	15,920
2017/18	2.0%	55.80	1,186,035	66,177	81,043	14,866
2018/19	2.0%	56.91	1,218,650	69,357	87,298	17,941

CAC (MPI) 3-12 **Reference: CAC (MPI) 1-69 and PUB (MPI) 1-59(d)**

The chart in PUB (MPI) 1-59(d) indicates an amount of $4.7 million for special services – other for 2013/14 and approximately the same amount per year for the forecast periods. Please provide a detailed analysis, by expense type, of the $4.7 million relating to basic insurance.

RESPONSE:

Please note the amount shown in the table in PUB (MPI) 1-59 d) refers to corporate and not Basic expenses.

The Special Services – other sub expense category is comprised of numerous expenses as most departments within the Corporation manage an account for this type of expense. The following provides a detailed summary of the larger expenses occurred in 2013/14 for this sub expense category:

(000's)	Corporate	Basic (approx 70%)
	$	$
IT related Consulting Services	1,476	
Manitoba Truckers Assoc.	946	
Risk Assessment / IT Oversight	608	
Workstation Deployment Support	328	
Insurance Brokers Marketing	250	
HR Consulting	203	
Telematics	129	
IFRS Advisory Services	100	
Various other Special Services – other expenses	679	
TOTAL	4,719	3,303

NOTE: The average basic allocation % for the Special Services category is 70%. Please see Volume II Expenses, Appendix 1 page 3.

CAC (MPI) 3-13 Reference: CAC (MPI) 1-72

Preamble: The response to CAC (MPI) 1-72 states "Thus, the goal of the benchmarking exercise is not to establish benchmark targets (aside from the macro mandate measures which have historically had targets) for the Corporation, rather it is focused on making external comparisons to identify potential areas of improvement."

a) In absence of setting benchmark targets, please elaborate on the rate at which the corporation decides to action identified areas of improvement based on the benchmarking exercise.

b) Please elaborate on the effectiveness of the management and corporate accountability framework without clearly established benchmark or performance targets.

RESPONSE:

It is the Corporation's position that this line of questioning is another example why the regulator needs to monitor more the questions provided by the interveners in order to ensure efficient use of rate payers' monies.

a) We do have benchmark settings such as returning 85 cents on the dollar to rate payers.

b) Management has been able to meet the Corporation's mandate by achieving the seven corporate goals identified in its strategic plan.

CAC (MPI) 3-14 **Reference: CAC (MPI) 1-92 and CAC (MPI) 1-45 of the 2014 GRA**

a) Please file the Compliance with Legislative Authorities report for the year ended February 28, 2014 similar to the report filed in CAC (MPI) 1-45 for the 2014 GRA.

b) In case the corporation did not prepare the Compliance with Legislative Authorities report for the year ended February 28, 2014, please provide the reason for not preparing this report.

RESPONSE:

a) As per the response in CAC (MPI) 1-92, no report for the year ended February 28, 2014 is available.

b) As per the response in CAC (MPI) 1-92, no report was prepared as there is no legislated requirement for completion, submission to the Office of the Auditor General (OAG), or submission to the Province of Manitoba.

CAC (MPI) 3-15 **Reference: CAC (MPI) 1-94**
Risk Management

Preamble: The response to CAC (MPI) 1-94 in part states "Reporting occurs in April and October of each year to the Audit Committee according to a schedule based on the inherent and residual risk rating."

Please file a copy of the Audit Committee Minutes for April, 2013, October, 2013 and April, 2014 relating to risk management reporting.

RESPONSE:

Please see the attached.

Board of Directors - Committee Meeting
AUDIT COMMITTEE MINUTES

Risk Management Evaluation Report – Review	Ms. McLaren presented Agenda Item 2.1.G "Risk Management Evaluation Report – Review". Following discussion, Members received the report as information.

