M A N I T O B A	)	
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THE PUBLIC UTILITIES BOARD ACT	)	Order 128/15
	)	
THE MANITOBA PUBLIC INSURANCE ACT	)	
	)	December 1, 2015
THE CROWN CORPORATIONS PUBLIC	)	
REVIEW AND ACCOUNTABILITY ACT	)	

Before: Régis Gosselin, B ès Arts, M.B.A., C.P.A., C.G.A, Chair
Karen Botting, B.A., B.Ed., M.Ed., Vice Chair, Acting Chair
The Hon. Anita Neville, P.C., B.A. (Hons.), Member
Susan Proven, P.H.Ec., Member
Allan Morin, B.A., ICD.D., Member

MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION): COMPULSORY 2016/2017 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

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EXECUTIVE SUMMARY

The Public Utilities Board (Board or PUB) hereby orders no overall change to Basic compulsory motor vehicle premiums (Basic or Basic Insurance) for the 2016/17 insurance year (Fiscal 2016), effective March 1, 2016, for all major classes combined. There will be no change in permit and certificate rates, driver license premiums and vehicle premium discounts, service and transaction fees, fleet rebates or surcharges, or the discount on approved after-market and manufacturer/dealer installed anti-theft devices.

The Board's order for no overall change does not mean that rates for all motorists within each major vehicle class remain the same. Instead, based on MPI's rate design, each major vehicle class will have the following average vehicle premium changes:

Major Class	**Percentage Change**
Private Passenger	-0.1%
Commercial	+2.5%
Public	+6.3%
Motorcycle	-7.6%
Trailers	-3.8%
Off-road vehicles	0.0%
Total	**0.0%**

Rates paid by individual policyholders within each Major Class will be determined based on their driving record, the kind of vehicle (make and model and year) registered, the purpose for which the vehicle is driven and the territory in which the policyholder resides. Policyholders' premiums will also be impacted by actual claims experience. As a result, 43% will experience increases in insurance rates, 50% will experience decreases while 7% will experience no change.

The Board acknowledges the Corporation's cost containment efforts, including the elimination of some positions which contributed in large part to the $8.5 million in savings that the Corporation was able to achieve in 2015/16. The Board is concerned, however, about MPI's costs relative to external IT consultants, and orders that MPI assess opportunities for savings relative to external IT consultants.

The Board is also concerned about the impact of the delay in full implementation of the Physical Damage Re-engineering (PDR) Project to 2019/20, including the risks to the Corporation should further difficulties be encountered. It orders MPI to file in next year's GRA an independent assessment on the development and roll-out of the PDR Project.

The Board acknowledges that the Corporation has made progress with its benchmarking, including the presentation of a benchmarking framework as requested by the Board.

The Board directs MPI to file a report and bring an expert witness to the 2017 GRA to testify with respect to its current investment portfolio. The Board orders MPI to prepare and file at next year's GRA a study with respect to the composition and performance of the investment portfolios of other entities in Manitoba with substantial investment portfolios including the Workers' Compensation Board, the Teachers' Retirement Allowances Fund and the Civil Service Superannuation Board of Manitoba.

The Board notes that volatility in the value of MPI's investment portfolio continues to be one of its major risks and that the Corporation overall, and Basic to an even greater extent, is not fully immunized from interest rate risk. The Board recognizes that significant improvements have been implemented by the Corporation relative to the approach utilized in years past, but in the view of the Board, the interest rate risk remains at a level that requires further review and analysis.

The Board and MPI have been engaged for a number of years in discussions regarding the appropriate level of MPI’s Rate Stabilization Reserve (RSR). For Fiscal 2016, the Board has selected a methodology to be utilized for the purposes of setting the lower total equity capital target for the Corporation, calculated at $231 million by MPI, a level currently above MPI's most recent reported equity level.

The Board has also approved a methodology for setting the upper level of the equity target but on a notional basis only. The Board orders MPI to continue to participate in a collaborative process to be completed by the time the Board considers the next rate application.

The Board is pleased by the Corporation's previous decision to transfer $75 million in excess retained earnings from its other lines of business into the RSR prior to the end of 2014/15. This assisted Basic ratepayers and partly alleviated the shortfall in the Basic reserve. The Board notes the commitment of the Corporation to do so again prior to the end of 2015/16, to the extent that the balance of the RSR is below the minimum target capital level.

The Board encourages the continued development of MPI's rate-making model in accordance with accepted actuarial practice in Canada. The Board intends to explore this issue further at next year's GRA.

The Board also orders MPI to address a number of technical improvements to its claims forecasting (including trending) and actuarial methodology.

The Board expects that MPI demonstrate in a more concrete fashion that it has optimized its road safety budget and is carrying out its responsibilities as a leader on Road Safety by spending on initiatives that can reduce the social and financial costs of collisions. The Board orders that, at the next GRA, MPI produce a variety of pieces of evidence relative to its efforts in this regard.

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).

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

1.0 THE RATE APPLICATION

The Corporation filed the 2016/17 General Rate Application (GRA or Application) with the Board on June 12, 2015 for approval of premiums to be charged with respect to Basic, for the fiscal year commencing March 1, 2016 and ending February 28, 2017. The Application was filed in accordance with the provisions of *The Crown Corporations Public Review and Accountability Act* and *The Public Utilities Board Act*.

Pursuant to the Application, the Corporation sought no overall change in Basic insurance rates for Fiscal 2016. The Corporation advised that it continues to seek to break even over a two year period, and projected a net loss of $11.4 million for Fiscal 2016 and net income of $12.6 million for 2017/18, which averages approximately to a break even position.

At the hearing, the Corporation filed an updated interest rate forecast as at September 2015 which reflected that interest rates are expected to rise at a slower pace than originally forecast in the Application. As a result of this updated forecast, Basic's projected net loss in Fiscal 2016 will increase from $11.4 million to $15.2 million and its net result in 2017/18 will be a net loss of $12.1 million. These net results will not represent a break even position and reflect a requirement for a rate increase of 1.6%. Despite these more current projections MPI did not seek to amend the Application and maintained its request for a 0.0% overall rate change.

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 implemented rate group, rate line and classification changes for 2016.

According to the Corporation's rate design, the Board's order for no overall change to Basic compulsory motor vehicle premiums does not translate into static rates for all motorists within each major vehicle class. Rather, each major vehicle class will have the following average vehicle premium changes:

Major Class	**Percentage Change**
Private Passenger	-0.1%
Commercial	+2.5%
Public	+6.3%
Motorcycle	-7.6%
Trailers	-3.8%
Off-road vehicles	0.0%
Total	**0.0%**

Rates paid by individual policyholders within each Major Class will be determined based on their driving record, the kind of vehicle (make and model and year) registered, the purpose for which the vehicle is driven and the territory in which the policyholder resides. Policyholders' premiums will also be impacted by actual claims experience. As a result, some individuals will experience increases in insurance rates, and others will experience decreases.

The Board decision that there be no overall rate change will result in a rate decrease for

50.06% of vehicles, no change in rates for 7.18% of vehicles, and a rate increase for 42.76% of vehicles. Details of the dollar change impact by number of vehicles within the overall fleet are as follows:

$ Change	# of Vehicles	% of Vehicles
Decrease of $300 or more	2	0.00%
Decrease of $200 to $299	159	0.01%
Decrease of $150 to $199	1,127	0.10%
Decrease of $100 to $149	12,697	1.16%
Decrease of $50 to $99	121,357	11.11%
Decrease of $20 to $49	153,901	14.09%
Decrease of $1 to $19	257,789	23.59%
No change	78,442	7.18%
Increase of $1 to $19	115,809	10.60%
Increase of $20 to $49	258,514	23.66%
Increase of $50 to $99	86,266	7.90%
Increase of $100 to $149	3,879	0.36%
Increase of $150 to $199	1,769	0.16%
Increase of $200 to $299	216	0.02%
Increase of $300 or more	645*	0.06%
GRAND TOTAL	1,092,572	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 on approved aftermarket and manufacturer/dealer installed anti-theft devices.

A history of the percentage rate changes applied for by the Corporation and ordered by the Board is as follows:

Year	Applied For	Ordered
2016	0.0	0.0
2015	3.4	3.4
2014	1.8	0.9
2013	0.0	0.0
2012	-6.8	-8.0
2011	-4.0	-4.0
2010	0.0	0.0
2009	-1.0	-1.0
2008	0.0	0.0
2007	-2.6	-2.6
2006	0.0	0.0
2005	0.0	-1.0
2004	2.5	3.7
2003	0.0	0.0
2002	-1.2	0.0
2001	0.0	0.0

There have also been $597 million in premium rebates ordered by the Board over the last 15 years, as follows:

Year	Total ($ millions)	Percent of Premiums
2011	$336 million	45.0
2008	$63 million	10.0
2007	$60 million	10.0
2006	$58 million	10.0
2001	$80 million	16.6

2.0 PROGRAM REVENUE

2.1 Basic Revenue Requirement

The Corporation derives revenue from four main sources to fund Basic: vehicle premiums, driver premiums, service and transaction fees and investment income. The Corporation's projected operating results for Fiscal 2016 and 2017/18, the years impacted by the applied for 0.0% rate increase, are as follows:

	2016/17 Applied for Rate Per Application ($ millions)	2017/18 Projections Per Application ($ millions)
Motor Vehicle Premiums	$875.5	$916.3
Drivers' License Premiums	49.7	52.6
Reinsurance Ceded	(12.6)	(12.9)
Total Net Premiums Earned	912.5	956.0
Investment Income	12.8	13.0
Service Fees & Other Revenues	22.3	24.1
Total Earned Revenues	$947.6	$993.1
Claims Incurred	$677.1	$691.7
Claims Expenses	128.1	131.3
Road Safety Expenses	11.4	10.6
Operating Expenses	74.6	77.2
Commissions	36.8	37.3
Premium Taxes	27.8	29.1
Regulatory/Appeal Expenses	3.2	3.3
Total Claims and Expenses	$959.0	$980.5
Net Income (Loss) – Basic	($11.4)	$12.6

As indicated in Section 1 of this Order, the Corporation filed an updated interest rate forecast as at September 2015. As a result of this updated forecast, Basic's projected net loss in Fiscal 2016 will increase from $11.4 million to $15.2 million and its net result in

2017/18 will be a net loss of $12.1 million. The Corporation did not seek to amend the Application based on its revised projections.

2.2 Basic Vehicle Premiums

Although MPI seeks no overall rate change pursuant to the Application as filed, vehicle premiums earned are forecast to be $875.5 million in 2016/17, and to grow by over 4%, to $916.3 million, in 2017/18. The revenue earned by Basic in respect of vehicle premiums changes due to four factors: rate changes as ordered by the Board, growth in the number of vehicles in the fleet (the Volume Factor), changes in the average premium 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), and the Driver Safety Rating (DSR) upgrade factor, which measures the impact on vehicle insurance premiums from changes in the average DSR level for registered vehicle owners.

The Volume Factor is based upon the historical growth rate of Highway Traffic Act (HTA) vehicles only (including the private passenger, commercial, public and motorcycle major classes, and excluding trailers and off-road vehicles), which account for 77% of the fleet and 98% of MPI's premiums. MPI is forecasting Volume Factor growth to be 1.75% per annum for each of 2015/16, 2016/17 and beyond. The Corporation is forecasting Upgrade Factor growth to be 2.6% per annum based upon the average experience for the last three to five years. In previous applications, the Corporation assumed that the DSR upgrade factor was equal to zero, but this year the Corporation advised that driver movement data has stabilized sufficiently such that MPI's forecasting model can now be used to forecast DSR upgrade changes.

