

**MANITOBA** )  
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**THE PUBLIC UTILITIES BOARD ACT** ) **Order 151/13**  
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**THE MANITOBA PUBLIC INSURANCE ACT** )  
) **December 16, 2013**  
**THE CROWN CORPORATIONS PUBLIC** )  
**REVIEW AND ACCOUNTABILITY ACT** )

Before: Régis Gosselin, B ès Arts, MBA, CGA, Chair  
The Hon. Anita Neville, P.C., BA Hons., Member  
Karen Botting, BA, B.Ed, M.Ed, Member

**MANITOBA PUBLIC INSURANCE CORPORATION (MPI):  
COMPULSORY 2014/2015 DRIVER AND VEHICLE INSURANCE PREMIUMS  
AND OTHER MATTERS**

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## EXECUTIVE SUMMARY

The Public Utilities Board (Board or PUB) hereby orders an overall 0.9% rate increase in compulsory Motor Vehicle Premiums for the 2014/15 insurance year, effective March 1, 2014 for all major classes combined. The Board is substituting the 0.9% rate increase for the 1.8% rate increase applied for by Manitoba Public Insurance (MPI or the Corporation). The Board approves MPI's request that there be no change in Permit and Certificate rates, Vehicle Premium Discounts and Driver License Premiums, Service and Transaction Fees, Fleet Rebates or Surcharges, or the discount on approved after-market and manufacturer/dealer installed anti-theft devices. The Board also approves the rates applied for by the Corporation for the Collector Vehicle insurance use.

The Board continues to have significant concerns about the Corporation's operating expenses, and finds that it must control its expenses. The Board also has concerns with respect to the Corporation's staffing levels. The Board requires that the Corporation review its efficiencies on a go-forward basis, take steps to rein in its operating expenses and file with the Board staffing and cost control results at the next GRA.

The Board requires that the Corporation review its efficiencies and directs MPI to file at next year's GRA a five-year IT strategic plan, including a cost-benefit analysis, justifying its current and future IT expenditures.

The Board orders that MPI file, at the next GRA, a benchmarking framework, along with benchmarking indicators to which the Corporation intends to be held accountable.

The Board directs MPI to have the composition of its investment portfolio reviewed, with a view to determining whether the current asset mix should continue, or should be revised.

The Board finds that there should be more discussion and analysis with respect to the Corporation's proposed interest rate forecasting methodology, to be accomplished at a Technical Conference to take place on or before February 28, 2014, immediately following the DCAT Technical Conference referenced below.

The Board concludes that it is premature to adopt the DCAT approach for the purposes of setting the RSR target, and orders that the Technical Conference continue, on terms as reflected in this Order. For 2014/15, and pending the Board's determination of the RSR target, the RSR target range will continue to be calculated on the basis of the Kopstein approach.

The Board directs MPI to report on the ways in which it has made its Claims Incurred and Ratemaking methodology more transparent, and also directs that it report on options for developing its Claims Incurred and Ratemaking forecasts on a basis other than the fiscal year basis, with an accompanying analysis of pros and cons of such an approach. The Board orders that MPI examine its claim liabilities regarding potential ongoing conservatism within its forecasting, and directs MPI to file the valuation treatment of the results of the early 2013/14 case reserve review at next year's GRA.

The Board also directs MPI to file next year's GRA in accordance with accepted actuarial practice in Canada, as defined by the Canadian Institute of Actuaries, including the Standards of Practice, and that MPI also provide to the Board rate indications pursuant to its current methodology for review. In addition, the Board is to be advised of the practices for compulsory coverage in each of Saskatchewan and British Columbia.

The Board orders that MPI need not file the Exponential and Linear forecasts going forward, and Board Order 174/92 is hereby varied accordingly.

The Board finds that MPI has not fully established that the current portfolio of Road Safety expenditures is prudently and reasonably optimized to maximize value to ratepayers or to minimize economic and social costs of collisions. The Board orders that MPI provide certain specific Road Safety information and analyses at next year's GRA hearing.

This Order reflects the Board's findings on matters which arose over the course of the proceeding through oral testimony and documentary evidence. Public access to the full transcripts of the hearing, including cross-examination, presentations and closing statements, are available on the Board's website ([www.pub.gov.mb.ca](http://www.pub.gov.mb.ca)).

Documentary evidence filed on the record of the hearing may be viewed at the Board's offices. Interested parties may also review MPI's Annual Report and quarterly financial statements, which may be found on MPI's website ([www.mpi.mb.ca](http://www.mpi.mb.ca)), and/or previous Board Orders, which may be accessed on the Board's website ([www.pub.gov.mb.ca](http://www.pub.gov.mb.ca)).

## 1.0 THE RATE APPLICATION

The Corporation filed an Application with the Board on June 14, 2013 for approval of premiums to be charged with respect to compulsory driver and vehicle insurance (Basic Insurance), for the fiscal year commencing March 1, 2014 and ending February 28, 2015 (Fiscal 2014). The Application was filed in accordance with the provisions of *The Crown Corporations Public Review and Accountability Act* and *The Public Utilities Board Act*.

The premiums generated through the Application filed by the Corporation would take effect on March 1, 2014, and were based on an overall 1.8% increase in written vehicle premium revenue. MPI advised that higher physical damage claims and lower investment income have necessitated the need for a rate increase. MPI indicated that a 1% rate change represents approximately \$8 million in additional revenue.

The vehicle premium rates put forward by MPI included experience based rate adjustments largely ranging from -15% to +15%, and based on adjustment rules. In addition, the Corporation combined classification offsets for all vehicles except off-road vehicles, to achieve revenue neutrality and implementing rate group, rate line and classification changes for 2014.

The Corporation applied for no change to vehicle premium discounts or driver license premiums effective March 1, 2014.

In the Application, each major vehicle class would receive the following average vehicle premium changes:

<b>Major Class</b>	<b>Percentage Change</b>
Private Passenger	+ 2.0%
Commercial	- 1.8%
Public	+ 4.6%
Motorcycle	- 6.0%
Trailers	+ 7.8%
Off-road vehicles	- 12.9%
<b>Total</b>	<b>+ 1.8%</b>

Pursuant to the Corporation's rate design, and as set out above, an overall 1.8% rate increase does not translate into static rates for all motorists. Rather, the overall rate change proposed by the Corporation would result in a rate decrease for 24.7% of vehicles, no change in rates for

7.9% of vehicles, and a rate increase for 67.4% of vehicles. Details of the dollar change impact by number of vehicles within the overall fleet are as follows:

<b>\$ Change</b>	<b># of Vehicles</b>	<b>% of Vehicles</b>
<b>Decrease of \$300 or more</b>	9	0.0%
<b>Decrease of \$200 to \$299</b>	99	0.01%
<b>Decrease of \$150 to \$199</b>	511	0.05%
<b>Decrease of \$100 to \$149</b>	3,202	0.31%
<b>Decrease of \$50 to \$99</b>	16,677	1.59%
<b>Decrease of \$20 to \$49</b>	20,692	1.97%
<b>Decrease of \$1 to \$19</b>	217,895	20.76%
<b>No change</b>	83,234	7.93%
<b>Increase of \$1 to \$19</b>	420,444	40.06%
<b>Increase of \$20 to \$49</b>	182,933	17.43%
<b>Increase of \$50 to \$99</b>	100,673	9.59%
<b>Increase of \$100 to \$149</b>	2,193	0.21%
<b>Increase of \$150 to \$199</b>	161	0.02%
<b>Increase of \$200 to \$299</b>	0	0.00%
<b>Increase of \$300 or more</b>	686*	0.07%
<b>GRAND TOTAL</b>	1,049,409	100%

\*all Taxis

The Corporation sought no change to permit and certificate rates, vehicle premium discounts and driver license premiums, service and transaction fees, fleet rebates or surcharges, or the \$40.00 discount provided to customers with approved aftermarket and manufacturer/dealer installed anti-theft devices.

The Corporation also sought the Board's approval of Basic rates effective March 1, 2014 for the new insurance uses, Collector Passenger Vehicle and Collector Truck, announced by the Province of Manitoba on July 12, 2013. This insurance use requires collector vehicle owners to pay an insurance premium based on the summer driving season, while maintaining Basic insurance coverage for 12 months of the year, recognizing that collector cars are typically not utilized in the winter months. This change will also reduce the administrative costs to collector vehicle owners, as they will no longer be required to make seasonal changes to their insurance coverage. The Corporation advised that the addition of the Collector Vehicle insurance use did not affect the applied for rate changes at any Major Class level.

## 2.0 PROGRAM REVENUE

### 2.1 Revenue Requirement

The Corporation derives revenue from four main sources to fund Basic; vehicle premiums, drivers' license premiums, service and transaction fees and investment income. The Corporation's projected operating results for 2014/15, on the basis of each of the applied for 1.8% rate increase and a 1% rate increase scenario, are as follows:

	<b>2014 Applied For Rate 1.8% rate increase (\$ millions)</b>	<b>2014 Rate Scenario 1% rate increase (\$ millions)</b>
Motor Vehicle Premiums	\$783.5	\$780.0
Drivers' License Premiums	44.8	44.8
Reinsurance ceded	(14.1)	(14.1)
<b>Total Net Premiums Earned</b>	<b>814.1</b>	<b>810.7</b>
Investment Income	63.0	63.0
Service Fees & Other Revenues	20.5	20.5
<b>Total Earned Revenues</b>	<b>\$897.6</b>	<b>\$894.2</b>
Claims Incurred	644.7	644.7
Claims Expenses	118.4	118.4
Road Safety Expenses	11.5	11.5
Operating Expenses	69.9	69.9
Commissions	32.3	32.3
Premium Taxes	24.7	24.7
Regulatory/Appeal expenses	3.3	3.3
<b>Total Claims and Expenses</b>	<b>\$904.80</b>	<b>\$904.80</b>
<b>Net income (loss) – Basic</b>	<b>(\$7.5)</b>	<b>(\$10.7)</b>

MPI reported net income of \$41.9 million for the six months ending August 31, 2013 compared to a net income of \$21.1 million for the same period last year. Basic's net income for the same period was \$21.8 million, compared with \$2.8 million in 2012. MPI did not revise the Application based on the reported more current improved results.



## **2.2 Vehicle Premiums**

MPI is seeking a 1.8% increase in vehicle premiums. Based on this request, vehicle premiums earned are forecast to be \$783.5 million for 2013/14, an increase of \$41.8 million from the \$741.7 million forecast last year. The revenue earned in respect of Vehicle Premiums changes due to 3 factors: rate changes as ordered by the Board, growth in the number of vehicles in the fleet (the Volume Factor), and changes in the average rate per vehicle caused by factors other than rate changes, such as the gradual upgrade of the fleet as older vehicles are replaced with newer ones (the Upgrade Factor).

The combined growth of Volume Factor and Upgrade Factor is projected to be 4.5% for 2013/14 (2.0% Volume Factor and 2.5% Upgrade Factor, and to be 4.0% for 2014/15 and beyond (1.75% Volume Factor and 2.5% Upgrade Factor)

## **2.3 Drivers' License Premiums**

When obtaining a driver's license, motorists are assessed a premium based on the principle that all drivers should contribute premiums to the insurance fund, regardless of whether they own or insure a vehicle. The level of Drivers' License Premiums paid by licensed drivers are set based on the DSR scale which ranges from \$15 (level 15) to \$2,000 (demerit level 20).

Drivers' License Premiums are forecast to be \$37.4 million in 2013/14 and to increase to \$44.8 million in 2014/15, an increase of approximately \$7.5 million. The forecast considers four components, including the number of earned driver units by DSR level, the expected movement of drivers on the DSR scale, the average number of earned driver units by DSR level and the drivers' license premiums by DSR level. The forecast for 2014/15 has decreased by \$4 million from that projected last year, due to a lower driver unit forecast (\$0.5 million), and more favourable upward movement probabilities for demerit drivers (\$3.5 million).

## **2.4 Investment Income**

The Corporation's funds available for investment are primarily the assets supporting the unearned premium reserves and unpaid claims reserves. The funds within the portfolio support both the payment of accident claims as well as the pension obligations of the Corporation. As at February 28, 2013, the Corporation had short and long-term investments, including cash and

equities totalling \$2.34 billion, which is forecast to grow to over \$2.43 billion by the end of 2014/15.