Board of Directors - Committee Meeting

AUDIT COMMITTEE MINUTES

Risk Management Evaluation Report - Review

Ms. McLaren presented Agenda Item 2.1.F "Risk Management Evaluation Report – Review". The IT risk ratings have been dropped to medium risk due to the progression of Information Technology Optimization. Following discussion, Members received the report as information.

Board of Directors - Committee Meeting
AUDIT COMMITTEE MINUTES

Risk Management Evaluation Report – Review	Ms. Reichert presented Agenda Item G.1 "Risk Management Evaluation Report – Review". Following discussion, Members received the report as information.

CAC (MPI) 3-16 Reference: CAC (MPI) 1-184 Lifecycle of PDR project

Please provide an opinion on MPI's expectation of the lifecycle costs of the PDR project. In case MPI does not have an opinion on the lifecycle costs of the PDR project, would MPI support the PUB Board to engage an IT expert to provide an opinion on the lifecycle costs of the PDR project as it is likely that these costs may have a significant impact on basic insurance rates in the future?

RESPONSE:

As per the response to CAC (MPI) 1-184 on September 5, 2014, the Corporation is still evaluating the Gartner models and its implications for MPI. Once this evaluation is complete, the Corporation will be in a better position to determine valuation for lifecycle costs for all of its IT projects, including the IT components of the Physical Damage Re-engineering project.

In the Corporation's opinion, engaging an external IT expert to formulate an opinion on the lifecycle costs would be premature at this time.

CAC (MPI) 3-17 Reference: CMMG (MPI) 1-32 Adjusters working as a team

Preamble: The response to CMMG (MPI) 1-32, in part, states: "This initiative for Service Centre Operations was aimed at improved customer service to our claimants and vendors by ensuring availability of any member of an adjusting team to promptly process claims and respond to queries."

a) Has the corporation measured the claims process cycle times before and after the adjusting team initiative was implemented, if yes, please provide the results.

b) Has the corporation surveyed claimants to assess whether the adjusting team approach is effective for claimants or would claimants prefer to deal with a single adjuster, if yes, please provide the results.

RESPONSE:

a) Please advise what claim cycle time means to CAC.

b) Our business partners inform us that the changes the Corporation has made have helped them to better serve our customers. We are in the process with the PDR initiative to gain a better understanding of customer satisfaction through new surveys being piloted.

CAC (MPI) 3-18

Reference: CMMG (MPI) 1-34 Operational costs compared to Insurance Industry

Please reproduce the response to CMMG (MPI) 1-34 excluding commissions in total expenses for both MPI and the Insurance Industry.

RESPONSE:

The table below compares the expense ratio between Manitoba Public Insurance and the insurance industry excluding commission expenses.

	MPI	Insurance Industry
Net Premium Earned	764,671	30,418,852
Total Expenses	95,091	4,874,730
Expense Ratio (Exp. / NPE)	**12.44%**	**16.03%**

Source of Industry data: OSFI website - Total Canadian P&C Statement of Income

CAC (MPI) 3-19

Reference: With reference to the Corporation's response to CAC (MPI) 1-74

Are the amounts of coverage the same for the companies compared?

RESPONSE:

Yes, with two exceptions:

1. Because injury coverage varies from province to province, optional accident benefits and $2 million Standard Policy Form #44 (SPF#44) family protection have been added in jurisdictions without no-fault injury coverage.

2. All deductibles are $500 except for the 21-year old driver with two at-fault claims where the deductible for this profile is $1,000 in some jurisdictions.

CAC (MPI) 3-20

Reference: With reference to the Corporation's response to CAC (MPI) 1-99

Please provide the exact same comparison for a 40 year old male primary driver, no claims or convictions, and a 50 year old female primary driver, no claims or convictions.

RESPONSE:

The information required to respond to this request is not currently available. The Corporation will consider including these profiles the next time the study is conducted.

CAC (MPI) 3-21

Reference: With reference to the Corporation's response to CAC (MPI) 1-74

Please give the market share of the 10 competitors used in the comparisons.