The combined impact of the forecast premium revenue growth due to Volume Factor, Upgrade Factor and DSR upgrade factor is as follows:

Year	Vehicle Upgrade Factor	DSR Upgrade Factor	Total Upgrade Factor	Volume Factor	Total Volume & Upgrade Growth
2014/15 (Actual)	2.58%	0.14%	2.72%	1.41%	4.13%
2015/16	2.60%	(0.20%)	2.40%	1.75%	4.15%
2016/17	2.60%	0.10%	2.70%	1.75%	4.45%
2017/18	2.60%	0.24%	2.84%	1.75%	4.59%
2018/19	2.60%	0.13%	2.73%	1.75%	4.48%
2019/20	2.60%	0.18%	2.78%	1.75%	4.53%

2.3 Basic Driver 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 Driver Premiums paid by licensed drivers is set based on the DSR scale which ranges from $15 (level 15) to $2,500 (level -20).

Driver Premiums are forecast to be $46.8 million in 2015/16 and to increase to $49.7 million in 2016/17, an increase of approximately $2.9 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 units per driver by DSR level and the driver premiums by DSR level.

2.4 Basic 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, 2015, the Corporation had short and long-term investments, including cash and equities totalling $2.6 billion, and is forecast to grow to over $3 billion by 2019/20.

Investment income earned from the Corporation's investment portfolio reduces the revenue that it is required to collect through premiums. 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 between the lines of business. MPI realized $226.2 million in investment income in 2014/15, of which 83.3% or $188.5 million was allocated to Basic.

Based upon MPI's allocation methodology, in this Application 83.4% of the Corporation's investment income is forecast to be allocated to Basic from 2015/16 through 2019/20. MPI is forecasting an investment loss in Basic of ($10.8) million in 2015/16 and projects Basic investment income of $12.8 million in Fiscal 2016 and $13 million in 2017/18. The variation in investment income is due primarily to the impact of changes in interest rates. Further discussion on MPI's investment portfolio and returns is found in Section 4.0 of this Order.

2.5 Basic Service Fees and Other Revenues

Basic earned $19.4 million in Service Fees and Other Revenues in 2014/15, and projects income of $20.9 million in 2015/16. 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. The Corporation has advised that the majority of its service fees have not been reviewed since the establishment of the fee, and that a phased review of its service fee structure will begin next year to determine if fees should remain at current levels.

2.6 Interveners' Positions

CAC

CAC noted that MPI bears the onus of establishing that the rates for which it applies are just and reasonable pursuant to the applicable legislation, and as referenced by the Board in Order 98/14. CAC also noted the function of the Board as a proxy for market discipline relative to MPI, and expressed the view that while a 1.0% rate increase may be in order for Basic, given interest rate forecasts, CAC was satisfied, taking all relevant factors into account, that the proposed no overall rate change proposed by MPI was appropriate. In support of that position, CAC cited positive PIPP developments and potential conservatism within PIPP forecasts and cost-saving opportunities available to MPI.

CMMG

CMMG requested that the Board grant to the motorcycle class a larger rate decrease than that requested by the Corporation, and asked that the Board approve a 12% rate decrease for motorcycles. CMMG stated that the 2016/17 rates for the motorcycle class ought to be based upon the claims experience for the last five years rather than the ten years used by the Corporation in its ratemaking process, as five years would be more in line with actuarial standards and in keeping with the approach taken by the Corporation relative to the private passenger class. CMMG stated that the 2006 accident year is an outlier for the motorcycle class and should not be included in the claims experience for rate-setting purposes.

CMMG noted that the motorcycle class experienced rate increases of 14.82% in 2004/05, 13.88% in 2005/06, and 9.16% in 2008/09 and as such the Corporation's existing rate-making methodology and capping rules failed to protect the motorcycle class from rate shock in the past. CMMG stated that the same capping rules should not now be utilized to lessen the rate decrease afforded to the motorcycle class.

CAA

CAA expressed support for the Application as filed by MPI and stressed the importance of stability in Basic rates.

2.7 Board Findings

The Board hereby approves the Application and orders no overall rate change in compulsory motor vehicle premiums for the 2016/17 insurance year, effective March 1, 2016, for all major classes combined. The Board is satisfied that an overall 0.0% rate change is reflective of the rate requirement for Basic to break even in 2016/17. The Board approves MPI's request that there be no change in permit and certificate rates, driver license premiums and vehicle premium discounts, service and transaction fees, fleet rebates or surcharges, or the discount on approved after-market and manufacturer/dealer installed anti-theft devices.

The Board does not approve CMMG's request that rates for the motorcycle class be reduced by 12% instead of 7.6% as indicated pursuant to the overall 0.0% rate change. The Board does not accept that the treatment of the motorcycle class in the derivation of the actuarial indications in MPI's ratemaking was either unjust or unfair.

As reported in Section 1, the Corporation filed updated information that showed different results than the filed application. Basic's projected net loss in Fiscal 2016 will increase from $11.4 million to $15.2 million and its net result in 2017/18 will be a net loss of $12.1 million. These projections could have justified an overall revenue increase of 1.6%.

The Board's decision to approve the Application and order no overall rate change is driven by:

- MPI's advice that it did not seek a 1% rate increase in the Application because of the $8.5 million in cost savings that it has been and will be able to achieve in

2015/16, as well as its ongoing efforts in cost containment through Fiscal 2016 and beyond;

- The Board's agreement with MPI that there remains uncertainty in how interest rates will change relative to the interest rate forecast underlying the Application, and the revised forecast, such that it may not be appropriate to react to what may be a temporary change in interest rates. The Board notes that if the September 2015 interest rate forecast provided by MPI proves to be accurate, Basic is expected to have a net income of $7.0 million in 2015/16. At this time last year, MPI was forecasting a net loss of ($6.3) million in Basic for 2015/16 and pursuant to the Application was forecasting net income of $15.0 million; and

- In addition, in the Board's view, MPI's projections for 2017/18 are less certain than its projections for Fiscal 2016 given the longer timeframe and the potential for improvements to MPI's forecasting. The ultimate impact of interest rates and other operational experience upon 2017/18 is unknown at this time, and will become more certain at next year's GRA. If interest rates increase in excess of that forecast by MPI, its financial position will improve. It appears that Basic's net financial results continue to have considerable sensitivity to interest rate changes, discussed further in Section 4.3 below.

3.0 PROGRAM COSTS

The costs associated with providing Basic Insurance to Manitoba motorists fall into the following major categories:

	Total Estimated Expense 2016/17 ($ millions)	Percentage of Total Program Costs
Net Claims Incurred	**$677.1**	**70.6%**
Claims Expenses	**128.1**	**13.4**
Road Safety/Loss Prevention	**11.4**	**1.2**
Operating Expenses	**74.6**	**7.8**
Commissions	**36.7**	**3.8**
Premium Taxes	**27.8**	**2.9**
Regulatory/Appeal Expenses [1]	**3.2**	**0.3**
Total Program Costs	**$958.9**	**100.0%**

3.1 Basic Claims Incurred

Claims Incurred represent the costs that are paid or forecast to be paid to claimants for the various benefits provided under the Basic Insurance program. Net Claims Incurred were $745.8 million in 2014/15, which was $121.1 million or 19.38% over budget. The Corporation cites the following as the key reasons for this significant difference:

- Higher than budgeted PIPP claims due to lower interest rates ($190.6 million adverse impact);
- Lower than budgeted Physical Damage claims ($40.6 million favourable impact);
- Reduction in interest rate provision for adverse deviations ($24.2 million favourable impact); and

[1] Regulatory and appeal expenses relate to: Public Utilities Board, Crown Corporations Council and Automobile Injury Claims Appeal Commission.

- Other changes including Unallocated and Internal Loss Adjustment Expenses, Deferred Policy Acquisition Costs and Premium Deficiency ($4.7 million favourable impact).

Claims Incurred are forecast to be $588.9 million in 2015/16 and are projected to be $677.1 million in 2016/17, both significantly less than actual Claims Incurred in 2014/15. These forecasts represent an average $52.3 million decrease in Claims Incurred for each of 2016/17 and 2017/18 from last year's forecasts. The key reasons for these decreases are:

- Lower PIPP claims due to higher forecasted growth in interest rates of $70.3 million;
- Lower budgeted Internal Loss Adjustment Expenses of $14.3 million;
- Lower budgeted Physical Damage claims than forecasted by $14.6 million; and
- A combination of changes from the other coverage and claim provision categories.

Claims Incurred for the fiscal years 2012 - 2015 for the major coverages were as follows:

For Years Ended February 28/29 ($ millions)	**2012**	**2013**	**2014**	**2015**	**3 Year Change**	
Physical Damage - All Perils						
Collision	281	319	374	315	34	12%
Comprehensive	70	75	78	70	0	0%
Property Damage	38	42	48	38	0	0%
Sub-total	**389**	**436**	**500**	**423**	**34**	**9%**
PIPP Accident Benefits	222	225	245	314	92	41%
Public Liability	2	1	2	6	4	200%
Total Claims Incurred	**612**	**661**	**747**	**743**	**131**	**21%**

Overall Total Claims Incurred are forecast to be $677.1 million in Fiscal 2016 and to grow to $691.7 million in 2017/18, for an overall decline of $55 million from 2013/14. A major component of Total Claims Incurred are Collision claims costs, projected to be $403.0 million in 2016/17, and to grow further to $428.1 million in 2017/18 for an overall increase of $54 million from 2013/14. The Corporation stated that while ultimate frequency for collision repairs remains relatively stable, collision total loss frequency has been increasing over the past decade. The Corporation stated also that repair severity in recent years has been increasing consistently year over year, caused by an increase in import versus domestic vehicles being repaired.

The Corporation has advised that significant changes in vehicle manufacturing are continuing, as auto manufacturers are required to meet higher fuel emissions standards in North America. New makes and models with significantly higher fuel efficiency are made of complex material and technologies that require new tooling, equipment, methods, and facilities to repair properly. These changes have affected and will continue to affect dramatically the repair industry, including the capital and operating costs of repair shops, which will in turn impact MPI's claims costs. In particular, more vehicles are being manufactured with aluminum components, including aluminum frames, which can be repaired only in a segregated repair shop environment, to avoid potential cross-contamination. MPI is anticipating that once these new, more advanced vehicles have penetrated the fleet in a significant way, it will incur additional claims costs of $30 million per year.

The largest component of Total Claims Incurred is Accident Benefits which 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 estimated cost of Accident Benefits under the PIPP program are updated based upon actuarial reserving practices taking into account changes in interest rates on long term claims liabilities.

The following table compares actual PIPP Accident Benefit costs with those previously forecast by the Corporation (amounts in $ millions):

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	$243.9	($33.0)
2015	$184.4	$148.9	$314.5	($130.1)
2016	$166.1	$87.7		

The Corporation is forecasting a significant decrease in PIPP Accident Benefit costs from 2014/15 to 2016/17, given that the 2014/15 Weekly Indemnity Claims Incurred was over budget by $86.6 million as a result of the significantly lower than expected interest rates. Including interest rate impacts, the 2016/17 net Claims Incurred forecast of $38.9 million is $16.8 million or 30% lower than last year's forecast of $55.7 million. The Corporation has stated that if interest rate impacts were excluded, the 2016/17 Claims Incurred forecast would be $75.3 million, or a 1.0% decrease versus last year's forecast of $76.1 million.

The Corporation has also advised that the 2014/15 Accident Benefits Other - Indexed claims were over budget by $57.6 million as a result of significantly lower interest rates, which caused an increase in the provision for Incurred But Not Reported (IBNR) claims of $46.9 million relative to the budgeted decrease of $29.6 million in last year's forecast. The

Corporation has stated that over the forecast period, the net Claims Incurred forecast is significantly impacted as a result of the assumed increase in interest rates. Including interest rate impacts, the 2016/17 net Claims Incurred is $50.6 million or 20.9% lower than last year's forecast of $63.9 million. If, however, interest rate impacts are excluded, the 2016/17 Claims Incurred would be $79.8 million, or a 0.7% decrease versus last year's forecast of $80.3 million.

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 of the claim. These adjustments, sometimes called runoff, flow through Claims Incurred in the fiscal year in which the adjustments are made.