Investment income earned from the Corporation's investment portfolio reduces the revenue that it is required to collect through premiums. Investment income accounts for approximately 7% of revenue over the forecast period provided by the Corporation. The Corporation's investment income is allocated between Basic, Extension and Special Risk Extension (SRE) lines of business based on the net average weighted equity balances, with approximately 85.5% of the investment income forecast to be allocated to Basic in 2014/15.

Basic realized investment income of \$68.0 million for 2012/13 and has projected investment income of \$114.5 million for 2013/14 and \$63.0 million for 2014/15. Further discussion on MPI's investment portfolio is found in section 4.0 of this Order.

## **2.5 Service Fees and Other Revenues**

The Basic insurance program earned \$18.4 million from Service Fees and Other Revenues in 2012/13, and the Corporation projects Service Fees and Other Revenue of \$20.9 million in 2013/14. This revenue is derived mainly from quarterly and monthly pre-authorized payment plans, late payment fees, motor vehicle transaction fees, dishonoured payment fees and pre-authorized payment default fees.

## **2.6 Interveners' Positions**

### **CAC**

CAC expressed the view that the proposed 1.8% rate increase is not reasonable or necessary, and that, based on the evidence, a rate increase of between 0% and 1% could be justified. Given the challenges experienced by MPI relative to cost control, CAC recommended that a 0% rate increase be mandated, which would send a strong message to MPI related to its inefficiency in controlling operating costs, the potential for excess reserves relative to claims incurred but not reported and the dramatic growth in IT expenditures with no benefit to ratepayers.

## **CMMG**

CMMG stated that motorcyclists have been the victims of excessive rate hikes through the 1990s and the first decade of this millennium, amounting to 227% over the course of a decade. CMMG stated that MPI's current methodology relative to loss ratios is not accurate, and as a result MPI is almost always collecting too much premium, over and above the "padding" that the Corporation does on case reserves, development factors, as well as PFADs for interest rates, PFADs for collection of re-insurance recoverables and a number of other methods.

CMMG stated that the Board should look at MPI's rate indications with skepticism, and should look at the applied for reduction in motorcycle rates as not going far enough based on the actual loss ratios. CMMG stated that an appropriate reduction of motorcycle rates would be approximately 10%.

## **CAA**

CAA's concern is to ensure that the rates set for all Manitoba drivers are fair and reasonable. CAA does not support the rate increase applied for by the Corporation but stated that it is open-minded about a small increase if it were to mean a greater focus could be put towards Road Safety efficiencies and initiatives. CAA also stated its belief that the retained earnings in the RSR are still at unnecessarily high levels.

### **2.7 Board Findings**

The Board hereby varies the Corporation's application for an overall 1.8% rate increase, and orders a 0.9% overall rate increase in compulsory Motor Vehicle Premiums for the 2014/15 insurance year, effective March 1, 2014. The Board approves MPI's request that there be no change in Permit and Certificate rates, Vehicle Premium Discounts and Driver License Premiums, Service and Transaction Fees, Fleet Rebates or Surcharges, or the discount on approved after-market and manufacturer/dealer installed anti-theft devices. The Board is satisfied that an overall 0.9% rate increase for Basic is reflective of the revenue requirement for Basic for 2014/15.

The Board's decision to increase rates by 0.9% is driven by:

- The Board's concern about MPI's new interest rate forecasting methodology (discussed in section 4.4 below) which utilized, in part, an in-house adjustment for estimating rates when MPI, by its own admission, does not have any particular expertise in interest rate forecasting;
- Recent changes in interest rates, not reflected in the GRA filing, that impact favourably on current financial results;
- The continuing increase in MPI's operating expenses, including those for salaries and benefits, that are well beyond the rate of inflation; and
- The level of overall corporate reserves, including AOCI, that are available to MPI and which support its financial condition.

The Board notes that the rates individuals pay will be determined based on their driving record, the kind of vehicle (make and model and year) that they drive, what the vehicle is used for and where they live. An individual's premiums will be impacted based on the actual claims experience associated with the rating factors. As a result, some individuals will experience increases in insurance rates, and others will experience decreases. The Board notes that the vast majority of those who will see an increase will be charged less than \$50 annually.

The Board does not approve CMMG's request that rates for the motorcycle class be reduced by 10% instead of 6% as applied for by MPI. No evidence was provided to suggest that the treatment accorded to the motorcycle class in the derivation of the actuarial indications was either unjust or unfair.

Pursuant to this Order, however, MPI shall maintain the experience based applied for rate decreases for the motorcycle, commercial and off-road vehicle classes, with the balance of the overall approved rate change to be applied across the other Major Classes. This will mitigate the impact on Major Classes which are experiencing a rate increase.

The Board approves the rates applied for by the Corporation for the Collector Vehicle insurance use.

### 3.0 PROGRAM COSTS

The costs associated with providing the legislated, compulsory Basic Automobile Insurance Program to Manitoba motorists fall into the following six major categories:

	Total Estimated Expense 2014/15 (\$ Millions)	Percentage of Total Program Costs
Net Claims Incurred	\$644.7	71.3%
Claims Expenses	118.4	13.1
Operating Expenses	69.9	7.7
Commissions & Premium Taxes	57.2	6.3
Road Safety/Loss Prevention	11.5	1.3
Regulatory/Appeal expenses <sup>1</sup>	3.3	0.3
<b>Total Program Costs</b>	<b>\$905.0</b>	<b>100.0%</b>

### 3.1 Claims Incurred

Claims Incurred represent costs that are paid or forecast to be paid to claimants for the various benefits provided under the Basic program. Net claims incurred were \$49.0 million or 7.99% over budget in 2012/13. The Corporation cites the following as the key reasons for this significant difference:

- Collision and property damage claims were \$17.0 million over budget as a result of a 4.0% increase in collisions per HTA vehicle in 2012/13;
- PIPP claims were \$18.2 million over budget mainly as a result of higher than expected reported losses from prior accident years and revised assumptions in the October 2012 and February 2013 Appointed Actuary's reports;
- The Corporation was required to write down its deferred policy acquisition cost<sup>2</sup> (DPAC) asset by \$14.8 million as higher claims costs and low interest rates resulted in unearned premiums being insufficient to cover these costs; and
- A combination of changes from other coverage and claim provision categories account for the remaining differences.

<sup>1</sup> Regulatory and appeal expenses consist of: Public Utilities Board, Crown Corporations Council and Automobile Injury Claims Appeal Commission.

<sup>2</sup> Deferred Policy Acquisition Costs - A balance sheet asset to reflect the deferral of expenses incurred at the time of the policy issuance, to better match the recognition of these expenses with the corresponding premiums, over the policy term.

Claims Incurred are forecast to be \$644.7 million in 2014/15 and are projected to be \$659.8 million in 2015/16, an increase of \$15.1 million. These forecasts represent an average of a \$21.7 million decrease for Claims Incurred in each of 2014/15 and 2015/16 from those forecasted last year. The key reasons for this decrease are:

- The inclusion of expected interest rate impacts in the claims forecast reduced the net claims incurred by \$32.7 million;
- The revised Collision and Property Damage forecast, based partially on the much higher claims experience in 2012/13, increased by \$13.6 million over last year's forecast; and
- A combination of changes from the other coverage and claim provision categories account for the remaining differences.

Historically, the Corporation has prepared three different forecasts for Claims Incurred based on different methods: Financial, Linear, and Exponential. The Linear and the Exponential Methods utilize historic data to forecast loss cost growth assumptions by coverage; the Corporation did not rely on them. The Financial Method uses assumptions based on forecasted field, economic, and actuarial factors, as well as management judgment; the Corporation relies on this method and has adopted it for rate-setting purposes.

In the Application, the Linear and Exponential forecasts were initially not provided by the Corporation. The Corporation has asked that the Board no longer require that they be filed in the future.

Claims Incurred for the fiscal years 2011 - 2015 for the major coverages are as follows:

For years ending February 28/29 (\$ millions)	2011	2012	2013	2014	2015	5 Year Change	
Physical Damage - All Perils							
Collision	275	281	319	321	332	57	21%
Comprehensive	76	70	75	73	76	0	0%
Property damage	36	38	42	41	42	6	17%
	\$387	389	436	435	450	63	16%
No-Fault Accident Benefits	(58)*	222	224	208	153	211	36%
PIPP-Third Party Liability	4	2	1	4	4	0	0%
<b>Total Claims Incurred</b>	<b>\$333</b>	<b>612</b>	<b>661</b>	<b>647</b>	<b>607</b>	<b>274</b>	<b>82%</b>

\*PIPP was implemented by legislation in 1994; pre-PIPP the tort system of compensating those injured in motor vehicle accidents predominated MPI's bodily injury claims incurred. PIPP's 2010/11 actual costs were reduced by an adjustment to Unpaid Claims of \$286.1 million due to favourable "run-off" of prior year claims incurred.

Collision claims costs, which represent the costs of physical damage to motor vehicles occasioned in collisions, are projected to be \$332 million in 2014/15, an increase of \$57 million over the four year period from 2010/11. The Corporation attributed the increase in collision costs to, in the main, higher associated repair costs for new vehicles.

Comprehensive claims costs, which represent the costs of physical damage to motor vehicles occasioned by fire, vandalism, theft and severe weather, are forecast to be \$73 million in 2013/14 and are projected to increase to \$76.4 million in 2014/15, an increase of 4.5%.

Accident Benefits are payable to claimants regardless of fault for a collision, including Medical Expenses, Rehabilitation Expenses, Funeral Expense Reimbursement, Death Payments, Impairment Benefits, Income Replacement Indemnity and Personal Care Assistance expenses.

The following table compares actual PIPP Accident Benefit costs with those previously forecast by the Corporation:

Year Ended February 28, 29	Original Forecast	Revised Forecast	Actual Cost	Difference Original/ Actual
2007	\$221.2	\$226.2	\$184.6	\$36.6
2008	\$237.3	\$231.3	\$167.2	\$70.1
2009	\$242.1	\$239.3	\$186.1	\$56.0
2010	\$249.8	\$236.2	\$175.0	\$74.8
2011	\$252.9	\$244.6	(\$59.7)	(\$312.6)
2012	\$253.3	\$197.3	\$222.8	(\$30.5)
2013	\$203.5	\$204.2	\$224.2	(\$20.7)
2014	\$210.9	\$208.5		

Under PIPP, compensation may be paid on a third party basis to individuals injured in accidents occurring outside Manitoba. The cost of this coverage is anticipated to decline to \$4 million for fiscal 2014 and remain constant at that level for fiscal 2015.

Current fiscal period Claims Incurred are affected by current year's claims activity as well as prior years' claims activity. When a claim is first incurred, claims adjusters make an estimate of the ultimate cost of that claim. Over time, as more is learned about the nature of the underlying injury, and as partial claim payments are made, adjustments are made to that prior estimate of ultimate cost. These adjustments, sometimes called runoff, flow through Claims Incurred in the fiscal year the adjustments are made. During 2012/13, Basic's net Claims Incurred were increased by about \$41 million of net undiscounted unfavourable runoff. Previously, there was a pattern of favourable runoff experienced for several years. In particular, during the five fiscal year period from 2007/08 through 2011/12, MPI's Basic financial position benefited from about



\$625.5 million of cumulative total net undiscounted favourable runoff. Most notably, during 2010/11, Basic's Net Claims Incurred benefited from about \$286.1 million of total net undiscounted favourable runoff.

Early in 2013/14, MPI conducted a detailed case reserve review, which led to a significant increase in posted case reserves. Any subsequent valuations of Basic claim liabilities will need to properly account for this reserve review, or otherwise risk introducing unnecessary conservatism (redundancy) in the claim liabilities.

The Board's first opportunity to review the details of the increases will be filed with the next GRA, as reflected in the valuations as at October 2013 and February 2014. If there is a redundancy, forecasted Net Income in 2013/14 would be affected positively, as well as future years' Claims Incurred forecasts.

### **3.2 Claims Expenses**

Claims Expenses, the administrative costs associated with processing and settling claims, account for approximately 13% of Basic program costs. The Corporation is forecasting increases going forward as reflected below. The Corporation attributes these increases to higher data processing costs and employee benefit costs allocated to claims staff. While the Application is forecasting lower claims expenses than the previous year's application for the same periods, claims expenses are forecast to be \$110.7 million in 2013/14 and are projected to grow to \$118.4 million in 2014/15, an increase of 6.9%.