RESPONSE:

The ten companies used in the analysis account for 62.9% market share of net premiums written (reference: 2014 Canadian Underwriter Annual Statistical Issue comparison of private companies).

CAC (MPI) 3-22 Reference: September 5 response to PUB (MPI) 1-15

Preamble: The September 5 response to PUB (MPI) 1-15, provides additional information on the actual and anticipated income from the infrastructure portfolio. CAC would like to better understand the basis for the forecast returns and the calculations thereof.

Question:

a) CAC notes that the "Annual Return" is expressed to 2 decimal place accuracy. CAC observes that the income return for 2017/19 and 2018/19 is 10,955 and the Market Value through out that period is a constant 160,549. CAC calculates that 160,549 times 7.00% equals 11,238.43, a difference of 283, or implying a return of 6.82%. Please explain the apparent variance and describe the methodology used to arrive at the forecast income based on these forecast rates of return?

b) If the forecast annual return is applied to some factor other than market value, what is that factor?

c) CAC observes that the 2012/13 and 2013/14 income numbers resulted in annual returns of 8.9% and 17.3%, in each case somewhat greater than the forecast returns of 6.5% to 7%. In light of the superior historical performance please explain why CPI plus 5% as indicated in PDF page 13 of the Investment Policy Statement is a reasonable forecast.

d) CAC notes that MPI has observed that the interest rate forecasts of the various chartered banks have been imperfect indicators of future interest rates. CAC observes that the CPI forecasts in Section II.13.4 of Investment Income are drawn from the same forecasters. Please discuss the historical accuracy of the CPI forecasts, and whether MPI would prefer an alternative CPI forecast methodology.

e) CAC notes that the market value for 2012/13 is indicated to be 22,431 and the Income for the 2013/14 year is indicted to have been 2,573 representing an annual return of 17.3%. CAC calculates that the number in respect of which 17.3% would lead to the result of 2,573 is approximately 14,872 [2,573 / 0.173 = 14872]. Please provide the detailed calculation of the annual return for 2012/13 and 2013/14 and explain why the calculation of the 2013/14 annual return appears to be based upon a value lower than the 2012/13 ending market value.

f) In light of the forecast of 2% CPI growth in 2016 and beyond, please explain why the Market Value of infrastructure is not increasing, at a minimum with the rate of inflation.

g) CAC observes that the actual market value in 2012/13 and 2013/14 increase by an amount greater than the Funding Amounts, while thereafter, the Forecasted Market Values only increase by the Funding amounts. Why is this constant value the best forecasting methodology?

RESPONSE:

a) The income shown in the table is based on compounding the rate of return (1.07^(1/4)-1=1.71% per quarter) instead of using a simple rate of return (7%/4=1.75% per quarter). Because infrastructure income is not reinvested back into the infrastructure class in the financial model, using the simple rate of return (7%/4) is technically more correct. The simple rate of return will be used in next year's model to calculate infrastructure income not being reinvested back into the asset class.

b) See the response in a).

c) Our forecast of infrastructure returns is a long-term forecast. Given the volatility in the actual returns of the asset class the actual returns in any single year are expected to deviate from the forecast. However, over the long-term the

Corporation expects this forecast to be representative of the actual returns earned by the asset class.

d) In previous rate applications, for the five year CPI forecast only the first year CPI forecast has been different than 2.0%. In years 2 to 5 of the forecast, the CPI forecast has historically been 2.0%. This applies to both Canadian and Manitoba CPI.

The 15 year average Canadian CPI from 1999 to 2013 was 2.0%, which is in line with the Bank of Canada's monetary policy target for inflation of 2% (the midpoint of the 1% to 3% target range). The Corporation does not believe that a different CPI forecasting methodology would provide significantly different results over a five year forecast. In the case of CPI forecasts, simple is preferred over complex forecasts.

e) Below is the detailed calculation of the annual return for fiscal years 2012/13 and 2013/14 which end at February 28.