3.2 Basic Expenses Overview

The Corporation categorizes its expenses into three groups: Normal Operations Expenses, Improvement Initiative Implementation Expenses, and Improvement Initiative Ongoing Expenses.

Normal Operations Expenses are incurred to manage the day to day operations of the Corporation. Improvement Initiative Implementation Expenses represent one-time expenses to implement IT projects, examples of which include software and hardware purchases and external labour. Improvement Initiative Ongoing Expenses are the expenses that occur as a result of a project that continues after the project has been put into service. Examples include licensing costs for purchased software, future maintenance on hardware purchases and amortization related to deferred development.

All three types of expenses incurred by the Corporation are allocated to Basic pursuant to an integrated cost allocation methodology approved by the Board previously, and are assigned to four expense categories: Claims, Road Safety/Loss Prevention, Operating and

Regulatory/Appeal. Compensation makes up 58% of the Corporation's total expenses and is the predominant expenditure within Claims and Operating expenses. The details of Basic expenses are as follows:

	For the Years Ended February 28/29				
	($ millions)				
	2014A	2015A	2016P	2017P	2018P
Total Corporate Expenses	**$267.8**	**$273.8**	**$271.2**	**$285.5**	**$294.2**
Basic Allocated Corporate Expenses					
Claims Expense	114.6	116.6	121.0	128.1	131.3
Road Safety/Loss Prevention	12.8	11.4	11.5	11.4	10.6
Operating	68.0	74.3	71.4	74.6	77.2
Regulatory/Appeal	3.8	3.9	3.2	3.2	3.3
Total Basic Allocated Corporate Expenses	**$199.1**	**$206.2**	**$207.1**	**$217.4**	**$222.4**
Percentage of Corporate Operating Expenses	74.4%	75.3%	76.4%	76.2%	75.6%

3.3 Basic Claims Expenses

Claims Expenses represent the administrative costs associated with processing and settling claims, and account for approximately 12% of Basic program costs. Claims expenses have grown from $114.6 million in 2013/14 to $121 million in Fiscal 2016, and are forecast to grow to $131.3 million in 2017/18, a four year increase of $16.7 million or 14.5%. The main drivers of these increases are the Corporation's Compensation expenses including salaries, overtime, benefits and health & education tax.

3.4 Basic Operating Expenses

Operating Expenses allocated to Basic have grown significantly over time; from $68 million in 2013/14, to a forecast of $74.6 million in Fiscal 2016 and $77.2 million in 2017/18, an increase of 13.5% over the five year period. The Corporation has stated that, through its

Innovation and Cost Containment Committee, it has reduced the 2015/16 budget for Operating Expenses by $8.5 million, comprised of the following:

- Staff reductions of more than $1.5 million representing approximately 30 full time equivalent positions;

- Overtime and other compensation reductions in excess of $3.1 million;

- A reduction of licensing and software purchases of more than $1.3 million;

- A reduction of more than $1.0 million in premises costs; and

- Various other budget reductions totaling $1.6 million.

From 2010/11 to 2014/15, the average salary paid by the Corporation increased from $54,162 to $59,471, representing a compounded annual growth rate of 2.37%, slightly in excess of inflation for the same period, which was 2.19%. By 2019/20, the average salary paid by the Corporation is forecast to increase to $70,822, representing a compounded annual growth rate of 3.56% (from 2015 to 2020), compared to anticipated inflation of 1.18% for the same period. When overtime and benefits are included, compensation grew by a compounded annual growth rate of 3.4% between 2011/12 and 2014/15 and is forecast to grow at 2.7% through 2017/18.

The Corporation has stated that these compensation increases in excess of inflation are due primarily to the negotiated increases under the collective agreement as between MPI and the Manitoba Government and General Employees' Union, (MGEU), with which MPI negotiated a 4 year collective agreement, effective from September 2012 to September 2016. Pursuant to the collective agreement, staff received no wage increase during the first two years, and a 2.75% wage increase in each of the last two years of the agreement, such that in 2015/16, the Corporation will bear the full impact of the 2.75% increase. In addition, the collective agreement provides for up to five annual increases of 3.5% for each in-scope position, up to a maximum salary per position. MPI estimates that 50% of its employees are eligible for these annual increases, which is the equivalent of a 1.75% annual wage increase. As a result of these two contractual requirements, MPI is forecasting an annual increase in compensation of 4.5% for 2015/16.

MPI's total Corporate staff complement has increased from 1,859.7 FTEs in 2008/09 to 1,885.4 FTEs in 2014/15 and is forecast to grow to 1,911.2 FTEs in 2015/16. The composition of MPI's staffing dedicated to operations and special initiatives is as follows:

Year	Normal Operations	Special Initiatives	Total Corporate
2008/09	1,732.9	126.8	1,859.7
2009/10	1,752.9	193.9	1,946.8
2010/11	1,822.8	48.6	1,871.4
2011/12	1,862.9	15.4	1,878.3
2012/13	1,894.7	17.1	1,911.8
2013/14	1,890.3	15.0	1905.3
2014/15	1,874.8	10.7	1,885.4
2015/16 Budget	1,898.7	12.5	1,911.2

MPI’s Normal Operations staffing levels increased from 1,732.9 FTEs in 2008/09 to 1,874.8 FTEs in 2014/15. MPI committed to a permanent staffing reduction of 30 FTEs in 2015/16 which will give rise to an annualized savings of $1.8 million once completed. Taking into account targeted staff reductions, the Corporation is budgeting for 1,898.7 FTEs in 2015/16 and each subsequent year through 2019/20.

MPI's actual staffing levels have been consistently below budgets as follows:

Fiscal Year	Actual	Budget	Over/(Under) Variance
2008/09	1,732.9	1,796.3	(63.4)
2009/10	1,752.9	1,783.8	(30.9)
2010/11	1,822.8	1,850.1	(27.3)
2011/12	1,862.9	1,926.5	(63.6)
2012/13	1,894.7	1,936.7	(42.0)
2013/14	1,890.3	1,934.7	(44.4)
2014/15	1,874.8	1,928.7	(52.9)
Targeted FTE Reduction	(30.0)	(30.0)	
2015/16 Budget		1,898.7	
2016/17 Budget		1,898.7	

The consistent under budget variance is a reflection of the Corporation's Vacancy Management Program which is used as a means to control costs. The Corporation has stated that at a given time, there are vacant positions within its staff complement, referred to as a vacancy allowance which reduces salary expenses. The Corporation budgeted for a vacancy allowance of $5.9 million in 2015/16, which represents 65 to 70 positions, and has increased the vacancy allowance amount to $6.2 million in 2016/17. MPI has budgeted salaries of $129.9 million in 2015/16 and $134.7 million for 2016/17, which reflects the full 1,898.7 FTE staff complement. This budgeted amount was reduced by the vacancy allowance to net budgeted salaries of $123.9 million in 2015/16 and $128.4 million in Fiscal 2016. MPI intends to manage within its net staffing budget to contain cost growth. MPI advised that it has lifted the hiring freeze imposed last year and that it will fill positions as needed to meet its future operating needs. The CEO continues to approve all management hires.

In addition, MPI continues to restrict out-of-province travel and conference participation for its staff, and to reduce meeting expenses. The work of the Innovation and Cost

Containment Committee is ongoing and the Committee continues to reinforce the Corporation's responsibility to identify areas where processes can be improved and costs can be avoided or reduced.

MPI stated also that its ability to reduce the 2015/16 operating expense budget by $8.5 million enabled it to avoid seeking a Basic rate increase in the Application.

3.5 Basic Information Technology Expenses

Over the last number of years MPI has pursued IT projects targeted towards modernizing its IT footprint, including the following initiatives: Data Centre Optimization, IT Optimization, Driving Ahead in Real Time (DART), Information Security Strategy, Broker Refresh, PDR, Human Resource Management System (HRMS) as well as other initiatives. This year MPI reported to the Board with respect to the following projects: PDR Project, Information Technology Optimization Application High Availability Project, Information Security Strategy and Roadmap Program, HRMS Phases 3 & 4, Enterprise Data Masking Project, Legal Management Project, Predictive Analytics Project, Corporate Learning Management System Project and High School Driver Education Redevelopment Project.

MPI's total Corporate IT expenses, including Operating Expenses and capital investments, have increased from $49.3 million in 2010/11 to $76.5 million in 2014/15, representing a compounded annual growth rate of 12.3%. The same expenses are forecast to be $76.9 million in 2015/16 and are forecast to increase to $97.5 million in 2019/20, representing a compounded annual growth rate of 2.5%.

MPI utilizes internal FTEs relative to its IT needs and it has also engaged external consultants for that purpose. In 2014/15, there were 210 internal FTEs working on IT delivery, together with 110 external consultants, for a total of 320 FTEs. These levels represent a decrease from 2012/13 when the Corporation had 356 FTEs (227 internal and 129 external) committed to IT delivery. The Corporation advised the Board at the GRA hearing that it would be a challenge to bring additional IT service providers on staff with the

Corporation due to the salary levels that the market would demand, as compared with what the Corporation, as a Crown Corporation, can pay.

In Order 135/14, the Board ordered that MPI file at this GRA, an update with respect to all initiatives that may have IT cost implications for Basic, including the five-year IT strategic plan and cost-benefit analysis as directed previously in Order 151/13, together with any reports generated relative to MPI's IT vision and strategy development exercises. The Corporation provided this information as part of the Application.

MPI's major capital IT initiative is the PDR Project. The strategy of the PDR Project is to employ a distributed enterprise model whereby MPI embeds technology into repair facilities to work collaboratively with its partners in streamlining collision repair processes to realize claims cost savings. MPI estimates that the PDR Project will cost approximately $65 million to implement, and will be put into service by 2019/20, two years later than anticipated initially, due to the results of pilot projects which indicated a need to refine the details of the initiative. MPI expects that it will realize $13.3 million in annual savings as a result of the PDR Project which will include savings in Operating Expenses and Claims Incurred.

MPI also advised the Board that it is budgeting for technology modernization costs of $33.3 million over the next four years, to ensure its existing systems are fully supported. MPI has advised that there will be no formal project charter for this project and that it will provide further detail of the nature of the spending when budgets become more formalized.

3.6 Benchmarking

MPI has acknowledged the importance of benchmarking, to identify improvement opportunities for managing expenses and the efficiencies of its operations to move forward successfully. The Corporation again filed with the Board its benchmarking framework reflecting four subject areas: Operational Efficiency, IT Service Delivery, Serving Manitobans and Community Impact.

In Order 135/14, the Board ordered that MPI file at this GRA:

- an update on the claim duration issue including whether pre-BI^3 benchmarks are being achieved and when post-BI^3 benchmarks will be implemented and what those benchmarks will be;

- an external, independent review of the management and oversight of PIPP claims in the context of post-BI^3 implementation, to learn whether the initiative is providing the desired impact; and

- updated results relative to Serving Manitobans and Community Impact benchmarking.

The Corporation advised that as BI^3 was implemented in September 2010 and is now entering its fifth year post-implementation, it is too early to finalize post-BI^3 benchmarks as open post-BI^3 claims are not yet fully developed. The Corporation anticipates that while it will take seven years for the initiative to be fully functioning and achieving desired outcomes, it recognizes the importance of establishing performance measures and benchmarks and will do so as information becomes available.

The Corporation advised that an external, independent review of the management and oversight of PIPP claims in the context of post-BI^3 implementation would take two years to complete, based upon its experience with an audit of PIPP conducted by the Office of the Auditor General in 2012, which audit led to 23 recommendations being made to MPI. The Corporation stated that another review of the management and oversight of PIPP claims at this time would be non-conclusive given that BI^3 will not be fully implemented for another two years.

MPI did file with the Application an update relative to Serving Manitobans and Community Impact as well as an Operational Efficiency document reflecting information obtained by the

Corporation from the Ward Group, including a comparison of the Corporation to other auto insurers.