### **3.3 Operating Expenses**

Operating expenses attributed to the Basic program have experienced significant growth; from \$41.2 million in 2008/09, to \$65.4 million in 2012/13. This equates to a compound annual growth (CAGR) of 12.2% per year from 2009 to 2013. Operating Expenses are forecast to be \$66.7 million in 2013/14 and are projected to be \$69.9 million in 2014/15. The increase in operating expenses is partly attributable to higher amortization costs from improvement initiatives, higher data processing costs and compensation.

A summary of Basic operating expenses from 2008/09 through 2014/15 is as follows:

**Basic Operating Expenses (\$millions)**

	2008/09	2012/13	2013/14	2014/15	Actual CAGR 2009-2013	Forecast CAGR 2013-2015
Compensation	\$ 23.5	\$ 35.5	\$ 35.2	\$ 36.7	10.9%	1.7%
Data Processing	4.6	6.9	6.8	6.2	10.4%	-5.6%
Special Services	1.8	2.3	2.7	2.8	6.4%	9.1%
Amortization - Deferred Development	---	2.8	2.8	4.3		23.6%
Other	11.3	17.9	19.2	19.9		
Total	\$41.2	\$ 65.4	\$ 66.7	\$ 69.9	12.2%	3.4%

Between 2008/09 and 2012/13, Basic compensation expenses increased by over 36%, having grown from \$83.4 million in 2008/09 to \$113.8 million in 2012/13. This increase represents a CAGR of 8.1% per year which is well in excess of annual inflation over the same time period.

MPI has negotiated a 4 year deal with MGEU, from September 2012 to September 2016, providing a 2.75% economic increase in the last two years of the agreement.

MPI's normal staffing levels increased from 1,732 Full-Time Equivalent (FTE) in 2008/09 to 1,894.7 FTE in 2012/13 and are projected to grow to 1,951 FTE in 2013/14, comprised of 1,934.7 FTE in Normal Operations and 16.5 FTE in Improvement Initiatives. The majority of the increase in Normal Operations FTEs relates to staff being absorbed back in MPI's Normal Operations once special projects have been completed. There have been no staffing reductions related to IT initiatives.

MPI stated that it has shown fiscal prudence in managing its operating costs and that convenience for its customers is a priority.

### **3.4 Information Technology Expenses**

Over the course of the last year, MPI has pursued IT projects targeted towards upgrading current IT infrastructure, reliability, business continuity, disaster recovery, future service delivery and physical damage reengineering. In addition, MPI has pursued an HRMS (Human Resource Management System) project to bring its payroll processes in-house, which cost 60% more than the budget presented at last year's GRA (\$16 million versus \$10 million), and which cost the Corporation approximately \$8,261 per employee.

MPI's IT spending continues to exceed that of its peer groups, as reflected in the Gartner Benchmarking Study filed by MPI, although the disparity between MPI's spending and that of its peers has, on the whole, improved over past years. Gartner has recommended that MPI implement strategies to sunset redundant technologies.

MPI stated that it has a record of extremely successful management of over \$150 million in IT projects over the last several years and that the HRMS project is the only one which has not shared that record. MPI acknowledged that its IT expenses are higher than the comparators in the Gartner report, but states that its overall expenses are lower than benchmark as reflected in the Ward Group report. MPI stated that enhanced and stable IT systems (replacing its outdated systems), will ensure that it will be able to provide customers with uninterrupted service and an improved network infrastructure that can support future demands. MPI stated that its IT platforms are now almost up to date and stable so that the Physical Damage Re-engineering Program can be launched to enhance customer service and reduce costs.

### **3.5 Benchmarking**

The Board has commented in many past Orders that MPI should conduct some form of benchmarking with respect to its expenses. The Corporation has stated that it has historically utilized three benchmarks to gauge its performance, as follows:

- Charge rates that are on average lower than those charged by private insurance companies for a comparable price and coverage;
- Ensure that Basic returns at least 85% of premium revenue to Manitobans in the form of claims benefits; and
- Ensure that the Corporation's annual increases in the Consumer's Price Index for auto insurance are less than those of the rest of Canada.

In Order 157/12, the Board ordered the Corporation to develop productivity factors to enable the assessment of the cost containment measures. The Board does not quarrel with the three benchmarks referenced above, but again notes that none of these benchmarks relate to cost controls, and it is benchmarking in that particular area that the Board believes is necessary. This year, the Corporation provided a report prepared by the Ward Group, reflecting a comparison of the Corporation to other auto insurers. The Ward Group report shows that the Corporation's Total Operating Expenses as a percentage of premiums written are below the comparators' (the Canadian Auto Group). The Corporation's Support Expenses, relative to Human Resources and Information Technology, are, however, in excess of those of the Canadian Auto Group, and, in the case of Information Technology, are well in excess (MPI is at 5.05% compared to the Canadian Auto Group at 3.43%). Almost every metric presented by the Ward Group relative to Information Technology expenses reflects that MPI is outperformed by the Canadian Auto Group.

The Corporation also provided this year an updated Gartner report including the CIO Scorecard, reflecting benchmarking in respect of various elements of Information Technology costs. Although MPI's position has improved from last year, it remains above the Peer Group in terms of spending. In particular, MPI's IT spending per company employee is \$43,243, compared with the Peer Group for whom spending is \$21,248, such that MPI's spending is 50.9% higher than the Peer Group. MPI's "Change the Business" IT budget is 49.8% above the Peer Group while the IT "Run the Business" spending was 10% above the Peer Group. Gartner also noted that as MPI's offerings and customer service capabilities become more technology dependent, the number of IT FTE's will increase to support a larger IT footprint.

The Corporation also cites Internal Trending - a productivity-based key performance indicator framework to evaluate its key customer processes and cost control measures. The productivity factors that the Corporation has identified are in the following areas: Injury Claims Management, Contact Centre and Physical Damage Management.

With respect to Injury Claims Management, the Corporation implemented the BI3 initiative in 2010, designed to enable MPI staff and service providers to manage claims more efficiently. The Corporation has identified that timeliness of payments, accessibility and injury recovery are the elements that directly influence customer satisfaction and experience ratings with MPI. Key performance indicators have yet to be provided.

With respect to Contact Centre, the Corporation is tracking volume and duration of calls and has consolidated the systems available at its help desk.

With respect to Physical Damage Management, the Corporation is tracking new claims reported as well as estimates completed and related metrics. Key performance indicators have yet to be provided.

### **3.6 *Interveners' Positions***

#### **CAC**

CAC stated that there may be issues with the IBNR ("Incurred But Not Reported") provision within the Corporation's unpaid claim liabilities, resulting from changes to case reserves for bodily injury.

CAC stated that MPI's controllable expenses are growing in excess of inflation and noted a projected 60% increase in operating expenses over 6 years from 2008/09. CAC stated that traditionally for regulated utilities, the rate of inflation should provide guidance relative to increases in operating costs, and expressed concern that the growth of MPI's operating and claims costs far exceeds inflation. CAC stated that going forward, it is very important that inflation guidance be brought back into the analysis of MPI's operating costs. CAC noted that operating costs are within MPI's control, and stated that MPI is not fulfilling its onus to maximize benefits to ratepayers.

With respect to Risk Management and the IT systems implemented by MPI, CAC questioned whether MPI's management can maintain the new IT systems once the external consultant has left. CAC asked that the Board direct MPI to file a detailed framework in terms of identifying, quantifying, mitigating and monitoring its risk, including how it plans on managing IT systems in-house once consultants depart. CAC expressed concern that the level of IT expenditures by MPI have not resulted in any staffing savings and noted that with respect to Process Management and Cost Containment, MPI scored poorly on the Gartner Report.

CAC stated that the cost of the HRMS system was exorbitant, and that the result has provided insufficient benefits to the Corporation relative to the cost of the project. With respect to IT

expenditures as a whole, CAC noted that the costs growth is quite stark, representing a CAGR of 10.8%pa, and that IT costs are projected to increase to \$74.8 million through 2017/18.

CAC questioned the benefit to ratepayers arising from these expenses and questioned whether productivity and efficiency savings may be found, particularly given that there has been no corresponding staffing reduction.

CAC asked that MPI be directed to develop an IT five year strategic plan, including cost-benefit analyses, justifying its current and future expenses. CAC also recommended that the Board find that there is room for improvement for MPI in terms of cost containment and business process management and that the Corporation has yet to demonstrate appropriate financial payback to ratepayers from its projected IT expenditures. Lastly, CAC recommended that the Board express concern with the ongoing growth in operating and claims costs well in excess of inflation and that the PUB express the expectation that future operating costs will track to inflation.

With respect to benchmarking, CAC stated that it was not impressed with MPI's progress, given that the key performance indicator framework has not been finalized with respect to Injury Claims Management and Physical Damage Management. CAC expressed uncertainty regarding whether Board Order 157/12 will be complied with by MPI. CAC also noted that with respect to the BI3 initiative, the Board had expressed an expectation that the information would be used to accurately benchmark the outcomes of MPI with other similar organizations. The Board expected that the Corporation would be able to reduce disability durations and to optimize claimants' recovery time.

CAC recommended that the Board direct MPI to file at the next GRA a benchmarking framework along with benchmarking indicators to which the Corporation intends to be held accountable.

## **CMMG**

CMMG stated that there is a conservative bias that is affecting negatively all motorists in Manitoba and cited the historical release of \$250 million in case reserves. CMMG stated further that there is ongoing conservatism as evidenced by the Corporation's stated target for an RSR balance of \$172 million.

CMMG stated also that a review of loss ratios shows that the current methodology is not accurate, the result almost always being that too much premium is collected. CMMG also cites case reserving, developmental factors, PFADs for interest rates, PFADs for collection of receivables and a number of other sources as “pads” enjoyed by MPI.

### **3.7 Board Findings**

It is the view of the Board that MPI must examine its claim liabilities regarding ongoing conservatism within its forecasting, and directs MPI to file the valuation treatment of the results of the early 2013/14 case reserve review at next year’s GRA.

With respect to Operating Expenses, in Order 162/11, the Board expressed its keen interest in reviewing the Corporation's operating expenses and assessing them for prudence and reasonableness, in conjunction with the fulfillment of its mandate. The Board also expressed the view that both service delivery and cost containment can co-exist and stated that cost restraint is imperative. The Board stated that it was apparent that MPI had not taken significant steps to restrain costs and in fact had not only increased its costs in some areas but planned for further staff complement increases. The Board noted that it was concerned about MPI's operating and personnel compensation costs increasing well in excess of inflation, particularly given the restraints being implemented in other areas of public service. The Board also expressed the view that the Corporation did not have close controls on its operating expenses, and that it did not appear that cost control was a significant priority for the Corporation.

Despite all of the foregoing having been stated by the Board in its prior Order, the Corporation’s approach to operating expenses appears to have remained unchanged. The Board continues to have significant concerns that there have been no savings in operating expenses over the last two years, and that the growth rate continues to be higher than inflation. It is the view of the Board that the Corporation must control its expenses, and reverse the trend of ongoing growth in expenses over time. The Board also has concerns with respect to the Corporation’s staffing levels, which have continued to increase.

The Board requires that the Corporation review its efficiencies on a go-forward basis, and the Board believes that the Corporation can take steps to rein in its operating expenses. The Board is of the view that the Corporation can take steps to reduce its expenses to compensate for the lower rate increase being approved by the Board. The Board orders that MPI file with the Board staffing and cost control results at the next GRA.

With respect to IT expenditures, in Order 157/12, the Board expressed concern with respect to MPI's level of spending; although savings have been identified, the Board stated that MPI needed to remain vigilant in controlling its IT spending. The Corporation did not provide evidence at this year's GRA that it is controlling or attempting to restrain its IT costs, and the Board is very concerned about cost overruns. The Gartner report filed this year indicated that MPI has poor control over its IT spending versus peer groups; even though its relative position has improved over past years, it remains at the high end of the peer group with respect to spending. MPI has not demonstrated the benefits of its IT investments, including any financial paybacks.

The Board directs MPI to file at next year's GRA a five-year IT strategic plan, including a cost-benefit analysis, justifying its current and future IT expenditures.