The annual return for the 12 months ended at February 28, 2013 was 8.9%. The return is sourced from API Asset Performance Inc's Fiscal Report for the Period Ending February 28, 2013.

The Corporation invested a total of $24,026,771 in the infrastructure asset class during 2013/14. Income and unrealized capital gains of $2,573,177 were earned from the infrastructure portfolio during 2013/14.

Subsequent to February 28, 2014 the Corporation received updated appraised values for two infrastructure investments and the appraised values increased the total infrastructure market value by $4,349,867. The total income and capital gains earned in 2013/14 after the appraisal was $6,923,044.

The annual return for the 12 months ended at February 28, 2014 including the above mentioned income and capital gains was actually 20.1%. The previously reported return of 17.3% did not include the income of $982,030 which was earned during the year. This return is calculated using the modified Dietz method (where it is assumed that all cash flows occurred at the mid-point of the period)[1].

Return = (Inc. & CG)/(MVB + .5*Tx)

Inc. & CG = MVE – (MVB + Tx)

Where:

MVE	Ending period market value	MV Feb 2014=$53,380,427
MVB	Beginning period market value	MV Feb 2013=$22,430,612
Tx	Transactions during the period	Tx = $24,026,771
Inc. & CG	Income & capital gains	Inc. & CG = $6,923,044

Return = ($6,923,044)/($22,430,612 + .5*$24,026,771) = 20.1%

f) The market value of infrastructure is not modeled to increase with the rate of inflation because the financial model assumes that all income from infrastructure is allocated back to the cash portfolio. This reallocation to cash assumption was discussed on page 48 of the Investment Income Document.

g) The Corporation must make many assumptions regarding the pacing of its infrastructure investments. Those assumptions are based on the two primary components of the infrastructure portfolio: capital calls for existing fund commitments and identification of future investment opportunities. While the amount of capital that has been committed, drawn and undrawn by our general partners is known, the timing of the future capital calls from the general partners is uncertain. The timing and size of future investment opportunities is even less certain.

The discussion of the funding schedule for infrastructure can be found on page 48 of the Investment Income Document.

[1] AIMR Performance Presentation Standards, 1993, page 21

CAC (MPI) 3-23

Reference: September 5 response to CAC (MPI) 1-127, and the original response to CAC (MPI) 1-146.

Preamble: In CAC (MPI) 1-127 the applicant indicates that between October 2010 and May 2012, certain fixed income assets averaging $186.2 million were excluded from the duration calculation.

CAC (MPI) 1-146 at page 5 provides a table of Fixed Income Duration, Duration Variance and the amount of Fixed Income Assets for various dates including the period from August 2010 to August 2012. During certain of those dates the Duration Variance was close to and in excess of 2.0.

CAC observes that the Fixed Income Assets dropped from $1.8 billion in August 2010 to $1.5 billion in November 2010, going from a surplus to a deficit with respect to claims liabilities.

CAC also observes that the variance duration dropped from an "beyond policy value" of -2.7 in August 2010 to a "within policy value" of -1.8 as fixed income duration rose from 6.7 in August 2010 to 7.6 in November 2010.

CAC notes that the beneficial effects are reversed after May 2012 where we see the Fixed Income Duration dropping precipitously from an 8.3 factor to a 6.9 factor and the variance duration spike from -0.8 to -2.0.

CAC also notes that part (b) of CAC (MPI) 1-127, requested that where "any of the duration calculations actual or forecast in this application based on the exercise of that authority", we be provide with "the unaffected calculation".

Question:

a) Was any of the information provided in CAC (MPI) 1-127, including the table on page 5, affected by the use of this discretionary authority, and if so please provide the unaffected calculation?

b) Please identify any other information related to the discussion of duration which was affected by the use of this discretionary authority.

c) In providing any "unaffected" calculation of Variance Duration, please increase the accuracy from one decimal place to two decimal places.