The Ward Group comparison reflects, as was the case last year, that the Corporation's total gross expenses, both as a percentage of gross premiums written and per policy in force are below the comparators, including the Canadian Personal Auto Group (includes 2 public insurers), the Canadian Benchmark Group (includes 2 public insurers) and the U.S. Personal Auto Group. There are several other categories in which the Corporation continues to outperform the comparators. The Corporation's FTEs per $100 million of gross premiums written, however, continue to be in excess of each of the comparator groups by 35 - 48 FTEs.

Historically, MPI has filed a benchmarking study relative to its IT expenditures, including a CIO Scorecard prepared by The Gartner Group (Gartner), reflecting benchmarking of various elements of IT costs. This year, the Corporation advised that in order to align the benchmarking information provided by the Ward Group and Gartner, new Gartner information would not be available until after the GRA hearing. The Corporation advised that this Gartner information will be included in next year's filing on the same annual basis as that provided by the Ward Group.

Gartner has made a series of recommendations to MPI in the past, some of which MPI has not yet implemented, in some instances because MPI has rejected the recommendation, and in others because MPI lacks the resources to implement the recommendation. MPI has stated that it is continuing to work towards evaluation and implementation of many of Gartner's outstanding recommendations.

3.7 Interveners' Positions

CAC

CAC recognized and acknowledged both the operational costs savings achieved by MPI in the short-term and the significant growth of those expenses, particularly since 2010/11.

CAC commented upon the prudence and reasonableness of both the BI^3 and PDR Projects, noting that each is a significant, transformative project very heavily reliant upon IT in terms of the opportunities and risks that each program offers.

With respect to BI^3, CAC stated that MPI has repositioned, and sought to bring the Board's attention back to the representations made by the Corporation in earlier hearings. In particular, CAC noted:

- the Corporation advised in a 2012 analysis that anticipated savings were $42 million, including 75% relative the reduction of claims leakage ($33.4 million) and 25% to savings in operating costs ($8.6 million);

- the Corporation now states that claims leakage is less of a factor or perhaps not a factor at all and that more significant operating costs savings are anticipated;

- the original value proposition from 2006 related to lowering claims duration; and

- last year the Corporation stated that it seeks to meet and then exceed BI^3 benchmarks and that claims durations were longer than the Corporation anticipated.

CAC stated that there are risks associated with IT intensive projects such as BI^3, in terms of both short-term cost overruns and MPI's ability to deliver what was promised and the consequences for longer term costs, including amortization. CAC acknowledged that there have been benefits from BI^3 but questioned whether the risks outweigh those benefits.

CAC suggested that the lessons learned from BI^3 should be considered relative to PDR; another transformative project with opportunities and risks which MPI has stated are much more significant than anticipated originally. In particular, MPI has identified that there will be higher than anticipated costs for retooling, and some repair shops will be left behind. Also, PDR will lead to a transformation of the estimating process and there will be changes in terms of demand for Service Centres. MPI reported that, in its discussions with the repair industry, all issues may be on the table including funding for retooling and estimating.

CAC noted MPI's evidence that the changes to the industry are much more significant than MPI anticipated, yet MPI has made no changes to its business plan for PDR, in terms of the magnitude of the costs or the savings. CAC stated that PDR will have yet unknown implications for the rate-setting process that must be considered by the Board. CAC questioned whether MPI should ever spend on for-profit businesses, which gives rise to a public policy issue of the potential contribution of ratepayers to private business infrastructure. CAC noted that PDR has significant upside and downside potential for collision costs, such that the Board should consider an in-camera briefing of the results of the distributed estimating pilot project prior to the next GRA.

CAC stated that MPI's IT staffing has been a long-standing issue, and that historically the benchmarking provided by the Gartner Group has reflected that the Corporation has had more external contractors and more overall IT staff than its peers. CAC stated also that MPI needs to bring itself in line with its peer comparators, and justify that its expenditures are prudent and reasonable, especially with respect to external contractors. CAC stated that MPI's expenses with respect to external contractors should be an area for potential cost savings, given the Corporation's evidence relative to its growing costs in this area and to the need to address this issue. CAC stated that it looks forward to further dialogue on IT staffing levels.

CAC stated that the Ontario Energy Board has been noted for the leadership role which it has played in a dialogue about benchmarking in core areas, and that this type of opportunity should be pursued in Manitoba. CAC noted that there seems to be some openness on the part of MPI to regulator facilitated deliberations on benchmarking. CAC suggested that to move this recommendation forward would require structure and creativity, including ground rules set by the Board and the involvement of an independent facilitator.

CAC stated also that in its view there remain unresolved issues within MPI's claims forecasting, which issues have given rise to a long-standing source of instability in rate-setting for Basic. In particular, Ms. Andrea Sherry, CAC's actuarial expert witness, testified with respect to the robustness of MPI's trending process, indicating that:

- MPI should base claims forecasts on statistically significant fitted trends wherever possible;
- MPI should take advantage of the detailed data available to it to explore coverage trends at a more granular level; and
- MPI should base claims forecasts on accident year trends, rather than fiscal year trends.

In addition, CAC stated that:

- MPI has difficulty with mortality estimation because it does not have enough claimants and data to build its own mortality table;
- As a result, within PIPP there remains a gap between expected and actual terminations of claims;
- MPI is attempting to phase in adjustments to the termination gap but there is a lack of actual experience data and positive developments are being recognized gradually; and
- MPI should seek to gain insight on longer tail experience from outside, and in particular from Société de l'assurance automobile du Québec (SAAQ).

CMMG

CMMG stated that it has difficulty understanding and evaluating the evidence of the Corporation relative to its IT consultants, and in particular the statement that MPI cannot make these consultants employees and disclose their salaries in the public GRA forum. CMMG characterized this issue as a difficult one.

IBAM

Mr. David Schioler testified on behalf of the Insurance Brokers' Association of Manitoba (IBAM).

IBAM expressed its support for the Corporation's Application and highlighted some issues from its perspective.

According to Mr. Schioler's evidence, approximately 33 percent of all insurance transactions conducted in Manitoba by insurance brokers involve MPI, and as such, appropriate rate-setting and the overall viability of MPI is important to IBAM's membership. Insurance brokers processed approximately 4 million transactions for MPI in 2014.

IBAM stated that private insurers are concerned with appropriate capital levels and premiums moving forward, given that catastrophic losses are becoming more frequent. As such, some private insurers are carrying surpluses beyond their regulatory requirements due to these concerns. With respect to MPI, IBAM expressed its view that it is important to ensure that MPI has adequate capital and to address any rate premium deficiency. Taking steps to address these issues will, according to IBAM, allow MPI to deal with structural challenges in the automobile industry and increasing claims costs.

IBAM stated that the insurance brokers in Manitoba have worked with MPI to improve operating standards, which address broker licensing and movement of broker licenses between locations. The operating standards were developed by a joint committee comprised of five experienced insurance brokers and five representatives of MPI. IBAM stated also that MPI is now meeting regularly with insurance brokers in order to ensure coordination and proper service to customers.

3.8 Board Findings

The Board has in the past characterized one of the key elements of its independent review function and rate-setting role as ensuring that actual and projected costs incurred are necessary and prudent, in the context of setting just and reasonable Basic rates. The Board's jurisdiction to do so is derived from *The Crown Corporations Public Review and Accountability Act* and in particular s. 26 thereof.

With respect to Operating Expenses, the Board has expressed the view previously that the Corporation’s approach to Operating Expenses appeared to be unchanged from prior years, that there were no savings in Operating Expenses and that the growth rate of expenses continued to be higher than inflation. The Board stated that the Corporation must control its expenses, and reverse the trend of ongoing growth in expenses over time. The Board also expressed concerns with respect to the Corporation’s staffing levels, which have continued to increase. The Board recognizes that the Corporation has heard the Board's concerns, and has taken specific steps to contain costs with which the Board is very pleased.

The Board is impressed with the ongoing efforts of the Corporation to contain costs, and is optimistic that the Corporation can continue to identify and implement ongoing savings beyond the $8.5 million identified in 2015/16. As set out above, the Board has granted the 0.0% rate change applied for by MPI in part because of these savings, and looks to the Corporation to continue that trend.

With respect to compensation, the Board recognizes that the collective agreement into which the Corporation entered with the MGEU in 2012 has continued to be a significant driver of cost increases, and that staff will receive step in scale increases as they gain seniority and progress in their employment by MPI, at least through September 2016. The Board acknowledges the Corporation's elimination of 30 FTEs which contributed in large part to the $8.5 million in savings in 2015/16, and expects to see the Corporation's efforts continue in 2016/17. The Board orders that MPI include in next year's GRA filing an update with respect to additional cost containment efforts relative to staffing levels and compensation expenses.

The Board is of the view that while MPI already does a significant amount of work on trends in claims forecasting, the robustness of its trending process can be improved. In particular, because MPI is focused on fiscal year trends, the statistical significance of the selected trends becomes unknown, and only an intuitive sense of reasonableness is possible. Relying more directly on accident year trends, and focusing upon the analysis of those trends to explain the patterns being observed, should only improve claims forecasting. As such, the Board orders that:

- MPI should base claims forecasts on statistically significant fitted trends wherever possible;
- MPI should take advantage of the detailed data available to it to explore coverage trends at a more granular level; and
- MPI should base claims forecasts on accident year trends, rather than fiscal year trends.

The Board also orders that MPI should seek to gain insight on longer tail experience from outside, and in particular from Société de l'assurance automobile du Québec (SAAQ).

With respect to IT expenditures, the Board has historically expressed significant concern about cost overruns, particularly given the Gartner reports filed in the past which have reflected that MPI had poor control over its IT spending versus peer groups and that despite some improvement, it remained at the high end of the peer group with respect to spending. The Board is concerned about MPI's costs relative to external IT consultants, and orders that MPI assess opportunities for savings relative to external IT consultants, including a review of whether savings can be gleaned by bringing any of those consultants in-house. The Board orders that MPI file the results of that assessment with the Board at next year's GRA.

The Board notes the Corporation's plans for IT Modernization and the anticipated, associated cost of $33.3 million over the next four years. The Board requires that MPI file, at next year's GRA, the details of the IT Modernization initiative and the corresponding budget.

Given the significant budgeted PDR project cost ($65 million), the Board is concerned about the impact of the delay in full implementation to 2019/20, including the risks to the Corporation should further difficulties be encountered. The Board orders that MPI file with the Board at next year's GRA an independent assessment on the development and roll-out of the PDR Project, including the progress of the pilots, the timing of full implementation, the costs of the project and the anticipated savings to be derived from the project. Prior to proceeding with this independent assessment, the Board orders MPI to file with the Board the proposed Terms of Reference of the assessment for approval by the Board.

The Board understands MPI's reluctance to share information that may impact its negotiations with the industry and will proceed with an in-camera briefing as requested by CAC, relative to the results of the distributed estimating pilot project prior to the next GRA, and no later than May 31, 2016. The Board makes this order because of the significant expected PDR Project cost and the delay disclosed by the Corporation.

With respect to benchmarking generally, the Board acknowledges that the Corporation has made further progress with its benchmarking, including the presentation of a benchmarking framework as requested by the Board and the continued provision of the Ward Group analysis. The Board looks forward to the receipt of the Gartner report next year.

The Board is aware of the work of the Ontario Energy Board and the leadership role which it has played in benchmarking utility performance. The Board may develop a broader benchmarking framework relative to all utilities in the future, perhaps initially outside the GRA process, or the Board may pursue a benchmarking framework unique to MPI.

4.0 INVESTMENTS

4.1 Investment Portfolio

As reflected in Section 2.4 above, the funds available for investment by the Corporation are primarily the assets supporting the unearned premium reserves and unpaid claims reserves. The Corporation's overall investment portfolio was over $2.6 billion as at February 28, 2015.