With respect to benchmarking, the Board acknowledges that the Corporation is doing more than it has before, but the Corporation does not have a cost containment framework in place to the same extent as it does a service commitment framework. The Board continues to be of the view that there is a clear need for further benchmarking within the Corporation, and notes, with respect to BI3, that the Board had indicated previously an expectation that the information gleaned by MPI would be used to benchmark its outcomes with those of similar organizations, with a view to reducing claimants' disability durations and optimizing their recovery time. This has not yet occurred, and the Board orders that MPI file, at the next GRA, a benchmarking framework, along with benchmarking indicators to which the Corporation intends to be held accountable. It is the view of the Board that the most appropriate benchmark relative to operating expenses is for the Corporation to compare itself with other public insurers. In addition, MPI needs to benchmark the productivity of its employees both in relation to their own performance over time and in comparison with employees of other public insurers.

The Board must also continue to examine MPI's Operating Expenses and IT Expenses in the context of services and products available to Basic ratepayers and any improvements to those services and products. In other words, what benefits, advantages or conveniences accrue to Basic ratepayers on account of the expenses incurred by MPI? The Board directs MPI to include in the next GRA filing the details of steps that it has taken or intends to take to improve or enhance the services and products being offered to Basic ratepayers.



## **4.0 INVESTMENTS**

### **4.1 *Investment Portfolio***

The Corporation's overall investment portfolio was just over \$2.3 billion as at February 28, 2013. The funds available for investment by the Corporation are primarily unearned premiums and unpaid claims.

The management of MPIC's assets must be managed in accordance with the Investment Policy Statement which has been approved by its Board of Directors. For example, the Policy Statement limits the cash held in the portfolio to 3%.

The information available at the time of the hearing disclosed that MPI's portfolio is comprised of 58.7% in long-term bonds, 24% in equities, 6.7% in cash and short-term investments, 9.5% in real estate, 0.2% in venture capital, and 1.0% in infrastructure investments. Within MPI's investment portfolio, due to its weighting to long-term bonds, the investment returns are impacted materially by changes in interest rates (when rates fall, market value of bonds rise; when rates increase, the market value of bonds fall). MPI was holding an unusually large cash balance in the portfolio due to the low interest rate environment, anticipating investing such funds when interest rate returns increase. By May 31, 2013, cash was reduced to 0.8%.

MPI also made the decision to sell off its current passive US equity investments in 2013/14 as they were no longer paying dividends. MPI intended on reinvesting in Exchange Traded Funds (ETFs) or a similar investment vehicle that will generate ongoing dividend returns of approximately 2.4% annually. The sale of the U.S. equity investments realized a corporate gain of \$55.6 million. MPI indicated that the U.S. equity portfolio was rebalanced from its weighting of 7.7% of the total portfolio to a target weight of 5.0%.

By the end of 2014/15, the Corporation is forecasting to have an investment portfolio of \$2.4 billion with the percentage allocated to long-term bonds forecast to grow to 61.1% of the portfolio.

## **4.2 Investment Returns**

MPI's portfolio is weighted towards long term bonds; some of which are marketable. A change in interest rates changes the value of the marketable bond portfolio, and also changes the amount of the claims liabilities

If interest rates go up, marketable bond values fall, as do the discounted value of the claim liabilities. If rates fall, bond values and claims liabilities increase. The effect of these changes can, to a large extent, largely offset each other if managed appropriately so that the net impact on financial results is neutralized. If there is a mismatch between the duration of claims liabilities and bond investments, the net effect can mean increased gains or losses relative to a neutral situation. Furthermore, if there is a difference in the dollar amount of the liabilities or bond investments, the net effect may not be neutral. For example, the value cash assets are not impacted by an increase in interest rates and the cash can later be used to buy assets which generate higher interest income. If it is anticipated that interest rates will increase, cash levels can be increased while waiting to purchase bonds that will be cheaper because of higher rates and that will generate higher income because of higher rates.

If, however, rates decrease relative to the forecast used to support a rate application, mismatching of durations will have the opposite effect if claims liabilities are longer than marketable bond duration. The increase in the value of the bonds is less than the decrease in the value of claims liabilities; financial results would then be worse than anticipated and, as a consequence, could lead to increased insurance rates. An excessive cash position in this situation would amplify this negative outcome. Furthermore, excess cash would have to be invested at lower rates, potentially for bonds selling at a premium to their value at issuance.

MPI is now modeling changes in the fair market value of its marketable bonds; the changes to bond values flow through Net Income because those assets are categorized as Fair Value Through Profit and Loss. Operating results are very sensitive to interest rate changes, including the timing and the amount of the rate changes. Basic Net Income is very hard to forecast accurately because it is hard to predict the amount and timing of assumed interest rate changes.

The Corporation's Investment Policy Statement allows for a duration mismatch of up to 2 years. MPI has currently positioned itself such that the average duration of bonds is less than the average duration of claims liabilities because it expects that interest rates will increase. This

means that an increase in interest rates will benefit Net Income, because the drop in value of marketable bond investments will be less than the decrease in value of discounted claims liabilities.

Duration matching of investments and claims liabilities does not mean that Net Income is immunized against interest rate changes; since only average durations are being matched, not the cash flows underlying those durations. Matching cash flows is a more complex and a more effective alternative in order to immunize Net Income.

The effectiveness of duration matching is also complicated by the fact that the Corporation's investment portfolio is managed for the Corporation as a whole, and Basic's portfolio is not separately managed. Furthermore, a big part of the fixed income portfolio supporting the claim liabilities is in non-marketable (i.e., MUSH) bonds, which are not interest rate sensitive (their value does not fluctuate with changes in interest rates); these assets are categorized as Held to Maturity.

MPI also states that the greater duration mismatch (with assets shorter term than liabilities) results in more favourable results for the Corporation if interest rates rise (the drop in value of the asset is less than the decrease in liabilities). MPI has managed the duration match of the bond portfolio in anticipation of rising interest rates; this is an active strategy developed by the ICWG. The Corporation states that next year, should interest rates start to stabilize, and not go up or down dramatically, then it is to the Corporation's benefit to reduce interest rate risk and move the durations closer together. This is something that the Corporation will monitor closely going forward.

Compared to the approach put forward in the GRA, if perfect duration matching had been in place, and given the projected interest rate forecast, Net Income would have been projected to be lower by more than \$8 million. Based on the original April 2013 interest rate forecast, the overall rate change applied for by the Corporation would have had to be increased by 0.5%, to 2.3% (from 1.8%). Based on the September 2013 adjusted interest rate forecast, perfect duration matching would eliminate any change to the 1.8% overall rate increase that the higher interest rate forecast might otherwise have indicated.

### **4.3 Investment Management**

There is no dispute that Basic premium levels are not set to cover claims costs; rather MPI depends on investment income to break even. MPI's substantial investment portfolio is managed by the Province of Manitoba and in particular the Assistant Deputy Minister (ADM) to the Department of Finance, Mr. Gary Gibson, who testified before the Board this year. In practice, Mr. Gibson manages the portfolio jointly with MPI through a committee known as the Investment Committee Working Group (ICWG), which is co-chaired by Ms. Heather Reichert, the Vice President of Finance and Chief Financial Officer of MPI.

The ICWG provides support and advice to the Minister of Finance with respect to MPI's investments, including with respect to MPI holding excess cash. The ICWG seeks consensus between the Department of Finance and MPI on recommendations to be provided to the Minister of Finance on investment decisions. Mr. Gibson advised the Board that the ICWG is responsible for MPI's investment returns, but that ultimate responsibility rests with the Minister of Finance.

### **4.4 Investment Income Forecasting**

The Corporation has proposed a new methodology by which to forecast its investment income. The methodology put forward by the Corporation now measures the impact of interest rate changes on investment income and claims liabilities, whereas the methodology employed by the Corporation previously did not do so. Previously, the Corporation relied upon a matching strategy pursuant to which changes in the valuation of claims liabilities were assumed to be offset to a significant degree by changes in the valuation of marketable bonds.

The Corporation also stated that higher interest rates will result in favourable changes to its investment income and claims liabilities, such that a 50 Basis Point increase in interest rates will result in \$27 million in additional net income to Basic. Conversely, a 50 Basis Point reduction in interest rates will reduce net income by \$23 million.

The new methodology put forward by the Corporation includes utilizing a five-year growth forecast from the five major Banks and Global Insight (based on a forecast from April 2013) and projecting that forecast growth over ten years, effectively halving the growth rate. The Corporation is also utilizing a 1st percentile 20 year minimum for Equity Return (6.2%), as opposed to the 5th percentile 20 year average return (7.2%) previously approved by the Board.

The Corporation has stated that interest rate forecasters have historically shown rate increases of 300 Basis Points over a five year period, and that their forecasts have been incorrect (actual rates have been significantly lower than projected). MPI has adopted a more conservative forecasting methodology in order to mitigate the downside risk of rate decreases which negatively impact financial results but that still takes advantage of the expected benefit from the anticipated increase in interest rates. MPI has stated that the current methodology represents a best estimate taking into account the risk tolerances of the Corporation.

The Corporation acknowledges that it does not have expertise in interest rate forecasting but states that it has an in-depth understanding of the interest rate risks which it faces.

The Corporation stated that if actual interest rates turn out to be higher than what it is forecasting, the increase will assist MPI in rebuilding the RSR to the target point that it believes the RSR balance should be, and asks the Board to consider what level of interest rate risk it is willing to accept for the Corporation. The Corporation has advised the Board repeatedly that if the Board does not accept the proposed interest rate methodology and the forecasted interest rates based on the higher rate forecast do not materialize, the Corporation may seek a larger rate increase next year together with an RSR re-building surcharge. MPI stated that the rate indication (1.8%) would not be impacted significantly if interest rates are adjusted to take into account the September 2013 interest rate update (interest rates have increased relative to the values used to support the application).

The Board heard evidence that the cash levels held by the Corporation have exceeded the maximum allowed by the Investment Policy Statement; the cash and short-term investments portion of MPIC's portfolio was 6.7%; the maximum allowable is 3%.

#### **4.5 *Interveners' Positions***

##### **CAC**

CAC stated that investment income management rests primarily with MPI and that it appears to be MPI that is “driving the bus” in terms of making investment decisions. Certainly, through its contributions to the ICWG, MPI plays a central and key role in management of the portfolio, including rebalancing. The evidence reflected that the ICWG makes decisions by consensus, and Mr. Gibson could not recall a situation where there was no consensus among the group.

Mr. Gibson also testified that it is MPI's decision when a portfolio composition analysis report should be commissioned. CAC stated that given the passage of time since the AON Report was provided to the Board regarding the composition of MPI's investment portfolio, it would be prudent for the Corporation to have an updated portfolio review in the near future. CAC also noted that pursuant to the Terms of Reference for MPI's Investment Committee, it is responsible for establishing the actual criteria and mechanisms for assessing the effectiveness of MPI's investment policy, including investment strategies and parameters, in consultation with MPI's Board. As such, the PUB could find that the Investment Committee is responsible for establishing the actual criteria and mechanisms for assessing the effectiveness of its investment policy.

CAC recognized the likely benefit to the Corporation of a duration mismatch in a time of rising interest rates and understands MPI's interest in taking advantage of the mismatch. CAC recommended that MPI bring forward a discussion paper on duration matching of its investment portfolio.

CAC stated that the proposed interest rate forecasting methodology put forward by the Corporation reflects stale-dated information and should be updated. CAC also stated that MPI is over-relying upon corporate judgment which is not reliable for forecasting interest rates. CAC rejects MPI's judgment methodology and notes that interest rate forecasters have been adjusting algorithms and MPI has not tested how forecasters have adjusted their forecasts for changing information.

CAC noted that MPI is proposing a change from its standard approach to placing total reliance upon one forecaster beyond the test years, which CAC characterized as an abrupt break, moving from six forecasters to one. CAC proposed the use of the Board approved interest rate forecast methodology from the Centra Gas and Hydro hearings; namely that the highest forecaster be removed from the forecast for interest rates, that a consensus based forecast be used based on the most current information, that there be an ongoing process to test the results of the forecast retroactively, that more than one long term forecast be used to identify outliers and that statistically independent forecasts be used.

CAC stated that the Canadian Equity return forecast represents a conservative estimate not a best estimate and that the equity return estimate should be based on 5th percentile of 20 year return as directed by the Board in Order 157/12.

#### **4.6 Board Findings**

The Board has some concerns given MPI's partial withdrawal from U.S. markets and lack of investment in foreign markets. Given the size of the Corporation's portfolio, the Board is of the view that all investment options should be considered seriously. This is particularly so given the changes in interest rate environment over the last five years.