RESPONSE:

a) The information provided in CAC (MPI) 1- 127 was affected by the use of this discretionary authority. Below is a table with fixed income duration unaffected by the discretionary authority for period from November 2010 to August 2012 inclusive.

Date	Fixed Income Duration	Fixed Income Duration with Unaffected Calculation (highlighted)	Liability Duration*	Variance Duration **	Variance Duration with Unaffected Calculation (highlighted	Fixed Income Assets ($ Billion) ***	Fixed Income Assets with Unaffected Calculation ($ Billion)	Aggregate Claims Liability
Nov-09	7.39	7.39	7.60	-0.21	-0.21	1.77	1.77	1.66
Feb-10	7.22	7.22	9.02	-1.80	-1.80	1.80	1.80	1.62
May-10	6.59	6.59	9.02	-2.43	-2.43	1.82	1.82	1.56
Aug-10	6.71	6.71	9.42	-2.71	-2.71	1.85	1.85	1.67
Nov-10	7.61	*6.51*	9.42	-1.81	*-2.91*	1.54	*1.80*	1.66
Feb-11	7.55	*6.42*	9.42	-1.87	*-3.00*	1.50	*1.77*	1.44
May-11	7.51	*7.10*	9.42	-1.91	*-2.32*	1.39	*1.47*	1.43
Aug-11	7.40	*7.00*	9.12	-1.72	*-2.12*	1.40	*1.48*	1.48
Nov-11	7.52	*7.05*	9.12	-1.60	*-2.07*	1.41	*1.51*	1.51
Feb-12	8.25	*7.19*	9.12	-0.87	*-1.93*	1.33	*1.53*	1.48
May-12	8.32	*7.32*	9.12	-0.80	*-1.80*	1.34	*1.53*	1.48
Aug-12	6.90	*6.89*	8.90	-2.00	*-2.01*	1.53	*1.53*	1.52
Nov-12	6.60	6.60	8.90	-2.30	-2.30	1.53	1.53	1.54
Feb-13	7.40	7.40	8.90	-1.50	-1.50	1.51	1.51	1.55
May-13	7.20	7.20	8.90	-1.70	-1.70	1.48	1.48	1.59
Aug-13	8.09	8.09	8.90	-0.81	-0.81	1.48	1.48	1.56
Nov-13	6.69	6.69	8.90	-2.21	-2.21	1.61	1.61	1.59
Feb-14	7.30	7.30	9.40	-2.10	-2.10	1.61	1.61	1.70
May-14	8.10	8.10	9.40	-1.30	-1.30	1.65	1.65	1.69

* Prior to February 2010, liability duration was total liability duration
* After February 2010, liability duration was claim liability duration
** Variance Duration = Fixed Income Duration - Liability Duration
*** Fixed Income Assets utilized to calculate fixed income duration

b) No other information related to the discussion of duration was affected by the use of this discretionary authority.

c) The table in (a) above provides the Variance Duration to two decimal places.

CAC (MPI) 3-24

Reference: September 5 response to CAC (MPI) 1-127, and, the original response to CAC (MPI) 1-146.

Preamble: In CAC (MPI) 1-127 the applicant indicates that between October 2010 and May 2012, cash from investments and floating rate notes averaging $186.2 million were excluded from the duration calculation.

The Applicant also notes that "Increased cash balances, beyond what is normally required, were held to fund alternative asset classes such as real estate and infrastructure. CAC observes that the average of $186.2 million excluded from the duration calculation for a period of 20 months is a very large amount relative to investments undertaken in infrastructure and real estate in the fiscal years spanning the October 2010 to May 2012 period.