Management of MPI's assets must be done in accordance with the Investment Policy Statement approved by its Board of Directors. The composition of the investment portfolio at February 28, 2015, and forecast for 2016/17 are as follows:

	2014/15 Actual		**2016/17 Forecast**	
	Ending Asset Values (C$ millions)	**Ending Rebalanced Allocation**	**Ending Asset Values (C$ millions)**	**Ending Rebalanced Allocation**
Cash/Short Term Investments	69	2.7%	10	0.4%
Canadian Fixed Income	1100	42.3%	1065	39.9%
MUSH Non-Marketable Bonds*	607	23.3%	650	24.4%
Total Long Term Bonds	**$1,707**	**65.6%**	**$1,715**	**64.2%**
Canadian Equities	347	13.3%	347	13.0%
US Equities	174	6.7%	187	7.0%
Real Estate	247	9.5%	271	10.2%
Infrastructure & Venture Capital	58	2.2%	138	5.2%
Total	**$2,602**	**100.0%**	**$2,668**	**100.0%**

** MUSH bonds are Manitoba rural municipality, school division and healthcare facility bonds and ventures which are not tradable in the fixed income market. MUSH bonds are held at book value and the portfolio's value does not vary with changes in interest rates.*

In Order 151/13, the Board expressed some concern over the composition of the investment portfolio, noting the size of the portfolio and changes in the interest rate environment during the previous five years. The Board ordered MPI 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. The Board stated also that 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, one of the major risks faced by the Corporation.

MPI retained an outside consultant, AON Hewitt, to undertake an Asset Liability Management Study (ALM Study) and advise whether the current asset mix and duration matching strategy should continue, or should be revised. The ALM Study was filed together with the Application and led to two main outcomes. First, the Corporation's target asset allocation was changed from 60% fixed income / 20% equities / 20% alternatives (real estate and infrastructure) to 70% fixed income / 15% equities / 15% alternatives. MPI revised its target range of investment asset allocations as follows:

Asset Class	Minimum	Target	Maximum
Cash and Short Term	0%	0%	5%
Marketable Bonds	40%	50%	60%
MUSH	15%	20%	25%
Total Bonds	**60%**	**70%**	**80%**
Canadian Equities (85% Large Cap and 15% Small Cap)	7%	10%	13%
U.S. Equities (80% Large Cap and 20% Small Cap)	3%	5%	7%
Total Equity	**10%**	**15%**	**20%**
Canadian Direct Real Estate	7%	10%	15%
Direct Infrastructure	2%	5%	8%
		100%	

The Corporation has advised that this new asset allocation has lower expected risk with lower returns, which reduced forecasted investment income. The second aspect of the ALM study, relating to duration matching, is referenced at Section 4.4 below.

4.2 Investment Management

Basic premiums are not set to recover claims costs; rather MPI typically depends on investment income to break even. MPI's substantial investment portfolio is managed jointly by the Corporation and the Province of Manitoba, through a committee known as the Investment Committee Working Group (ICWG), which is co-chaired by MPI's Vice President of Finance and Chief Financial Officer, and the Assistant Deputy Minister to the Department of Finance.

The ICWG provides support and advice to the Minister of Finance with respect to MPI's investments, including with respect to MPI investment strategies. The ICWG seeks consensus between the Department of Finance and MPI on recommendations to be provided to the Minister of Finance on investment decisions, but the ultimate responsibility for the portfolio rests with the Minister of Finance.

4.3 Investment Returns

MPI earned $226.2 million in investment income in 2014/15, of which Basic's share was 83.3% totaling $188.5 million, an increase of $40.7 million from 2013/14 and the largest level of annual investment income in the Corporation's history. This result was attributable in large part to interest rate declines which resulted in both realized and unrealized gains on the marketable bond portfolio, of $102.8 million. The marketable bond portfolio is sensitive to changes in interest rates, and MPI's projected returns for Basic investment income have changed materially since last year's application, due primarily to interest rate forecast changes, as follows:

Basic Investment Income ($ millions)				
	2014/15	**2015/16**	**2016/17**	**2017/18**
2015 GRA	$28.8	$49.9	$84.6	$77.3
2016 GRA	$188.5	($10.8)	$12.8	$12.9
Difference	$159.7	($60.7)	($71.8)	($64.4)

These variances are attributed, in the main, to changes in projected realized and unrealized gains and losses in the marketable bond portfolio, due to revised interest rate forecasts. If the impact of changing interest rates was excluded, Basic investment income would have been $102.9 million in 2014/15 as opposed to $88.5 million, and forecast at approximately $79.8 million in 2015/16. Over the rating years (2016/17 and 2017/18) investment income is forecast at about $12.9 million annually. The low level of investment income is negatively impacted by the ($75.9) million in average losses on the marketable bond portfolio due to the rising interest rates being forecasted. If total losses on marketable bonds from the rising interest rates forecast were excluded, Basic would realize, on average, $88.8 million over this time period ($85.3 million in 2016/17 and $92.1 million in 2017/18). The subject of interest rate risk to the Corporation and to Basic is addressed in the following section.

4.4 Interest Rate Risk

Last year, at the request of MPI, PricewaterhouseCoopers (PWC) reviewed the issue of interest rate risk to the Corporation. PWC defined interest rate risk as follows:

> Interest rate risk represents the risk of economic loss resulting from market changes in interest rates and the impact on interest rate sensitive assets and liabilities. Interest rate risk arises due to the volatility and uncertainty of future interest rates.

The Corporation acknowledged that historically, small changes in interest rates have had a significant impact upon investment income. Within MPI's investment portfolio, due to its weighting to long-term bonds, some of which are marketable, investment returns are impacted materially by changes in interest rates. In particular, if interest rates increase, marketable bond values fall, as do the discounted value of the claim liabilities. If interest rates decrease, bond values and claims liabilities increase. The effect of these changes can, to a large extent, offset each other if managed appropriately so that the net impact on financial results is neutralized. For example, if there is a mismatch between the duration of claims liabilities and supporting investment assets, as was the case historically, the net effect can mean increased gains or losses relative to a neutral situation, including a negative impact on net income. The same is true if there is a mismatch between the underlying forecasted cash flows (claims liabilities vs. supporting investment assets), even if the durations are matched.

If interest rates decrease relative to the forecast used to support a rate application, mismatching of durations will have an adverse effect if claims liabilities are longer in duration than the supporting investment assets, as was the case last year. When the increase in the value of the bonds is less than the increase in the value of claims liabilities, financial results will be worse than anticipated and, as a consequence, could lead to a need for increased Basic insurance rates.

MPI models changes in the fair market value of its marketable bonds and the changes to bond values flow through Basic's net income because those assets are categorized as Fair Value Through Profit and Loss. Basic's operating results have been very sensitive to interest rate changes, including the timing and the amount of the interest rate changes. Because it is difficult to predict the amount and timing of assumed interest rate changes, Basic net income has been very difficult to forecast accurately.

MPI managed interest rate risk last year pursuant to a +/- 1 year duration match, and this year, based on the recommendation of AON Hewitt (AON), implemented full duration matching and has included that assumption in the forecasts in the Application. Duration matching of investments and claims liabilities does not mean that net income is fully 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, but there are practical limitations to cash flow matching, and adverse consequences for investment returns.

The effectiveness of duration matching for the Corporation is also complicated by the fact that its investment portfolio is managed for the Corporation as a whole, rather than Basic's portfolio being separately managed. Further, over 37% of the fixed income portfolio supporting the claims liabilities is invested in non-marketable (i.e. MUSH) bonds, which are not interest rate sensitive (their value does not fluctuate with changes in interest rates).

MPI has stated in the past that the longer the duration mismatch (with assets shorter term than liabilities), the more favourable the results for the Corporation <u>if interest rates rise</u> (the drop in value of the assets is less than the decrease in liabilities). Moving to full duration matching has lowered the impact upon net income of changes in interest rates but has not eliminated the impact.

Last year PWC, in reviewing the practices of Property and Casualty insurance companies in managing interest rate risk, found that cash flow matching is the predominant methodology employed among its sample group. The majority of companies/branches sampled matched their assets to the claims liabilities to minimize interest rate risk.

The Board stated in Order 151/13, on p. 32:

> 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.

Last year, MPI provided a Duration Matching Discussion Paper in which it evaluated the interest rate risk faced by MPI. MPI found that the interest rate risk to the Corporation was more significant with a larger duration bandwidth and changed the duration gap from +/- 2 years to +/- 1 year on or about August 31, 2014. MPI characterized this change as a stopgap measure pending the completion of the ALM Study underway at the time, which was to address the merits of cash flow matching within the Corporation.

The Board in Order 135/14, on page 43, stated that:

> MPI should seek to substantially immunize itself from the impact of changing interest rates….
>
> The Board also notes that if the Corporation's interest rate risk is eliminated or substantially mitigated, there will be an impact upon the Combined

> Scenario in the Dynamic Capital Adequacy Testing (DCAT) report such that required rate reserve levels could be decreased….
>
> Once the ALM Study is completed MPI must take steps to substantially mitigate interest rate risk, and the Board directs MPI to provide, at next year's GRA, the details of the steps that MPI has taken to do so.

The second aspect of the ALM study filed in the Application, as referenced above, related to duration matching. AON recommended full duration matching along with a change in the composition of the investment portfolio rather than cash flow matching or a hybrid matching approach, due in part to reduced investment returns from the alternatives relative to the interest rate risk protection afforded. As a result of the ALM study, and to better mitigate interest rate risk, the Corporation's duration matching strategy was changed such that the duration of the fixed income portfolio will match the claims liabilities duration including all actuarial provisions.

The Corporation has stated that full matching of the duration of the fixed income portfolio and claims liabilities does not completely eliminate all interest rate risk. In the Application, the Corporation states that the net interest rate impact was $18.1 million on average over the rating years, compared to $24.0 million using last year's assumptions; a $5.9 million difference.

The Corporation stated also that the combined impact of the change to the duration matching strategy and the new asset allocation on Basic net income over the rating years was relatively small. In particular, the forecasted Basic net income in the Application was $1.2 million lower on average in the rating years compared to last year's duration and asset allocation assumptions.

4.5 Investment Income Forecasting

At the 2014 GRA, the Corporation proposed a new methodology by which to forecast its investment income, which measured the impact of interest rate changes on investment income and claims liabilities, whereas the methodology employed by the Corporation previously did not do so. In addition, the methodology proposed by the Corporation at the 2014 GRA utilized a five-year interest rate growth forecast from the five major Banks and Global Insight but stretched that forecast growth over ten years, effectively halving the growth rate (Low Growth Rate Forecasting Methodology).

At the 2014 GRA, the Board concluded that there should be more discussion and analysis with respect to interest rate forecasting and pursuant to Order 151/13 ordered that a technical conference take place for that purpose. After learning that the Corporation would attend a technical conference but would not bring forward expert evidence, the Board varied Order 151/13, withdrew the requirement of a technical conference and ordered that at the 2015 GRA the following evidence be filed:

- the particulars of the interest rate forecasting methodology preferred by MPI and relied upon in the Application;
- the particulars of the research, review and analysis conducted by MPI in ascertaining the details of its preferred interest rate forecasting methodology; and
- expert evidence regarding a reasonable and appropriate interest rate forecasting methodology to be used by MPI.

The Corporation has acknowledged that it does not have expertise in interest rate forecasting but stated that it has an in-depth understanding of the interest rate risks which it faces. The Corporation acknowledges that the GRA must be prepared on a best estimate basis.

The Corporation has stated that it uses only one long-term interest rate forecast because other long-term forecasts do not provide timely or monthly forecast changes, or cannot be disclosed publicly.

4.6 Interveners' Positions

CAC

CAC noted that there has been a challenge with the Corporation's interest rate forecasting for many years. CAC questioned whether the Corporation's interest rate forecasting methodology should be revisited and whether there is now sufficient immunization for the Corporation's investment portfolio. In particular, Basic suffered losses of $30.8 million in 2011/12 and $38.1 million in 2014/15 due to the negative impact of interest rates when the marketable bond yield fell by 0.33% and 0.53% respectively. CAC also noted MPI's evidence that if the Application had been based upon the Bank industry forecast as at September 30, 2015, a 1.6% overall rate increase would have been requested by the Corporation.