The Board feels strongly that MPI ought to have the composition of its investment portfolio reviewed by an external expert consultant, with a view to determining whether the current asset mix should continue, or should be revised. Given the importance of investment income to the financial performance of Basic, and given the evidence of Mr. Gibson that triggering a portfolio review is MPI's decision to make, the Board directs MPI to do so. Furthermore, the review should encompass an examination that generates recommendations for improving the management of the portfolio, including strategies to manage the volatility of the portfolio, given that the volatility in the value of the investment portfolio is one of the major risks faced by the Corporation.

The Board notes that despite MPI's Investment Policy Statement, which sets out the allowable asset percentage ranges are set out, the Corporation is holding cash in excess of the allowable range. Mr. Gibson testified that non-compliance with the IPS was discussed with the Deputy Minister of the Department of Finance, but it is the view of the Board that, in instances wherein

the IPS allowable ranges are exceeded, either the IPS should be revised, or a specific process should be triggered whereby an exception to the parameters of the IPS is reviewed and approved through a formal process with clear delegated authorities for the individuals involved.

In addition, the Board notes that MPI is holding excess cash due in anticipation hope that interest rates will increase, such that MPI will recover additional funds to offset some of the losses that it incurred when interest rates dropped. In the view of the Board, it is not appropriate for MPI to speculate on increasing interest rates, thereby risking ratepayers' funds. Rather, it should seek to immunize itself to the extent possible from the impact of changing interest rates.

The Board expects that the legislation which allocates responsibility for MPI's investments to the Minister of Finance was established purposefully, and to create some separation between management of the portfolio and MPI itself. The Board does not disagree with the current joint approach of MPI and the Department of Finance through the ICWG, but recommends that the Province cause a process audit of the management of the portfolio to be conducted, with a view to clarifying issues surrounding the roles and responsibilities related to MPI's investment portfolio. In addition, a process audit would ensure that best practices are being followed with respect to MPI's investments, including steps to be taken when any one of its asset classes exceeds the target range provided for in the Investment Policy Statement.

It is the view of the Board that the Corporation's current approach to duration mismatching makes it too vulnerable to interest rate risk. The Board believes that the Corporation should match exposures, including cash flow, beyond duration matching on a go-forward basis. The Board directs MPI to submit a discussion paper of the duration matching of its claims liabilities and investments as part of the next GRA.

With respect to interest rate forecasting methodology, the Board is of the view that it has insufficient evidence upon which to make a decision. The Board has reviewed the option that MPI put forward, including MPI Exhibit 8 which reflects its predictions with respect to interest rate activity, but the Board has heard no expert evidence with respect to interest rate forecasts as it did in the Centra Gas and Hydro hearings prior to making a decision with respect to interest rate forecasting methodology.



It is the Board's view that there should be more discussion and analysis with respect to interest rate forecasting, which could be accomplished in the context of a Technical Conference. The Board directs, therefore, that MPI conduct a Technical Conference take place on or before February 28, 2014, immediately following the DCAT Technical Conference referenced below. At the Technical Conference the parties to the GRA, and any experts that they may wish to engage, shall discuss interest rate forecasting methodology alternatives for the Corporation

The Board notes that if the Corporation's current interest rate forecasts do not materialize, such that the RSR balance decreases, the Corporation has the option of transferring to Basic excess retained earnings from the Extension and SRE lines of business. The policyholders within Extension and SRE are almost all Basic policyholders, and a transfer of funds would avoid MPI seeking a larger rate increase or RSR re-building surcharge next year, as it has stated that it may do if its interest rate forecasts do not materialize.

## **5.0 RATE STABILIZATION RESERVE**

### **5.1 *RSR Balance***

The stated purpose of the Rate Stabilization Reserve (RSR) is to protect motorists from rate increases made necessary by unexpected events and losses arising from nonrecurring events or factors.

Total Basic Retained Earnings were \$141.4 million in 2012/13, after a net loss in Basic of \$72.2 million. With Accumulated Other Comprehensive Income (AOCI), Basic Retained Earnings were \$225.8 million as at February 29, 2013.

A summary of the retained earnings balances for the automobile division by lines of insurance business from fiscal 2011 through fiscal 2016, on the basis of the application as filed, is as follows:

	Actual		Forecast	Projected	Outlook
	2012	2013	2014	2015	2016
Years Ending February 28/29					
RSR opening balance	\$206	\$214	\$142	\$147	\$139
Net income (loss)	\$22	(\$72)	\$5	(\$7.5)	\$2
Premium Rebate	(\$14)	-	-	-	-
<b>Total Basic RSR</b>	\$214	\$142	\$147	\$139	\$141
Other Retained Earnings	\$160	\$184*	184*	184*	184*
<b>Total Retained Earnings</b>	\$374	\$326	\$331	\$323	\$325

\* Forecast information for competitive lines is not provided. For the purposes of this analysis, the Board has assumed no change in the other retained earnings from 2012/13.

On an overall basis, the Corporation had retained earnings of almost \$325.4 million for all lines of business on February 29, 2013, or \$429.9 million including AOCI. MPI has established a DCAT based RSR target in this application totaling \$172 million which, when combined with retained earnings targets established for the other lines of business, creates an aggregate Corporate target of \$244 million.

## 5.2 RSR Target History

Historically, the Corporation and the Board have, at times, had differing perspectives on the appropriate target amount for the Basic RSR, and at various GRA hearings the Board has heard evidence on which of a variety of methodologies should be used to set the RSR target amount.

In Order 161/09 the Board noted that consensus could not be reached on what methodology to employ so the Board reset the RSR target based on the "Kopstein" approach (the 1989 Report of the Autopac Review Commission, commonly referred to as the Kopstein Report), of 10 - 20% net written premiums (vehicle and driver premiums), on the basis that this methodology would be clearly understood by all parties. The RSR range established pursuant to this Order was \$77 million to \$154 million, and the Board also ordered that each of the Dynamic Capital Adequacy Test, Minimum Capital Test and Risk Analysis/Value-at-Risk be filed on no less than a triennial basis to test against the RSR established target.

In Order 157/12, the Board stated that the DCAT methodology is an improved approach for determining the target for the RSR over the current methodology, however, the Board found that further analysis and discussion is needed, particularly in relation to the adverse scenarios used in the DCAT and the methodology construct, before such an approach should be utilized for rate-setting purposes. The Board ordered that a Technical Conference take place to discuss, as between the parties to the GRA, the adverse scenarios and methodology construct being utilized currently by the Corporation within the DCAT, with a view to refining the adverse scenarios and gaining a better understanding of the DCAT modeling process.

That Technical Conference commenced on April 18, 2013, and continued for two days. Over the course of the Technical Conference, it became apparent that MPI had yet to include modeling of its balance sheet within the DCAT. The Technical Conference was adjourned pending the inclusion of the balance sheet in order that completion of the testing of plausible scenarios could be completed.

MPI has stated that the DCAT is directly responsive to the risks of MPI and has asked the Board to adopt the DCAT methodology to determine the Basic RSR target for 2014/15, of \$172 million. MPI has also advised that the balance sheet will be included in the financial modeling next year. MPI stated that is not necessary to have the balance sheet included prior to approving the DCAT, given that claims liabilities are already calculated, MPI's investment income forecast considers changes in fair market value of assets, the DCAT adverse scenarios provide an impact upon the RSR and the Board does not utilize MCT to determine the RSR target.

MPI stated that AOCI should not be used for RSR target determination, though it should be considered for determining rebates and surcharges. MPI also stated that AOCI should not be considered for rate setting as it does not represent real (since not realized) income, and that to do so would result in higher volatility in rates.

MPI does not believe that implementation of an RSR range is optimal, and prefers a target number driven by the DCAT. MPI suggested, if Board wants to establish an RSR range, that the minimum should be \$172 million, and that the range should be used only for determining rebate or rebuilding strategies. MPI also stated that if the Board prefers a range, it should be based upon actuarial guidelines of a 1 in 20 to 1 in 100 probable event.

### **5.3 *Intervenors' Positions***

#### **CAC**

CAC stated that the DCAT should not be used for setting the RSR target until outstanding issues still to be addressed at the Technical Conference, and that it did not call a witness at the GRA hearing because of its expectation that the DCAT Technical Conference would be resumed. CAC stated that unresolved issues flowing from the Technical Conference remain, including with respect to the Corporation's risk tolerance, balance sheet forecast and the fact that no formal validation testing of the financial model has been completed. CAC stated that if the model is not provided, it may resort to developing its own models to test MPI's assumptions.

CAC recommended that the DCAT Technical Conference be resumed and stated that AOCI should be addressed at the resumed Technical Conference; while MPI has sufficient reserves, they are clearly more than sufficient if AOCI is considered.

#### **CMMG**

CMMG stated that an RSR of \$172 million as proposed by MPI is excessive, and that the Corporation is seeking to build up reserves for events that may never happen in lifetime of ratepayers. CMMG recommended an RSR target of no more than \$100 million.

#### **CAA**

CAA stated its belief that retained earnings in the RSR are already at unnecessarily high levels.

### **5.4 *Board Findings***

In Order 157/12, the Board ordered that a Technical Conference take place to discuss, as between the parties to the GRA, the adverse scenarios and methodology construct being utilized currently by the Corporation within the DCAT, with a view to refining the adverse scenarios and gaining a better understanding of the DCAT modeling process. As reflected above, that process has begun but is not yet complete, and all parties, including MPI, remain willing to complete it. It is the view of the Board that a continued Technical Conference would assist the Board in deciding whether it wishes to review alternate plausible adverse scenarios at

the next GRA. The Board also notes that the interveners' experts have not tested the combined scenario approach, and that the relationship between low, sustained interest rates and low equity returns may not be consistent.

In addition, the Board finds that there remains a lack of transparency within the model including with reference to how plausible adverse scenarios are developed and how the model handles changes in assumptions.

On the basis of the foregoing, it is the view of the Board that it is premature to adopt the DCAT approach for the purposes of setting the RSR target or target range. The Board therefore orders that the Technical Conference continue, on the following terms, unless otherwise agreed to by the Board:

- Updated modeling, inclusive of balance sheet and AOCI, per the recommendation of MPI's external actuary, Mr. Joe Cheng, be provided by MPI on or before January 24, 2014. To the extent that MPI needs to engage an outside consultant(s) to complete that work by that date, it should do so;
- Continuation of Technical Conference to be completed by February 28, 2014; and
- Revised DCAT, including changes discussed at the Technical Conference, to be filed by July 15, 2014.

For 2014/15, and pending the Board's determination of the RSR target, the RSR target range will continue to be calculated on the basis of the Kopstein approach as approved by the Board previously.

As in the past, the Board has looked to the overall financial strength of the Corporation in establishing rates. The Board notes that on an overall basis MPI is in a financially strong position with retained earnings of over \$325 million, compared with MPI's identified retained earnings targets which in aggregate are about \$244 million. As such, on a Corporate wide basis and exclusive of AOCI, MPI has excess retained earnings of \$81 million beyond target in its Extension and SRE lines of business. The Board repeats its belief expressed last year that MPI should develop a strategy for the disposition of these excess funds to the benefit of its ratepayers. The Board again notes that the vast majority of Extension customers are Basic ratepayers and that MPI's dominant market position supports Extension and SRE lines; the benefits that flow to Extension from this integrated relationship with Basic has been an issue

raised by the Board and Interveners. The Board will continue to explore this issue at the next GRA and recommends that the Province of Manitoba direct MPI to put forward to the Board a strategy to deal with its excess retained earnings in its competitive lines.

## **6 INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

### **6.1 IAS 19**

International Accounting Standard 19 governs accounting for employee future benefits under IFRS. Currently, all changes in actuarial evaluations, related to current service costs, interest and actuarial gains and losses flow through net income. This new standard will require that actuarial gains or losses be reflected in other comprehensive income rather than in net income.

As such, MPI will have a choice under the new standard to either show any reclassification of actuarial gains and losses within equity as retained earnings or disclose them separately as a component of equity within AOCI. MPI has identified \$9.1 million in actuarial losses as of March 1, 2013 and has proposed reclassification from RSR of that amount into AOCI, which is not reflected in the current application.