	March 1 2010	Feb 28 2011	Feb 29 2012	Feb 28 2013	Feb 28 2014	Increase 2010-2012	Increase 2011-2013
Cash	92,888	65,556	135,888	170,882	93,208		
Infrastructure			11,590	22,431	48,049	11,590	22,431
Investment Property & Real Estate	38,541	123,521	190,990	209,087	231,232	152,449	85,566
						164,039	107,997

Question:

a) Please confirm that cash and floating rate notes have relatively short duration, or if unable to confirm, provide the correct proposition.

b) Please confirm that the effect of excluding cash and floating rate notes from the duration calculation was to increase the calculated duration of the remaining fixed income assets, and thereby reduced the duration variance, or, if unable to confirm, provide the correct proposition.

c) To assist us in understanding why such a large amount of capital was withdrawn from the duration calculation, please provide a table for each quarter in the period August 2010 to May 2012, setting out the (1) cash balance, (2 the value of floating rate notes excluded from the duration calculation, (3) the value of floating rate notes, if any, still included in the duration calculation, (4) the anticipated capital required for infrastructure and real estate investments for the ensuing quarter, (5) capital expended on and real estate and infrastructure investments in that quarter, (6) the anticipated capital required for infrastructure investments for the ensuing year, (7) capital expended on and real estate and infrastructure investments in that year, and (8) the then value of fixed income assets excluded from the duration calculation.

RESPONSE:

a) Yes, cash and floating rate notes have relatively short duration.

b) Yes, excluding cash and floating rate notes from the duration calculation increased the calculated duration of the remaining fixed income assets, and thereby reduced the duration variance.

c) Please see the attached table which contains the requested data.

		Item Number	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Fiscal Quarter	Fiscal Year	Date	Short Term Cash	value of FRN excluded from duration calc.	FRN still included in the duration calc.	Anticipated Capital Required for Infra & RE	Capital expended on and RE and Infra Investments	Anticipated capital required for infra for the ensuing year	Capital expended on and real estate and infra investment in that year	the then value of fixed income assets excluded from the duration calculation
Q2	2010/11	31-Aug-10	46,799,008	222,484,300	222,484,300	-	25,936,000	-	28,705,000	-
Q3	2010/11	30-Nov-10	42,766,829	220,515,118	-		15,941,000	-	44,646,000	263,281,947
Q4	2010/11	28-Feb-11	47,251,969	220,859,325	-	100,800,000.00	37,698,000	195,390,000	82,344,000	268,111,294
Q1	2011/12	31-May-11	43,169,298	38,024,255	-	46,000,000.00	15,346,000	116,980,000	97,690,000	81,193,553
Q2	2011/12	31-Aug-11	42,259,499	38,862,197	-	26,200,000.00	21,586,000	86,610,000	90,571,000	81,121,696
Q3	2011/12	30-Nov-11	56,906,354	38,975,463	-	22,390,000.00	9,052,000	76,040,000	83,682,000	95,881,817
Q4	2011/12	29-Feb-12	106,794,930	89,481,129	-	22,390,000.00	17,672,000	69,280,000	63,656,000	196,276,059
Q1	2012/13	31-May-12	98,719,462	89,368,733	-	15,630,000.00	3,485,714	62,520,000	51,795,714	188,088,195
					Totals	**233,410,000**	**146,716,714**			

CAC (MPI) 3-25

Reference: **September 5 response to CAC (MPI) 1-127, September 5 response to CAC (MPI) 1-134(c), and, the original response to CAC (MPI) 1-142**

Preamble: The applicant has provided 5 characteristics which distinguish its chosen index for comparison to its MUSH portfolio but has not comment on the implications of any of these variances. For example, CAC anticipates that one might expect in periods of rising interest rates that an index based on market values would show lower returns as the new and higher return demanded by the market reduces the market value of bonds, while the book value of bonds in the MUSH portfolio remain unchanged.