CAC expressed the concern that the Corporation has not done enough to mitigate interest rate risk, even after implementation of the recommendations on duration matching found within the ALM Study, and stated that MPI's ongoing exposure to significant interest rate risk must be addressed in the near future, perhaps through a comparison with other organizations.

CAC noted also that there was an unrealized opportunity for investment in higher yield corporate bonds and queried how MPI's investment portfolio is performing relative to other significant organizations in Manitoba. CAC recommended that AON be brought in to review the yields earned by these similar organizations and comment on performance to date.

4.7 Board Findings

With respect to the composition of the Corporation's investment portfolio and its management of interest rate risk, the Board was pleased to receive the ALM Study completed by AON Hewitt, but notes that the GRA process would have been enhanced if appropriate witness(es) from AON Hewitt were produced by the Corporation to discuss the Study. The Board directs MPI to bring an expert witness to the 2017 GRA hearing to testify with respect to its current asset mix, duration matching strategy and strategy to manage Basic interest rate risk, and that this expert provide a report regarding those issues, to be filed together with the 2017 GRA. In addition, the Board seeks an update on the status of the use of corporate bonds in the bond portfolio including insight on the performance of those bonds.

The Board notes that there are other entities in Manitoba with substantial investment portfolios under the control of the Government of Manitoba, such as the Workers' Compensation Board, the Teachers' Retirement Allowances Fund and the Civil Service Superannuation Board of Manitoba. The Board orders MPI to prepare and file at next year's GRA a study with respect to the composition and performance of the investment portfolios of each of those entities for review.

The Board notes that volatility in the value of the investment portfolio is one of the major risks faced by the Corporation and that pursuant to its current approach, the Corporation, and in particular Basic, are not fully immunized from interest rate risk. The Board recognizes that significant improvements have been implemented by the Corporation relative to the approach that it utilized in years past, but in the view of the Board, the interest rate risk remains at a level that requires further review and analysis.

The Board also notes that if the Corporation's interest rate risk is eliminated or substantially mitigated, there will be an impact upon the Combined Scenario in the DCAT report such that required rate reserve levels could be decreased.

The Board has in the past expressed the view that the standard interest rate forecast prepared by the 5 major Banks and Global Insight is the best information that is available with respect to interest rate forecasts, other than longer term forecasts available for purchase, which MPI has not done. It is the view of the Board that MPI should utilize at least one additional longer term forecast to enhance the accuracy of the information on which MPI relies to prepare its interest rate forecast on which the GRA is based. As such, the Board orders that next year, MPI file its application on the basis of the interest rate forecasting methodology used currently, and that it also file on the basis of an Olympic style average (i.e. excluding each of the highest and lowest values of the non-long term standard interest rate forecasts utilized), and utilizing at least one additional longer term forecast.

The Board notes that if the updated September 2015 standard interest rate forecast materializes, MPI's revenues will decrease in 2015/16 and following, such that the net result for 2016/17 and 2017/18 would not be a break even position. This is the case even after the implementation of full duration matching as at August 31, 2015.

5.0 RATE STABILIZATION RESERVE

5.1 *RSR Balance*

The stated purpose of the RSR is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors. The RSR balance was $102.3 million as at February 28, 2015, after a net income in Basic of $2.4 million, which was increased to $177.8 million after a transfer of $75.5 million from non-Basic retained earnings. With Accumulated Other Comprehensive Income (AOCI), Basic Total Equity was $213 million as at February 28, 2015; the minimum Total Equity target set by the Corporation. AOCI represents an aggregate of the difference between net income reflected in an income statement and total comprehensive income, and includes unrealized gains or losses on available for sale securities.

A summary of the retained earnings balances for the Corporation from 2013/14 through 2017/18, prepared on the basis of the September 2015 standard interest rate forecast, is as follows:

	Actual		**Forecast**	**Projected**	**Outlook**
Years Ended February 28/29	**2014***	**2015**	**2016**	**2017**	**2018**
RSR Opening Balance	$169*	$100	$178	$185	$170
Net Income (loss)	($69)*	$2	$7	($15)	($12)
Total RSR Before Transfers	**$100***	**$102**	**$185**	**$170**	**$158**
Transfer in from Non-Basic Retained Earnings	$0	$76	$0	$0	$0
Total Basic RSR	**$100**	**$178**	**$185**	**$170**	**$158**
Basic AOCI	$70	$35	$38	$44	$51
Total Basic Equity	**$170**	**$213**	**$223**	**$214**	**$209**
Non-Basic Equity					
Non-Basic Capital Reserves	$114	$117	$117**	$117**	$117**
Non-Basic Retained Earnings	$107	$83	$83**	$83**	$83**
Non-Basic Retained Earnings	**$221***	**$200**	**$200****	**$200****	**$200****
Total Corporate Retained Earnings	**$320***	**$378**	**$385**	**$370**	**$358**
AOCI (includes Basic)	**$77**	**$43**	$46	$52	$59
Total Corporate Equity	**$397***	**$421**	**$431**	**$422**	**$417**

* Restated due to the implementation of International Accounting Standard (IAS) 19, Employee Benefits, in 2013/14 which required actual gains and losses on employee future benefits to be recognized immediately in Other Comprehensive Income. The impact of this change was to increase the RSR by $27.6 million to $99.9 million as at February 28, 2014.

** 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 2014/15, based on the information contained in MPI's 2014 Annual Report.

On February 28, 2015, the Corporation had corporate retained earnings of almost $378.1 million, including all lines of business, and $421.4 million in total equity including AOCI. Based on the September 2015 interest rate forecast, MPI is projecting the RSR to be $178.3 million at the end of 2015/16, $170 million at the end of 2016/17 and $157.5 million at the end of 2017/18. In the Application, MPI has requested that the Board approve a minimum (lower) RSR/capital target of $231 million in total equity, based on the 2015 DCAT Report and utilizing an adverse scenario probability level at the 97.5th percentile (1 in 40 year). The Corporation has also requested that the Board approve a maximum (upper) RSR/capital target of $366 million based upon a 100% MCT value.

Appointed actuaries for federally regulated property and casualty insurance companies in Canada are statutorily required to annually report on an investigation of the expected future financial condition of the entity (Section 368 and 630 of the *Insurance Companies Act of Canada*). The DCAT is the process developed by the Canadian Institute of Actuaries (CIA) to address this statutory requirement. Actuaries carrying out a DCAT are expected to do so in accordance with accepted actuarial practice in Canada. Through the examination of plausible adverse scenarios for each of a number of relevant risk categories, the purpose of DCAT is to identify:

- Plausible threats to an entity’s satisfactory financial condition;
- Actions which lessen the likelihood of those threats; and
- Actions that would mitigate a threat if it materialized.

The DCAT process can also be adapted for purposes of estimating target capital levels, which in the case of Basic coverage may be defined in terms of the RSR balance or the Basic Total Equity balance. A target capital range can be defined by selecting a lower and upper percentile level of possible outcomes, each consistent with a level of protection one intends the target capital level to provide.

MPI has stated that the DCAT addresses the risks faced by MPI, and that the DCAT in its current form is the product of consultation with the Board's actuarial advisor and CAC's advisors following on the process ordered by the Board last year, reflected in Appendix "E" to Order 135/14. MPI has stated repeatedly that the Board's actuarial advisor can continue to propose refinements to the adverse scenarios within the DCAT which MPI would accept, if its internal and external actuaries approved of the changes. MPI has submitted that any further refinements should not delay the Board's acceptance of the DCAT for the purposes of setting the RSR/capital target range, as there is sufficient consensus between the parties with respect to the DCAT to initiate its use.

MPI stated that the MCT is an industry standard test that is used by the insurance industry and its regulators, having been developed to assess the key risks faced by the insurance industry, and to harmonize capital requirements across jurisdictions in Canada. It is a risk-based approach that better reflects the riskiness of individual property-casualty insurers in Canada and is consistent with approaches in other financial sectors. MCT is utilized by all other property-casualty insurers in Canada, including the Saskatchewan Auto Fund and the Insurance Corporation of British Columbia. MPI stated that the MCT assesses the riskiness of assets, policy liabilities and off-balance sheet exposures by applying various risk factors. MPI stated also that the calculation of the MCT score is completely objective, involves no judgment and is relatively easy to calculate.

With respect to MPI's selection of 100% as the ratio that should form the basis for the maximum RSR/capital target, MPI has stated that federally regulated insurers must maintain a minimum MCT ratio above 100% and a minimum supervisory MCT ratio of 150%, while most insurers maintain an actual MCT ratio in excess of 200%. MPI stated that SGI targets a minimum MCT score of 100% for its Auto Fund program, while ICBC targets a minimum 100% MCT for its Basic program. MPI has requested that a 100% MCT ratio be implemented as the maximum RSR/capital target, to be revisited in approximately four years.

5.2 RSR Target History

Historically, the Corporation and the Board have held 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 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% of 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 DCAT Report, the MCT Report and the Risk Analysis/Value-at-Risk Report be filed with the Board on no less than a triennial basis to test against the RSR established target.

In Order 135/14, the Board stated that for the purposes of the 2015/16 fiscal year, the Board accepted the DCAT methodology, in principle but on a preliminary basis, for the purposes of establishing the RSR target range for Basic. For the time being and subject to further analysis, the Board accepted that a 1-in-40 year scenario probability level, as requested by MPI, was the appropriate threshold for the minimum RSR target for 2015/16. With respect to the specific dollar amounts that should form the minimum and maximum RSR/capital target range, the Board ordered that further work be carried out.

Specifically, the Board ordered that MPI respond to a document attached as Appendix "E" to Order 135/14, and engage in an ongoing dialogue, among all parties relative to Phase I of Appendix E and with a view to finalizing Phase I. In Order 58/15, the Board provided the following direction on the four criteria within Phase I, to be implemented in Phase II of the process set out in Appendix E to Order 135/14:

1) The capital target level is to be based on Total Equity level;

2) MPI shall proceed with Phase II utilizing each of the 97.5th percentile and the 95th percentile as the probability level appropriate for a capital target range lower limit;

3) The Board shall decide the adverse scenario probability level appropriate for a capital target range upper limit at a future time, so

MPI shall proceed with Phase II utilizing its recommended basis for setting the capital target range upper limit; and

4) MPI shall proceed with Phase II utilizing each of a time horizon of two years and a time horizon of four years.

Unfortunately, and due to the timing with which Phase I unfolded, Phase II could not be completed prior to the preparation of the 2015 DCAT report.

5.3 Joint Interactive Actuarial Testimony

For the first time in hearings before the Board, the Board heard concurrent evidence from Mr. Luke Johnston, MPI's Chief Actuary and Ms. Andrea Sherry, CAC's actuarial expert witness. The format and structure of the joint testimony as well as an issues list was agreed to by all parties in advance. The issues list contained reference to the evidence upon which the actuarial witnesses agreed and disagreed, and the positions of MPI and CAC on each issue. CAC also filed a paper with the Board, co-authored by Ms. Sherry and Dr. Wayne Simpson, entitled "Discussion on the DCAT and the Need for a Rate Stabilization Reserve (RSR)" (CAC Report).

During the joint and interactive testimony, the witnesses presented their evidence and were able to ask questions of each other and to discuss various DCAT and target capital issues, on the record and under oath, for the benefit of the Board and all parties. Following their initial testimony, the witnesses were also subject to questioning from the Board and from counsel.

The Board was pleased to receive the evidence of the actuarial witnesses in the joint interactive format, with the consent of all parties, which allowed for a fulsome and challenging yet respectful discussion. The Board is of the view that this is a format that will continue to be useful in future GRA hearings, and recognizes the joint evidence as one example of the collaboration and co-operation exhibited by MPI, with which the Board is pleased. The Board will further consider the joint testimony process and invite input from the parties, prior to the next occasion on which joint testimony will be heard, such that refinements and/or improvements to the process can be discussed and implemented.