### **6.2 IFRS 4 Phase II and IFRS 9**

The changes reflected in IFRS 4 Phase II are beyond the current test year and will impact future determination of the DCAT and RSR. In particular, changes in the claims liabilities of MPI would be based on a discount rate representative of the attributes of the claims liabilities rather than the investments to meet MPI's obligations. The changes in valuation due to changes in discount rates would flow through Other Comprehensive Income rather than net income, and prior period changes that are currently reflected in Retained Earnings would be reclassified to AOCI.

IFRS 9 will give MPI the opportunity to elect to designate its marketable bonds as Fair Value Through Other Comprehensive Income (FVTOCI) if it meets criteria and any future changes in the value of marketable bonds due to changes in interest rates would be realized in Other Comprehensive Income rather than Net Income. The changes in claims liabilities will be offset by changes in the investment portfolio, all in Other Comprehensive Income, not net income.

MPI's current financial model for investment income will have to change, as any changes in fair market value would no longer flow through Net Income into RSR but through Other Comprehensive Income and into AOCI. This change will impact the forecasting of investment income and RSR.

### **6.3 Board Findings**

The Board notes that future changes arising from IFRS will impact rate setting and may negate current strategies related to duration matching for net income purposes. In addition, there will be an impact on considering AOCI in determining the financial condition of MPI and the RSR balance.

To the extent that MPI will be making elections pursuant to these IFRS changes, the Board is a stakeholder with an interest in MPI's decision making, and directs MPI to keep the Board apprised of upcoming changes by filing with the Board a status update of upcoming accounting changes regarding IFRS and any elections that it may wish to make, as well as options being considered. In addition, the Board notes that irrespective of MPI's elections relative to IFRS, the Board may take a different approach for rate-setting purposes.

## **7 RATE DESIGN**

### **7.1 Actuarial Methodology**

The Application reflects an actuarial methodology for forecasting the required rate levels which is substantially unchanged from that used in last year's application.

### **7.2 Vehicle Classification System**

The Corporation continues to classify vehicle risk by considering insurance use, rating territories, and rate groups. Insurance use classifications categorize vehicles by the nature of the vehicle and its intended insurance use. There have been no changes in insurance use classifications in this application, except for the new insurance uses, Collector Passenger Vehicle and Collector Truck, announced by the Province of Manitoba on July 12, 2013 and referenced in section 1.0 above.

Vehicles are assigned to one of five territories in Manitoba, including a commuter territory in the areas adjacent to the City of Winnipeg, based on the primary residence of the registered vehicle owner. There have been no changes to the rating territories in this application.

### **7.3 Major Classification, Insurance Use and Rating Territory**

Historically, the Corporation determined indicated rate adjustments by Major Classification using each of three approaches: the Exponential Trend Method, the Linear Trend Method, and the Financial Forecast Method. The Financial Forecast Method was adopted consistently as the basis for the proposed rate adjustments given that the Exponential Trend Method and the Linear Trend Method are neither actuarially sound nor statistically driven, though each method was used to test the reasonableness of the outcome of the Financial Forecast Method. As reflected above relative to Claims Incurred, the Corporation has asked that the Board dispense with the requirement that these forecasts be filed going forward.

After selection of the Financial Forecast Method, the Corporation then developed indicated adjustments by insurance use categories within the Major Classifications and for each territory. To avoid rate shock, the Corporation continues to cap experience adjustments as follows: if the indicated experience adjustment is 10% or less in magnitude, the rate is adjusted by the indicated amount; if the indicated experience adjustment is greater than 10% in magnitude, the rate is adjusted by 10% plus one third of the difference between the indicated adjustment and 10%, up to a maximum of 15%.

### **7.4 Canadian Loss Experience Automobile Rating ("CLEAR")**

For passenger vehicles and light trucks, MPI uses a rating system called CLEAR, which amalgamates data from Canadian insurers and creates rate groups (99) by vehicle type for each of collision, comprehensive and accident benefits coverage. MPI combines those rate groups to produce MPI rate groups (35), which do not utilize the loss experience of other Canadian insurers. Rather, MPI applies its own experience to the rate groups, thereby recalibrating the CLEAR data.



## **7.5 Actuarial Standards of Practice**

The Application reflects the same fundamental approach to Basic ratemaking that has been employed by MPI for many years. The objective of the GRA approach is to determine the rate level change that produces an average Net Income of the two test years (in this Application 2014/15 and 2015/16) that approximates a break-even result. The Board recognizes that the forecasting of Net Income is challenging, in particular the forecasting of Claims Incurred and Investment Income, both of which are subject to considerable uncertainty, in part due to interest rate sensitivity.

MPI acknowledges that it has not prepared the GRA rate indications in accordance with accepted actuarial practice in Canada, as defined by the Canadian Institute of Actuaries, including a relatively new property and casualty insurance ratemaking Standard of Practice. In particular, accepted actuarial practice in Canada requires recognition of the time value of money, and a matching of the estimated present value of revenues and expenses (including profit) for policies to be issued in a future rating period. The issues related to interest rate assumptions for ratemaking in accordance with accepted actuarial practice in Canada are fundamentally different from those for ratemaking as done in the GRA, though there is nothing in the requirements of accepted actuarial practice in Canada which conflicts with the objective of MPI that Basic break even over a two year rating period.

MPI states that its ratemaking methodology is unique from other insurers in that the overall rate requirement and the components of the overall rate requirement are determined on the basis of break-even net income over the rate setting period. MPI states further that a ratemaking methodology based on actuarial Standards of Practice would determine the present values of the revenues, costs and profits associated with the policies being rated as the basis for the overall rate and rate indication, as opposed to the break-even net income over the rate setting period of two fiscal years.

MPI states further that using a ratemaking methodology based on the Standards of Practice would result in a higher required premium because only investment income earned from the current year's policies is accounted for, which the Corporation believes should be used as a premium offset, making its existing methodology more consistent with the goals of the Corporation. MPI has, however, undertaken to advise the Board as to the practices in this regard for compulsory coverage in each of Saskatchewan and British Columbia.

## **7.6 *Motorcycle Rates***

MPI states that the 2014/15 rate indication for motorcycles, a rate decrease of 6.0%, is attributable to lower PIPP costs due to lower interest rates, and that 85% of motorcycle class claims costs are attributable to PIPP. The serious loss frequency of the motorcycle class is 5 to 6 times higher than other vehicle groups, and there is extreme variability in motorcycle claims. For example, in 2011/12 the claims experience was \$3.2 million for 177 claims compared to \$2.9 million for one claim in 2010/11. For this reason, and to smooth the effects of this variability, motorcycle claims are averaged over a period of ten years.

MPI acknowledges that there was a significant re-evaluation of PIPP claims in 2010, which changed both the projected motorcycle loss costs and motorcycle rate indications on a go forward basis. MPI states, however, that there is no evidence that motorcyclists are treated unfairly pursuant to the ratemaking methodology.

## **7.7 *Interveners' Positions***

### **CAC**

CAC stated that themes emerged relating to the transparency of certain elements of the GRA and also to actuarial challenges relating to the determination of a rate based upon a fiscal year accounting basis. CAC stated further that while the data in terms of accident years was fairly stable, the fiscal year results were quite volatile in comparison. CAC expressed the view that employing the fiscal year basis for determining ultimate claims incurred and developing the proposed rates does not appear to be consistent with actuarial best practice.

CAC recommended that the Board direct MPI to report back, at the next GRA, regarding the ways in which it has made its Claims Incurred and Ratemaking methodology more transparent, and that it provide options for developing its Claims Incurred and Ratemaking forecasts on a basis other than the fiscal year basis, with an accompanying analysis of pros and cons.

**CMMG**

CMMG stated that the motorcycle class is discriminated against by MPI in that fire and theft coverage for motorcycles is not part of the Basic coverage, as it is for other vehicles.

CMMG also stated that as motorcyclists have other insured vehicles that they do not use while they are driving their motorcycles, the Board should recommend to Government that transferrable plates be implemented.

**7.8 Board Findings**

The Board directs MPI to report, at the next GRA, regarding the ways in which it has made its Claims Incurred and Ratemaking methodology more transparent, and also directs that it report on options for developing its Claims Incurred and Ratemaking forecasts on a basis other than the fiscal year basis, with an accompanying analysis of pros and cons of such an approach.

The Board also directs MPI to file next year's GRA to include rate indications determined in accordance with accepted actuarial practice in Canada, as defined by the Canadian Institute of Actuaries, including the Standards of Practice, and that MPI also provide to the Board rate indications pursuant to its current methodology for review. In addition, as MPI has undertaken, the Board is to be advised of the practices for compulsory coverage in each of Saskatchewan and British Columbia.

The Board is of the view that MPI must engage actuarial resources that are adequate to complete the GRA on the foregoing basis, and the Board stresses that given the nature of MPI's business as a monopoly insurer of Basic coverage in Manitoba, its actuarial resources are of great importance both to the Corporation and to Manitobans.

The Board agrees that MPI need not file the Exponential and Linear forecasts going forward, given the limitations of each of those methodologies, as well as the evolution of MPI's forecasting since 1992 when the Board ordered that the forecasts be provided. Board Order 174/92 is hereby varied accordingly. The Board has made this decision on the basis of the directive reflected above, that MPI file next year's GRA to include rate indications determined in accordance with accepted actuarial practice in Canada.

The Board finds that the methodology employed to determine rates at the major class level is even-handed and that rate indications are driven by experience. The Board also finds that there is no deliberate biasing of rating as against the motorcycle class, and recognizes that if a shorter period of experience were utilized the result would be an increase in volatility of rate indications. In other words, to respond too quickly to the latest available data would give rise over time to rate instability and potentially rate shock.

The Board is not prepared to recommend to Government that it make changes, such as changes to the fire and theft coverage, in Basic coverage relative to the motorcycle class at this time in the absence of reliable data and information that would support the making of such a recommendation.

## **8.0 ROAD SAFETY**

Road safety and loss prevention costs account for approximately 1.4% of Basic costs over the forecast period. In 2012/13, the Corporation's actual road safety and loss prevention expenses were approximately \$13.1 million, which was approximately \$1.7 million less than forecast at last year's GRA. Road safety expenses are forecasted to decrease to \$12.4 million in 2013/14, to \$11.5 million in 2014/15 and to \$10.6 million in 2015/16.

The Corporation's Strategic Plan continues to reflect that it has always had an unwavering commitment to reducing roadway risk in a manner that is supported and expected by Manitobans, and that, as Manitoba's auto insurer and as administrator of *The Drivers and Vehicles Act*, there may be opportunities to leverage this dual role to make a meaningful difference to the road safety effort in Manitoba.

In 2011, Manitobans were invited to share their views on the Corporation's role in the area of Road Safety in a Road Safety Visioning Process, through which MPI received input from approximately 1,100 Manitobans and stakeholders. The Corporation filed with the Board at last year's GRA the results of this public consultation report, which included the conclusion that Manitobans want the Corporation to strengthen its role as a strategic leader in the road safety arena, and to work with partners as the single agency to coordinate the efforts of all key players. According to MPI, there was a clear message that it should act as the central repository to facilitate the sharing of data amongst stakeholders for conducting research and making informed decisions, and to take a much more active role in road safety research.

In particular, and as a result of the Road Safety Visioning Process, the Corporation advised last year that it would engage consultants to review the Driver Education Program and consider infrastructure expenditures. Thereafter, the Corporation was directed by the Province of Manitoba not to make expenditures in infrastructure. The Corporation's has reviewed the Driver Education Program; it obtained a report from the American Driver and Traffic Safety Education Association ("ADTSEA"), prepared by Dr. Allan Robinson and Mr. Brett Robinson, referenced below.

Historically, the Corporation has concentrated its efforts on education to change motorists' attitudes in order to reduce claims incurred costs. It has focused on three areas: unsafe speed, impaired driving and seatbelt usage. The Corporation maintains that Road Safety is complex, that there can be many causes of and interdependencies between motor vehicle collisions and the injuries sustained in those collisions, and that there is no easy solution for preventing injuries sustained in motor vehicle collisions.

Certainly, there are many stakeholders who have a role in improving Road Safety, including the Corporation as well as the Province of Manitoba, various law enforcement agencies, and others. There are complex interdependencies in their relationships. MPI states that it has limited ability to improve Road Safety, and should continue to focus on the High School Driver Education Program.

MPI acknowledges that it gathers a significant amount of data and can provide a leadership role in providing Road Safety data. MPI also states that the Board does not have jurisdiction to direct MPI to undertake Road Safety initiatives including the Safe System approach referenced below.