In the original response to CAC (MPI) 1-146 the applicant, appears to indicate that it is inappropriate to compare an income return to one which includes both capital appreciation and income, saying:

> *"Chart 7.3 provides the income return for the index, which <u>does not include capital appreciation</u>. The reference to the real estate pooled fund returns are <u>total return</u>, which include both capital appreciation and income. Therefore, the income return of the index <u>and</u> the last two years of <u>total returns</u> for the real estate pooled fund <u>are not comparable</u>.*" [Emphasis added]

Question:

a) To the extent not covered in the September 5 response to CAC (MPI) 1-134(c), please explain how the differences in each of the 5 characteristics affect the comparability of the results of the MUSH portfolio to the DEX Provincial <u>**Total Return**</u> Index.

b) In light of the answer provided in the original response to CAC (MPI) 1-146, please explain why the comparison of the MUSH income return to the DEX Provincial Total Return Index is appropriate.

RESPONSE:

a) The table below (from CAC (MPI) 1-131), lists 5 characteristics of the MUSH portfolio to the characteristics of the DEX Provincial Total Return Bond Index. The data is as of July 31, 2014.

Characteristics	MUSH Portfolio	DEX Provincial Total Return Index
Issuer	Manitoba	All Provinces
Valuation	Book Value	Market Value
Return	Income	Income plus Capital Gain/Loss
Modified Duration	6.76 years	9.46 years
Average Term to Maturity	11.31 years	14.05 years

How the differences of the characteristics affect the comparability of the results of the MUSH portfolio to the DEX Provincial Total Return Index are listed below:

Issuer - If the MUSH portfolio was valued at market, the MUSH portfolio would have higher risk than the DEX Provincial Bond Index (DEX Index) because the DEX Index is exposed to all the provinces and all the territories in Canada whereas the MUSH portfolio is exposed only to Manitoba based issuers. However, MUSH is valued at book value. Therefore, the credit risk inherent in the MUSH portfolio is not reflected in the valuation of the MUSH portfolio at book value.

Valuation - The return on the MUSH portfolio includes only income/coupon payments whereas the DEX Index includes income/coupon payments plus capital appreciation/depreciation. In a changing interest rate environment, the DEX Index return will reflect the movement of interest rates on bond valuations whereas the MUSH portfolio is unaffected by changes in interest rates. For example, in a rising (declining) interest rate environment the DEX Index would underperform (outperform) the MUSH portfolio held at book value (all else being equal).

The Corporation calculates an implied market value return of the MUSH portfolio based on the current loan rates made by the Province of Manitoba to its Crown Corporations and Government Agencies. The return based on the implied market value of the MUSH portfolio includes both income and capital gains. Therefore, the implied market value return of the MUSH portfolio is directly comparable to the return of the DEX Index.

Return - Please see valuation characteristic explanation.

Modified Duration - The MUSH portfolio had a shorter duration (6.76 years) relative to the DEX Index (9.46 years). Since the MUSH portfolio is valued at book, duration length does not affect the portfolio's valuation. However when the MUSH portfolio is valued at the implied market value the shorter duration leads to smaller fluctuations in market values. For example, in a rising (declining) interest rate environment, the DEX Index would underperform (outperform) the MUSH portfolio (all else being equal).

Average Term to Maturity – The MUSH portfolio has a shorter term to maturity (11.31 years) relative to the DEX Index (14.05 years). The MUSH portfolio's return is unaffected by the term to maturity because the MUSH portfolio is valued at book. However, when MUSH is valued at implied market, the shorter term to maturity generally leads to lower fluctuations in market values. The term to maturity relationship is related to the discussion on modified duration in the above paragraph. For example, in a rising (declining) interest rate environment, the DEX Index would underperform (outperform) the MUSH portfolio (all else being equal).

b) Please see the response to CAC (MPI) 2-59.

CAC (MPI) 3-26 Reference: September 5 response to CAC (MPI) 1-146(i)

Preamble: The September 5 response to CAC (MPI) 1-146(i) does not provide the date for which the data provided is applicable.

Question:

What is the "as at date" of the data provided?

RESPONSE:

"As at date" is July 31, 2014.