The joint interactive testimony reflected that MPI and CAC were in agreement that a target capital range for the Corporation is preferable to a single target capital level, and that target capital levels should be stated in terms of Total Equity. A significant portion of the evidence given during the joint actuarial testimony related to the appropriate methodology for setting the target range for the RSR. Areas of discussion also included the appropriate lower and upper bounds for the target capital range, the modeling of the MCT, interest rate scenarios including forecasting interest rate floors, issues of intergenerational inequity and the length of time horizon for target capital level setting.

5.4 Interveners' Positions

CAC

CAC took the position that the upper bound of the target range requested by the Corporation, based on 100% MCT, is too high and would result in intergenerational inequity. CAC advocated for the use of the DCAT in setting both the minimum and the upper bound of the RSR range. The RSR target should be based on a 1-in-40 year event, with a lower bound based on a 1-in-20 year event and an upper bound based on a 1-in-60 year event.

In addition to its concern with the upper bound of the target range being too high at the 100% MCT level, CAC's position generally, based on the evidence given by Ms. Sherry, was that the MCT is a solvency test, and solvency is not a risk faced by the Corporation. The MCT is not, therefore, the appropriate test to be applied in setting the upper bound of the RSR target range. CAC's position was that the RSR should be tied to risk, based on the analytical foundation employed by the DCAT methodology. CAC also took the position that the DCAT scenario employed by MPI should not include correlation between interest rates and equity returns as there was no meaningful correlation between the factors.

CAC stated that issues related to the equity scenario and the interest rate scenario remain unresolved and suggested that MPI continue to refine those matters.

In particular, in the CAC Report, it was noted that the equity scenario was inconsistent with the other scenarios and failed to capture the rebound in equity returns after an adverse event. Further, the CAC Report reflected that the choice of a shortened time horizon overstated the adverse nature of the equity decline scenario because there is evident rebound in equity returns in the fourth year, reflected within the DCAT.

The CAC Report reflected also that the interest rate decline scenario is inconsistent with the methodology used for the high loss and equity decline scenarios and is not credible. In addition, the CAC Report reflected that the interest rate decline scenario does not rely completely upon historical evidence because the historical evidence does not contain a period of sustained low interest rates as is being experienced currently. The CAC Report also reflected that MPI arbitrarily imposed an interest rate floor based on the lowest monthly Government of Canada 10 year bond yield from 1989 to the present, and that since the DCAT calculations apply to fiscal years, not months, it is unclear why the lowest monthly yield was used since it also exaggerated the lowest annual yield and the estimated impact of the scenario. In the CAC Report it was recommended that the contribution of the interest decline scenario to the combined scenario within the DCAT should be heavily discounted.

Generally, CAC expressed concern with the Corporation carrying large amounts of reserves, which in its view would reduce the Corporation's incentive to improve forecasting methodology or mitigate risk. CAC's stated that the initial purpose of the RSR as contemplated by the Kopstein report was not to protect against variance in budget, but to protect motorists from rate increases caused by unexpected events and losses arising from non-recurring events or factors. CAC stated that the RSR should not be a bulwark against poor management or poor forecasting, and that clear rules and a clear segregation of RSR funds is important.

CMMG

CMMG accepted the position of CAC in respect of the RSR. In particular, CMMG's position was that MPI bears no solvency risk and as such the MCT is not the appropriate test to apply in setting the target range for the RSR. CMMG also expressed the view that anything more than a 1-in-20 year scenario in setting the lower RSR target would result in intergenerational inequity and that the scenarios that the Corporation intends to protect itself against, in requesting the RSR range that it has, are too remote to justify such a range.

5.5 Board Findings

In Order 135/14, the Board ordered MPI to prepare and file a discussion paper relative to the nature and purpose of the RSR and the long-standing definition of the RSR as follows:

> The purpose of the RSR is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

The evidence reflects that on an annual basis the net operating results of Basic impact the balance of the RSR, and in particular PWC, by letter filed in the Application stated:

> Given the nature of the industry and the difficulty in predicting operating results, the RSR is often used for more than just offsetting extreme, one-time events, but rather absorbing the variances from plan each year

In the view of the Board, the annual net operating results of Basic do not constitute unexpected or non-recurring events or factors, and as such the definition of the RSR should be worded more broadly to accord with reality. The Board asks that MPI file a proposed, revised definition of the RSR at next year's hearing, for review and comment by all parties.

As set out above, the Board has ordered previously that it accepted the DCAT methodology, in principle but on a preliminary basis, for the purposes of establishing the

RSR target range for Basic. In addition, the Board ordered that MPI respond to a document attached as Appendix "E" to Order 135/14, and engage in an ongoing dialogue, among all parties relative to Phase I of Appendix E and with a view to finalizing both Phase I and Phase II of the collaborative process. The progress made relative to Phase I is an example of the collaboration and co-operation exhibited by MPI, with which the Board is pleased The Board orders that MPI continue to participate in the collaborative process and to complete Phase II thereof, which ongoing dialogue should take place among all parties that wish to participate.

For Fiscal 2016, as recommended by MPI, the Board orders that the two year return period, 1-in-40-year probability level, Combined Scenario including Management and Regulatory action should be utilized for the purposes of setting the lower Total Equity capital target for Basic, calculated at $231 million by MPI. At the 2017 GRA, after Phase II (above-referenced) is completed, the Board will hear evidence on potential changes in approach in this regard. The Board notes that this choice of scenario will likely enable the Corporation's Chief Actuary to continue to provide a favourable opinion regarding the satisfactory financial condition of Basic.

The Board has considered the arguments that a 1-in-40 probability level would result in excess reserves and intergenerational inequity, and has balanced these possibilities with rate-making principles, including the importance of rate stability. The Board notes that selection of a lower threshold (i.e., based on a higher probability scenario) would otherwise be expected to increase the frequency with which MPI would need to request an RSR rebuilding fee, in effect leading to rate instability. The Board has determined that for Fiscal 2016, use of the two year return period, 1-in-40-year probability level, Combined Scenario including Management and Regulatory action will result in an appropriate balance between the various needs of policyholders and the satisfactory financial condition of Basic.

The remaining work to be done relative to Phase II and Appendix E is intended to result in a better understanding and acceptance of the plausible adverse scenarios and is expected to assist the Board in establishing an ongoing, appropriate Basic RSR/capital target range for the future with more confidence.

The Board has stated in the past that the MCT is a valuable yardstick that can be utilized to measure MPI's capital adequacy at different points in time for comparative purposes. With respect to the upper target capital total, the Board approves the use of a 100% MCT ratio on a notional basis only. The 100% of MCT result will represent the notional upper limit for the rate reserve, a limit which may yet be altered based on the supplemental DCAT analysis to be completed. The notional upper limit will preclude any Board ordered rebates, unless the rate reserve exceeds either the notional upper limit of the rate reserve calculated using the MCT or the upper limit set using the DCAT, if that is the upper limit test ultimately selected by the Board.

While the MCT functions principally as a federal regulatory solvency test, it represents an important yardstick for determining the financial condition of Canadian insurers. A notional upper limit based either directly on the MCT or indirectly in relation to the MCT will testify to the soundness of this very important Manitoba institution. While the adoption of an upper limit based on the DCAT and/or the MCT will result in higher reserves than would otherwise be the case based on the Kopstein range, it will support longer term rate stability for ratepayers and will enhance public confidence in the Corporation.

The Board understands that the MCT is set and administered by the Office of the Superintendent of Financial Institutions (OSFI), an organization entirely external to MPI, that OSFI alone controls the terms of the MCT and that the methodology for calculating the MCT are subject to change (and have changed) frequently. While MPI has provided a written commitment to use the "currently available" MCT Guideline as of the year-end date of the DCAT report, it has not done so in practice. The Board notes that MPI's 2015 DCAT report (looking forward from 28 February 2015) was prepared utilizing the OSFI MCT Guideline that became effective 1 January 2013, which was revised by OSFI with an updated MCT Guideline that became effective 1 January 2015.

As such, the Board requires that MPI report back to the Board annually with respect to what MCT Guideline was used within the DCAT report, whether that MCT Guideline was the most recently issued Guideline, and what upper limit target capital level MPI is seeking for the upcoming fiscal year. The Board is not prepared to commit to review this issue every four years given its concerns relative to the currency of the MCT Guideline. In addition, the Board requires MPI's commitment to proactively model the MCT as it is changed by OSFI to assess how this might affect target capital levels.

As in the past, the Board looks 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 $378.1 million as at February 28, 2015, including $200.2 million in Extension and SRE.

The Board is pleased by the Corporation's decision to transfer some excess retained earnings from Extension and SRE into the RSR prior to the end of 2014/15, to assist Basic ratepayers and alleviate, at least in part, the shortfall in the Basic RSR. The Board notes the commitment of the Corporation to do so again prior to the end of 2015/16, to the extent that the balance of the RSR is below the minimum target capital level sought by MPI, of $231 million. The Board again recommends that the Corporation should develop an ongoing and transparent strategy for the disposition of the excess retained earnings funds to the benefit of ratepayers. The Board continues to be concerned about the moral hazard associated with excess reserves, the risk of improvised or irregular decisions to spend funds that should be used, as a matter of course, to provide support to Basic insurance, without which MPI's other lines of business could not exist.

As the Board has expressed in the past, and most recently in Order 135/14, the Board continues to hold the view that the Extension and SRE lines of business should be regulated, given MPI's market position as a near monopoly provider of non-compulsory auto insurance in Manitoba. The Board recommends to the Government, therefore, that its jurisdiction be extended to include non-Basic lines of business, including rates and retained earnings.

6.0 RATE DESIGN

6.1 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.

6.2 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.

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.

6.3 Major Classification, Insurance Use and Rating Territory

The Corporation utilizes the financial forecast method as the basis for proposed rate adjustments. The Corporation develops 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%.

6.4 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 (up to 99) by vehicle type for each of collision, comprehensive and accident benefits coverage. MPI combines those rate groups to produce a fewer number of MPI rate groups. MPI applies its own experience by rate groups, thereby re-calibrating the CLEAR data.

6.5 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 approximates a break even result. MPI has advised that it seeks to break even on the basis of average net income over two years (in this Application 2016/17 and 2017/18), due to the staggered renewal of Basic insurance. 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 the 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.

6.6 Interveners' Positions

CAC

CAC stated that in its view, MPI's challenges with forecasting and failure to mitigate high risk factors have created rate risk. In particular, interest rate forecasting remains a challenge for the Corporation, as does forecasting of the termination of PIPP claims. In particular, there is an ongoing gap between actual and expected termination of PIPP claims, which is only gradually being recognized by the Corporation. CAC expressed that some insight into the longer-tailed claims might be obtained from Quebec data on the experience.

CAC also raised the issue of whether rates ought to be set based on the accident year rather than fiscal year. CAC suggested that the Board inquire of the Corporation as to whether it considers it a requirement that rates be based on the fiscal year rather than accident year, and if not, to have the Corporation report back on its preferred approach, in particular, why MPI prefers the fiscal year approach. CAC expressed that rate-making based on the fiscal year raises equity issues and adds complexity with respect to rate forecasting.

CMMG

CMMG stated that MPI's ratemaking methodology is different than the majority of other insurers in its use of a ten-year time frame in setting motorcycle rates. CMMG expressed that although the trend in the data suggests a decrease in required rates for the motorcycle class, this is not being recognized in MPI's rate-making methodology due to the fact that MPI uses the ten-year data time frame, applying equal weight to the data over that period. CMMG stated that this methodology is not in line with Actuarial Standard of Practice 1730.03, which provides that "Other things being the same, pertinent past experience data are data….relating to the recent past rather than to the distant past…"

6.7 Board Findings

The Board encourages the continued development of MPI's rate-making model to be in accordance with accepted actuarial practice in Canada. The Board notes that the Corporation's GRA rate proposal is based upon Basic's income statement result, as opposed to estimating rate level requirements in accordance with accepted actuarial practice in Canada. The Corporation holds the view that due to the staggered renewals of insurance policies, the Board, for the purposes of rate-setting, should consider whether the Corporation breaks even over a two-year period (the year of the application and the year subsequent), by averaging the net financial result of Basic over those two years on an equal basis. The Board typically considers the net financial result of Basic only in the year of the Application. This is due to the second year being impacted by the subsequent year's GRA, including improved forecasting.