### **8.1 *Interveners' Positions***

#### **CAC**

CAC called as a witness Ms. Mavis Johnson ("Ms. Johnson"), of the Canadian Traffic Safety Institute, a Road Safety specialist with 43 years of experience in developing, managing and participating in engineering, enforcement and education programs. Ms. Johnson testified with respect to a variety of Road Safety matters, including national and international Road Safety

good practice, the existing Road Safety and auto crime programs undertaken by MPI, the evaluation of Road Safety and auto crime programs undertaken by MPI, and the effectiveness with which MPI integrates its existing programs with other stakeholders. Ms. Johnson acknowledged that some topics relative to Road Safety fall outside of the purview of MPI.

Ms. Johnson advocated for the use of an integrated Safe System approach, which has a realistic potential to reduce claims costs over time. She also stated that the ability of MPI to optimize its Road Safety expenditures is impeded by the absence of a Road Safety strategy. She stated that, it is important for an auto insurer to critically evaluate the costs and return on investment of individual programs. She noted that for MPI, there is little information to demonstrate that individual programs, or the portfolio as a whole are designed optimally. In particular, Ms. Johnson questioned the effectiveness of the Road Safety advertising done by MPI.

CAC advised the Board that when looking at an individual program or a portfolio of programs, one must consider the outputs of those programs, but one must also go further and look at the outcomes of the programs. CAC stated that, when making decisions about how to spend scarce resources, one must consider what is being achieved through initiatives, and that MPI should perform summative outcome evaluations of its Road Safety programs. In particular, CAC stated that MPI should look at whether its High School Drivers Education program is making difference in terms of outcomes in Manitoba, and that, before adopting a Stage II Drivers' Education program, MPI should undertake a pilot to measure outcomes.

CAC also stated that MPI should adopt a Safe System Approach, noting that unsafe speed has direct costs to the Corporation of \$24 to \$40 million per year, and that the Safe System Approach plays a critical role in addressing lower speed that can reduce the tragic cost of motor vehicle accidents. CAC referenced the nuanced and versatile set of tools referenced by Ms. Johnson to combat speed, including lower travel speeds and enforcement measures, speed limits targeted for high-risk locations, the use of innovative sign warnings, electronic sign warnings, speed humps, rumble strips, pedestrian refuge islands, pedestrian crossing areas and mini roundabouts.

CAC noted that, as has been the case historically, a lack of seatbelt usage is disproportionate in rural areas within Manitoba. For example, 110 persons were killed in motor vehicle collisions in

Manitoba in 2011; roughly 68% took place in rural Manitoba. Further, from 2006 through 2010, close to 70% of fatal collisions were in rural areas. CAC stated that additional research is required and suggested that MPI should analyze the key factors contributing to fatalities on rural roads, which may be targeted for future Road Safety investments.

CAC noted that vulnerable road users (pedestrians, motorcyclists and cyclists) accounted for roughly 26% of the fatalities related to motor vehicle collisions in 2012, and asked that MPI produce, at the next GRA, updated maps of collisions and fatalities related to pedestrian and cyclist motor vehicle accidents in Winnipeg and report on any patterns. CAC also stated that MPI should reinforce the message of one meter safe passing distance between motor vehicles and cyclists.

CAC referenced the observation of Ms. Johnson that the ability of MPI to optimize its Road Safety expenditures appears to be impeded by the absence of a Road Safety strategy and noted that MPI has not conducted an overall evaluation of its Road Safety portfolio to measure cost effectiveness.

CAC asked that the Board find that MPI has not established that the current level of Road Safety expenditures is prudent and necessary, and that MPI has not established that the current portfolio of expenditures is prudently and reasonably optimized to maximize value to ratepayers or to minimize the tragic economic and social costs of motor vehicle collisions. CAC asked the Board to direct MPI to report back at the next GRA with an independent review of the current portfolio with regard to optimizing it. CAC stated that the portfolio review should consider the potential for material value added by undertaking further analysis into hotspots for rural and urban collisions including serious and fatal accidents.

CAC also asked the Board to direct MPI to report back at the next GRA with an independent review examining the optimal size of a Road Safety budget, and stated that there has been less progress in Manitoba over the past five (5) years and less relative improvement as compared to jurisdictions with strategic plans such as Alberta. CAC stated that at the heart of Ms. Johnson's evidence is a message about the need to be more innovative and more businesslike in the management of the Road Safety portfolio, and that Ms. Johnson's key contribution was to bring forward an innovative series of tools that MPI and the province can utilize in the future.

CAC also asked the Board to direct MPI to report back on how other public insurers manage their enforcement support techniques in terms of total budget, portfolio of programs, integration with advertising and program direction, and asked the Board to recommend that the Province, in conjunction with MPI and other stakeholders, consider development of a Safe System Road Safety strategy and that there be a stakeholders' meeting to discuss a Road Safety strategic plan and better coordination of efforts and spending. CAC has considered what role is appropriate for MPI ratepayers versus taxpayers, and believes that the issue of Road Safety is of such importance that all options must be considered, including innovative ways to rethink the role of the auto insurer.

### **CMMG**

CMMG expressed disappointment that the Road Safety Technical Conference did not occur, and gives MPI a failing grade for its Road Safety efforts. In particular, CMMG states that MPI does not use "hot mapping" to identify areas in which increased Road Safety efforts are needed, and that motorcycle safety expenditures are inadequate. CMMG states that MPI has no goals stated for collision reduction, and is complacent with respect to its Road Safety efforts.

CMMG stated that MPI is not effective in taking on the \$30 million per year wildlife collision problem, and noted that 1-2 Manitobans' lives are lost yearly due to wildlife collisions, which should prompt MPI to look at the losses and do a cost/benefit analysis. CMMG stated that MPI needs a new mentality for Road Safety that is socially conscious, integrated and not piecemeal in its efforts. CMMG stated that MPI should be involved in intersection safety and infrastructure design for safety including highway design.

In addition, CMMG stated that MPI should be interested in Road Safety technical conferences rather than seeking to avoid participation.

### **CAA**

CAA advised that it supports MPI subsidizing the High School Driver Education program in order to increase accessibility for students, but believes the current program shouldn't be changed or funded differently in any way until further analysis and benchmarking is done to determine how well the current program is actually working.



CAA questioned whether the monies currently allocated to Road Safety initiatives are enough, and if the current distribution is getting the best value for ratepayers' money when talking about reducing claims. CAA stated that although Manitoba ratepayers do want their insurance rates to be as low as possible, surveys reveal that small increases in Road Safety investments would be welcomed if lives could be saved.

CAA suggested that working effectively through partners should be a more important in MPI's future Road Safety planning, and stated that goals need to be set and improvements in Road Safety sought, for which MPI should be a strategic leader.

## **8.2 Board Findings**

In Order 157/12 the Board expressed the view that matters of Road Safety need to be given a higher priority by the Corporation than has been assigned in the past, including motorcycle safety, wildlife collisions and other road safety investments. If this happens, the Board anticipates the Corporation will be in a position to come forward with new initiatives.

The Board also stated in Order 157/12 that, consistent with MPI's desire to develop a redefined road safety mandate, the Board believed that a Road Safety Research Technical Conference would assist MPI in developing new Road Safety initiatives that are broadly supported by Road Safety experts and stakeholders and would focus on reducing risk on Manitoba roadways which in turn should lead to lower claims costs.

MPI disagreed with this direction, and applied for a variance, to which the Board agreed, on the basis that there would be evidence called at this year's GRA on the following topics:

- Adequacy and effectiveness, or otherwise, of proposed Infrastructure spending for Road Safety;
- Adequacy and effectiveness, or otherwise, of spending to reduce Wildlife Collisions;
- Adequacy and effectiveness, or otherwise, of spending to address Distracted Driving;
- Adequacy and effectiveness, or otherwise, of spending to improve Motorcycle Safety;
- Adequacy and effectiveness, or otherwise, of spending to reduced Impaired Driving costs;

- Adequacy and effectiveness, or otherwise, of spending to reduce the severity and frequency of vehicle collisions with cyclists;
- Adequacy and effectiveness, or otherwise, of spending on Drivers' Education; and
- The requisite funding necessary to support effective use by MPI of technology in Road Safety.

Unfortunately, the Board did not hear evidence on all of these topics from MPI witnesses, though MPI had advised the Board prior to the GRA hearing that Dr. Allan Robinson and Dr. Brett Robinson would testify with respect to distracted driving, motorcycle safety, impaired driving and the role of technology in Road Safety. Ms. Johnson did testify, however, with respect to all Road Safety related topics.

It is clear that Road Safety and Loss Prevention are significant issues for the Corporation, as these factors affect Basic's revenue requirement in a direct and material way and thus impact rates; it is important that the value from the programs be maximized. Furthermore, successful Road Safety and loss prevention programs can minimize the economic and social costs to ratepayers resulting from collisions.

MPI has not reviewed the cost-benefit of its current Road Safety programs; the Board believes that this must be done. In particular, the budget and portfolio of programs must be reviewed and optimized in a manner similar to that which MPI employed in respect of the Immobilizer Program. MPI did not demonstrate the effectiveness of most of its Road Safety programs, including the High School Driver Education program, Road Safety Advertising and Sponsorships, and Road Safety Programming. The Board acknowledges that the effectiveness of certain components of the Auto Crime Prevention program and the Road Watch program are more readily measured, given the direct link between the program and enforcement, the statistics of which are available.

Given the lack of knowledge and analysis regarding the effectiveness of Road Safety programs, the Board finds that MPI has not fully established that the current portfolio of Road Safety expenditures is prudently and reasonably optimized to maximize value to ratepayers or to minimize economic and social costs of collisions.

MPI is in the unique position of gathering the most driving and vehicle data in Manitoba. It can provide a leadership role in providing data and conducting research regarding Road Safety. It is the view of the Board that MPI can and should facilitate or conduct more research and analysis regarding Road Safety issues. The Board orders that MPI:

- a. Produce for the next GRA an updated map of collisions and fatalities related to pedestrian/motor vehicle accidents in Winnipeg and in rural Manitoba and report on any patterns;
- b. Produce for the next GRA an updated map of collisions and fatalities related to cyclist/motor vehicle accidents in Winnipeg and in rural Manitoba and report on any patterns;
- c. Produce for the next GRA an updated map of collisions and fatalities related to motorcyclist/motor vehicle accidents in Winnipeg and in rural Manitoba & report on any patterns;
- d. Conduct a summative evaluation/benchmarking analysis of its current High School Driver Education program, focusing on whether there is a difference in outcomes for drivers who have completed the program versus drivers who have not;
- e. Provide at the next GRA the results of the analysis in (d) above together with an update regarding the Corporation's plans for changes to the High School Driver Education program;
- f. Provide at the next GRA an independent review of the current Road Safety portfolio with a view to optimizing it (and setting goals for outcomes) and minimizing the economic and social costs of collisions; and
- g. Provide at the next GRA an independent review of the optimal size of a Road Safety budget portfolio for the Corporation with a view to minimizing the economic and social costs of collisions.

The Board also recommends that MPI reinforce the message of one meter safe passing distance between motor vehicles & cyclists, and recommends that the Province:

- a. Consider the development of a Safe System strategy, in connection with which MPI would act as the research arm, given the wealth of data to which it has access; and
- b. Convene a stakeholders' meeting to discuss Road Safety strategic planning and better co-ordination, and appoint MPI as the lead agency.

## **9.0 PRESENTERS**

The Board heard from five presenters at the hearing of the Application, namely Mr. Dave Elmore, Mr. Jason Carter, Mr. Doug Houghton, Mr. Alcid DeLaurier and Mr. Edward Toker. The presenters are not sworn witnesses and were not cross-examined. As such, although the content of the presentations is not evidence, the Board, MPI and the interveners received the information presented for consideration only. As always, MPI will respond to each presenter in writing, with respect to the presentation made to the Board.

Mr. Dave Elmore, certified Can-Bike Master Instructor and Director of Safety and Education for Bike Winnipeg, has worked with MPI on a variety of different cycling safety related initiatives, to try to improve the knowledge and behaviour of cyclists. Mr. Elmore stated that cyclists need education, and it is prudent that MPI should continue to support and expand its current programs. Mr. Elmore also stated that motorists need to be instructed on how to behave when they encounter cyclists, and expressed a concern that MPI's messaging is not instructing drivers in a clear manner regarding how to interact with cyclists on the road.

In particular, Mr. Elmore stated that Bike Winnipeg would like to see MPI define and emphasize safe passing distance as one meter between a cyclist and a motor vehicle, and that this distance should be increased for speeds greater than 50 km per hour. He stated that it is not sufficient for a motor vehicle and cyclist to share a lane, given the standard width of a lane, and expressed concern that the term "share the road" is often misinterpreted by motorists as sharing the lane. He also stated that cyclists passing parked cars require a minimum of 1.5 meters from the parked car, to avoid the vehicle's door zone.

In addition, he stated that at intersections, cyclists should move to the center of the lane; this makes cyclists more visible, and provides them with adequate room to start up from a stop. It

also eliminates the potential for right turning motor vehicles to collide with a cyclist heading straight through an intersection. Mr. Elmore stated that riding on the sidewalk is not appropriate for adult cyclists, and that established multi-use paths are not always appropriate either, depending on the speed with which the cyclist is travelling. Bike Winnipeg asks, through Mr. Elmore, that MPI improve its messaging and driver training to eliminate these common driver misunderstandings about cyclists. Mr. Elmore also stated that Bike Winnipeg is seeking changes to *The Highway Traffic Act* in the same vein.

Mr. Jason Carter is a member of Bike Winnipeg, and the past President of the Manitoba Cycling Association, and stated that submissions were made to the Province of Manitoba in 2012 regarding a change to *The Highway Traffic Act* to define what is considered a safe passing distance pursuant to the legislation. Mr. Carter advised that twenty U.S. jurisdictions as well as the City of Ottawa have codified a definition of “safe passing distance”, the goal being to have motorists make a full lane change around cyclists. Mr. Carter also expressed the view that it is the behaviour of drivers that needs to be modified as cyclists are vulnerable road users.

Mr. Doug Houghton, President of the Coalition of Manitoba Motorcycle Groups, spoke on his own behalf and expressed the view that the current motorcycle premiums are cost prohibitive for many riders, dating back to the introduction of no fault insurance and PIPP. Mr. Houghton stated that some vehicle classes do not contribute to PIPP, including off-road vehicles, dirt bikes, snowmobiles and bicycles, and that the same is true of pedestrians, as well as interprovincial trucks and other exempt vehicles.

Mr. Houghton suggested that a flat rate for PIPP premiums should be implemented, in connection with which a proper actuarial analysis would be required. Mr. Houghton also stated that PIPP costs should be transferred to driver's license premiums, to avoid the impact of high risk drivers transferring ownership of vehicles among family members who pay lesser premiums. He also stated that most motorcyclists own another vehicle, and pay PIPP on both, though MPI does not provide a discount for a second vehicle, the assumption being that both vehicles can be driven at the same time with risk of accidents.

He asks that MPI review its data and contrast the average claim costs for automobiles and trucks of non-motorcycle owners, with data of the same vehicles owned by motorcyclists. If the latter case depicted lower claims, there may be a case for a multi-vehicle discount for motorcycle owners. He asked that the Board recommend that MPI and/or the Government of

Manitoba study the issue of a flat rate for PIPP, and how that would affect average premiums for all classes.

Mr. Houghton also expressed concern with respect to the ability of claimants to buy back claims and as well the formulae utilized by MPI where the repair costs of a damaged motorcycle exceeds its market value, or more particularly that some adjusters may lack the knowledge, experience and exposure in dealing with motorcycle values and repairs, particularly where there is customization or modification involved.

Mr. Alcid DeLaurier presented to the Board with respect to the injuries that he sustained as a cyclist, and sought answers from MPI with respect to his multiple insurance claims.

Mr. Edward Toker was unable to attend the hearing, but provided his presentation in writing. He stated that he was opposed to any type of rate increase, and questioned donations, including a past real estate donation, by MPI to unauthorized organizations. He also provided a copy of his driver's abstract, and disputed that he should provide a medical approval before being able to obtain his driver's license.

## **10 IT IS THEREFORE RECOMMENDED THAT:**

- 10.1 The Province of Manitoba cause a process audit of the management of MPI's investment portfolio to be conducted, with a view to clarifying issues surrounding the roles and responsibilities related to MPI's investment portfolio.
- 10.2 The Province of Manitoba direct MPI to put forward to the Board a strategy to deal with its excess retained earnings in competitive lines.
- 10.3 MPI reinforce the message of one meter safe passing distance between motor vehicles and cyclists.
- 10.4 The Province of Manitoba:
  - (a) Consider the development of a Safe System strategy, in connection with which MPI would act as the research arm, given the wealth of data to which it has access; and
  - (b) Convene a stakeholders' meeting to discuss Road Safety strategic planning and better co-ordination, and appoint a lead agency.

**11 IT IS THEREFORE ORDERED THAT:**

- 11.1 There shall be an overall 0.9% rate increase in compulsory Motor Vehicle Premiums for 2014/15 insurance year, effective March 1, 2014 for all major classes combined, which rate increase BE AND HEREBY IS APPROVED. MPI shall maintain the applied for experience based rate decreases for the motorcycle, commercial and off-road vehicle classes, with the balance of the overall approved rate change to be applied across the other major classes.
- 11.2 MPI's requests that there be no change in Permit and Certificate rates, Vehicle Premium Discounts and Driver License Premiums, Service and Transaction Fees, Fleet Rebates or Surcharges, or the discount on approved after-market and manufacturer/dealer installed anti-theft devices BE AND HEREBY ARE APPROVED.
- 11.3 The rates applied for by the Corporation for the Collector Vehicle insurance use BE AND HEREBY ARE APPROVED.
- 11.4 MPI shall examine its claim liabilities regarding ongoing conservatism within its forecasting, and file the valuation treatment of the results of the early 2013/14 case reserve review at next year's GRA.
- 11.5 The Board orders that MPI file with the Board staffing and cost control results at the next GRA.
- 11.6 MPI shall review its efficiencies and file at next year's GRA a five-year IT strategic plan, including a cost-benefit analysis, justifying its current and future IT expenditures.
- 11.7 MPI shall file, at the next GRA, a benchmarking framework, along with benchmarking indicators to which the Corporation intends to be held accountable.
- 11.8 MPI shall file, at the next GRA, details of what steps it has taken or intends to take to improve or enhance the services and products being offered to Basic ratepayers.

- 11.9 MPI shall have the composition of its investment portfolio reviewed by an external expert consultant, with a view to determining whether the current asset mix should continue, or should be revised.
- 11.10 There shall be more discussion and analysis with respect to the Corporation's proposed interest rate forecasting methodology, to be accomplished at a Technical Conference to be conducted by MPI on or before February 28, 2014.
- 11.11 MPI shall submit a discussion paper of the duration matching of its claims liabilities and investments as part of the next GRA.
- 11.12 The DCAT Technical Conference shall continue, on terms, and pending the Board's determination of the RSR target, the RSR target range will continue to be calculated on the basis of the Kopstein approach.
- 11.13 MPI will file with the Board a status update of upcoming accounting changes regarding IFRS and any elections that it may wish to make, as well as options being considered.
- 11.14 MPI advise the Board at the next GRA as to the practices regarding compliance with accepted actuarial standards of practice for compulsory coverage in each of Saskatchewan and British Columbia.
- 11.15 MPI report, at the next GRA, the ways in which it has made its Claims Incurred and Ratemaking methodology more transparent.
- 11.16 MPI provide, at the next GRA, options for developing its Claims Incurred and Ratemaking forecasts on a basis other than the fiscal year basis, with an accompanying analysis of pros and cons of such an approach.
- 11.17 MPI file next year's GRA to include rate indications determined in accordance with accepted actuarial practice in Canada, as defined by the Canadian Institute of Actuaries, including applicable Standards of Practice, and that MPI also provide to the Board rate indications pursuant to its current methodology for review.



11.18 MPI need not file the Exponential and Linear forecasts going forward, and Board Order 174/92 is hereby varied accordingly.

11.19 MPI shall:

- (a) Produce for the next GRA an updated map of collisions and fatalities related to pedestrian/motor vehicle accidents in Winnipeg and in rural Manitoba and report on any patterns;
- (b) Produce for the next GRA an updated map of collisions and fatalities related to cyclist/motor vehicle accidents in Winnipeg and in rural Manitoba and report on any patterns;
- (c) Produce for the next GRA an updated map of collisions and fatalities related to motorcyclist/motor vehicle accidents in Winnipeg and in rural Manitoba & report on any patterns;
- (d) Conduct a summative evaluation/benchmarking analysis of its current High School Driver Education program, focusing on whether there is a difference in outcomes for drivers who have completed the program versus drivers who have not;
- (e) Provide at the next GRA the results of the analysis in (d) above together with an update regarding the Corporation's plans for changes to the High School Driver Education program;
- (f) Provide at the next GRA an independent review of the current Road Safety portfolio with a view to optimizing it (and setting goals for outcomes) and minimizing the economic and social costs of collisions; and
- (g) Provide at the next GRA an independent review of the optimal size of a Road Safety budget portfolio for the Corporation with a view to minimizing the economic and social costs of collisions.

THE PUBLIC UTILITIES BOARD

“KAREN BOTTING, B.A., B.Ed., M.Ed., Member”  
Acting Chair

“HOLLIS SINGH”  
Secretary

## **Appendix A**

### **Glossary of Acronyms and Terms**

ADM	Assistant Deputy Minister to the Department of Finance
Application	2014 General Rate Application
AOCI	Accumulated Other Comprehensive Income
Basic	Compulsory motor vehicle insurance
Board	Public Utilities Board
CAA	Canadian Automobile Association
CAC	Consumers' Association of Canada
CAGR	Compounded Annual Growth Rate
CLEAR	Canadian Loss Experience Automobile Rating
CMMG	Coalition of Manitoba Motorcycle Groups
Corporation	Manitoba Public Insurance Corporation
DCAT	Dynamic Capital Adequacy Testing
DPAC	Deferred Policy Acquisition Costs
DSR	Driver Safety Rating
Extension	Optional motor vehicle insurance
FTE	Full-Time Equivalent
Government	Government of Manitoba
GRA	General Rate Application
HRMS	Human Resource Management System
HTA vehicle	Vehicle registered pursuant to the Highway Traffic Act (excludes trailers and off-road vehicles)
ICWG	Investment Committee Working Group (MPI)
MGEU	Manitoba Government Employees' Union
Monopoly	Policies that can only be sold by one corporation (MPI)
MPI	Manitoba Public Insurance Corporation
No-fault	Accident benefits not related to the fault of the driver
PfAD	Provision for Adverse Deviation (an element of Unpaid Claims)
PIPP	Personal Injury Protection Plan
Province	Government of Manitoba
RSR	Rate Stabilization Reserve
SRE	Optional Special Risk Extension motor vehicle insurance
Tort system	Benefits paid take into account the allocation of fault
Total no-fault	Benefit approach that does not account for the fault of the driver

## **Appendix B**

### **Appearances**

C. Grammond	Counsel for the Public Utilities Board (“the Board”)
K. L. Kalinowsky	Counsel for Manitoba Public Insurance Corporation (“the Corporation”)
B. Williams / M. Menzies	Counsel for the Consumers’ Association of Canada (Manitoba) Inc. (“CAC”)
R. P. Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups (“CMMG”)
L. Peters	Canadian Automobile Association (Manitoba Division) (“CAA”)

## Appendix C

### Witnesses

#### Witnesses for the Corporation

L. Johnston	Chief Actuary and Director of Pricing and Economics
M. McLaren	President and Chief Executive Officer
H. Reichert	Vice-President Finance and Chief Financial Officer
G. Gibson	Assistant Deputy Minister of Finance
A. Robinson	ADTSEA
B. Robinson	ADTSEA

#### Witness for CAC

M. Johnson	Canadian Traffic Safety Institute
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## Appendix D

### Interveners

Canadian Automobile Association (“CAA”)

Coalition of Manitoba Motorcycle Groups Inc. (“CMMG”)

Consumers’ Association of Canada (Manitoba) Inc. (“CAC”)

### Presenters

D. Elmore		Director of Safety and Education for Bike Winnipeg
J. Carter		Member of Bike Winnipeg
A. Delaurier		Private Citizen
D. Houghton		Private Citizen
E. Toker	(by letter)	Private Citizen