As set out above, MPI is sensitive to interest rate risk, and MPI's current rate-making approach makes it necessary to attempt to predict interest rate changes including the timing and degree of those changes. It is the Board's view that it may be less complicated if the Corporation estimated rate level requirements in accordance with accepted actuarial practice in Canada. The Board intends to explore this issue further at next year's GRA and orders MPI to work collaboratively with the Board's actuarial advisor and the advisors of interveners (as determined by the interveners) after the issuance of this Order to enhance the transparency and robustness of the analysis for that purpose.

Through the course of the GRA review process, MPI undertook to address a number of technical improvements to the actuarial methodology, including the forecasting of Basic written premium, the treatment of exceptions relative to ranking rules, and the treatment of exceptions to Motorcycle experience adjustments, which the Board will want to see addressed and improved upon in the next GRA.

7.0 ROAD SAFETY

In the Application the Corporation forecast spending of $11.4 million on Basic Road Safety and Loss Prevention programs in 2016/17. The largest component relates to Driver Education including the High School Driver Education program, representing approximately $3.6 million or 31% of the overall budget. Auto crime prevention strategies are the second largest expenditure, at $2.2 million or 20% of the overall budget. Impaired driving prevention strategies are forecast at $1.2 million or 11% of the overall budget. The balance of the Road Safety programs are Advertising and Sponsorships, Road Safety Programming and Road Watch, which is increased enforcement.

The Corporation has stated that it continues to share the Board's view that loss prevention, including efforts to improve to road safety, are important issues for the Corporation and that successful loss prevention and road safety strategies can minimize economic and social costs to ratepayers.

At last year's GRA, MPI advised the Board that it was in the process of establishing a three-year road safety strategic plan, intended to formalize internal processes for analyzing traffic collision and claims data, identify other potential sources of data external to the Corporation that may be useful in establishing priorities, and conduct research of proven and promising road safety programs and initiatives that offer the greatest opportunity to reduce collisions, fatalities, injuries and claims costs. In this GRA, the Corporation filed with the Board its three-year Road Safety Operational Plan, which includes a formal framework and methodology for establishing road safety priorities. Program Development and Program Evaluation Frameworks have also been formalized. The Corporation states that these frameworks will establish a clear and documented process through which road safety priorities are identified by the Corporation. The Corporation advised the Board at the public hearings that it is in the process of implementing the Road Safety Operational Plan.

MPI stated that it has started to work on a comprehensive loss prevention strategy, developed in consultation with IBM. IBM recommended that MPI undertake three foundational efforts in parallel, namely Change Management and Communication, Data Collection, Measurement and Evaluation, and Baseline Reporting. MPI stated in the Application that it has accepted all of IBM's recommendations and is reviewing implementation of those recommendations in the 2015/16 fiscal year.

The Corporation has also established an External Stakeholder Committee on Loss Prevention and filed with the Board the Committee's Terms of Reference. The members of the Committee include, in addition to the Corporation, members of Manitoba Infrastructure and Transportation, Manitoba Association of Chiefs of Police, CAA, CAC, Safety Services Manitoba, Bike Winnipeg, Automotive Trades Association, Manitoba Motor Dealers Association, and Manitoba Trucking Association. The Committee is to meet quarterly. The stated purpose of the Committee is to:

- Share information related to loss prevention programs developed and delivered by Manitoba Public Insurance;
- Provide a forum in which stakeholders can provide feedback and input on MPI loss prevention programs and their design;
- Provide a forum in which stakeholders can present their own loss prevention program ideas for receipt and consideration by MPI; and
- Strive for consensus on MPI loss prevention priorities and programming approaches.

In the Application, MPI stated that it is the co-Chair, along with Manitoba Infrastructure and Transportation (MIT), of a new Provincial Road Safety Committee. At the hearing, MPI provided the Board with the draft Terms of Reference for the Road Safety Committee. The draft Terms of Reference state that the Committee will have a three-tiered structure featuring:

1. Road Safety Committee, to provide strategic direction and establish priorities;

2. Technical Oversight Council to coordinate efforts, manage deliverables, provide direction and support to working groups; and
3. Issue-specific working groups to conduct research, identify options, and develop suggestions for interventions and programming to address key priorities.

The other members of the Committee are Manitoba Justice, Manitoba Health, Healthy Living and Seniors, Manitoba Association of Chiefs of Police, and Manitoba Education and Advanced Learning. A number of organizations are identified as potential members of the Technical Oversight Council, including CAA. Bike Winnipeg is identified as a potential member of committee-sponsored working groups.

The objectives of the Road Safety Committee, set out in the draft Terms of Reference, are identified as: to enhance road safety and reduce the number and severity of collisions as well as the number of collision injuries and fatalities in Manitoba by:

- Synthesizing efforts in:
  - Engineering and infrastructure
  - Roadway operations
  - Enforcement and legal systems
  - Education and awareness
  - Vehicle safety
  - Fostering coordination and collaboration between the various departments and agencies involved in road safety
  - Promoting road safety in a strategic, concerted way
  - Ensuring road safety issues are identified and prioritized
  - Better allocating limited resources to those areas that are in greatest need of intervention

MPI administers the High School Driver Education (HSDE) Program and in the 2015 GRA, MPI reported to the Board that it was pursuing a multi-year initiative to redevelop the program. In the Application, MPI stated that it engaged IBM in 2015 to review the High

School Driver Education curriculum, to assist in developing deliverables to inform the design of the High School Driver Education Program Redevelopment. As a result, MPI is considering certain tactical and strategic initiatives for development over the next three years. They include:

- An online learning platform for certain content of the HSDE Program;
- Increased practice driving time through the use of simulators;
- Incorporation of vehicle telematics and collision avoidance technologies; and
- Materials, tools and resources to support parents and students and increase engagement levels during and beyond participation in the HSDE Program

MPI also stated in the Application that it has worked with IBM to revise the current curriculum objectives to incorporate the higher order concepts in the Goals for Driver Education Matrix. IBM also worked with MPI to identify and evaluate how to effectively deliver the new curriculum.

MPI also conducted an internal analysis of knowledge and road test pass rates and involvement in collisions and convictions for participants of the HSDE Program, compared to non-participants. MPI filed the analysis in the Application. The analysis assessed drivers who were enrolled in the HSDE Program between May 2011 and December 2013. The analysis showed that the HSDE Program group was 1.47 times more likely to pass the knowledge test and 1.25 times more likely to pass the road test on the first attempt. The non-HSDE group was 1.39 times more likely to be involved in collisions overall, and 1.41 times more likely to be involved in at-fault collisions. MPI also analyzed the driving involvement of drivers aged 15-19 licensed between 2003 and 2013 under the Graduated Driver Licensing Program (GDL) to the driving involvement of same-aged drivers licensed between 2000 and 2002. The results of the analysis showed that teen drivers licensed under the Graduated Driver Licensing Program had a 40.1% lower involvement rate in collisions, a 38.7% lower involvement rate in at-fault convictions and a 47.4% lower involvement rate in driving convictions for traffic-related offences.

MPI also advised the Board of certain pilot programs it is undertaking. This includes a one-year pilot testing the effectiveness of roadside signage and visible police enforcement at high collision intersections in Winnipeg, in an attempt to reduce collision frequency and severity. MPI stated that collectively, collisions at the three intersections to be included in the pilot have produced claims costs of more than $22 million from 2009 to 2013. MPI has also begun a pilot program of Adult Driver Training programs to address the need for training for individuals coming to Manitoba, or in remote communities in Manitoba, who require drivers' licenses and did not have access to the HSDE Program.

With respect to the DSR, MPI stated that that the program, which was implemented 5 years ago, has started to show positive results when reviewing the summer months' experience, including a consistent decline in the frequency of claims.

In PUB Order 135/14, the Board ordered that MPI:

- Provide 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; and
- Provide an independent review of the current road safety portfolio with a view to optimizing it (relative to cost effectiveness and to setting goals for outcomes) and minimizing the economic and social costs of collisions.

In response to this Order, MPI engaged Jennifer Kroeker-Hall, of Sirius Strategic Solutions, to conduct a review of the Corporation's road safety budget and portfolio. Ms. Kroeker-Hall found that it is not feasible to provide a definitive response as to the optimal size of the road safety budget. The Corporation filed Ms. Kroeker-Hall's report in its Application but did not produce her as a witness in the hearing. Ms. Kroeker-Hall found that MPI has chosen a road safety framework which is intended to optimize its funding and is a creditable and supportable approach to successful road safety programming. She also made a number of recommendations. MPI advised that it is currently considering these recommendations.

At the hearings, MPI filed statistics regarding the incidence of fatal collisions in 2014. The statistics filed by MPI showed that in 2014 there were 64 fatal collisions with 68 people killed, which was a reduction from the previous five-year average (2009-2013) of 83 fatal collisions, with 93 people killed.

7.1 Interveners' Positions

BW

Bike Winnipeg stated that it was dismayed by what it characterized as MPI's failure to respond to Board Order 135/14 for an independent review. BW raised the questions of the independence of the report writer, noting that there were four draft revisions to the report prior to it being filed in the Application. BW also raised its concern with the fact that Ms. Kroeker-Hall was not produced as a witness in the hearings and therefore BW had no opportunity to cross-examine her as to her independence, her credentials, or her findings in the report. BW also noted that Ms. Kroeker-Hall had identified in her report that MPI's model emphasizes optimal funding, whereas BW's position is that the goal of the road safety model should be to mitigate the severity and frequency of injuries.

BW also stated that from its perspective, MPI's road safety model ignores societal costs of fatalities and raised concerns with the size of the road safety budget. BW was also critical of the quality and clarity of MPI's data collection and analysis regarding vulnerable road users and the social costs of collisions.

BW's position is also that MPI's road safety model should contain specific targets and does not do so at this time.

CAC

CAC's view was that it appears that MPI is taking steps in the right direction with respect to the road safety framework and the new External Stakeholder Committee and Road Safety Committee. CAC expressed its view that stakeholders such as seniors, consumers' groups, or vulnerable road users ought to be represented at a higher tier on the Road Safety Committee.

CAC's position is that rather than conducting an internal review of the HSDE Program, MPI ought to have conducted an external, peer review. CAC would like to have the Corporation conduct such a review.

CAC also noted its concern with the statistics regarding the number of fatal and serious collisions in rural areas. CAC stated that these statistics show that there is a disproportionate number of serious and fatal collisions in rural areas of Manitoba: specifically, that 72% of people killed, and 42% of serious injuries, take place in rural Manitoba.

CMMG

CMMG expressed that it was difficult to cross-examine MPI on road safety at this hearing because many of its programs are under review or development at this time.

CMMG would like MPI to examine the issue of wildlife collisions, and expressed that MPI could do more in its road safety plan to address this issue. CMMG was critical of MPI's view that an expenditure of $700,000 on wildlife fencing in the Birds Hill Park area was too large.

CAA

CAA expressed that it was pleased at some of the initiatives undertaken by MPI. Specifically, CAA was supportive of the work of the External Stakeholder Committee on Loss Prevention, and supportive of the HSDE Program.

CAA also expressed that it was supportive of the Adult Driver Education pilot program, efforts to reduce distracted driving, and the use of telematics as part of the education and training of new drivers.

7.2 Board Findings

The Board is pleased with the progress of the Corporation since the 2015 GRA, specifically with respect to the development of the Road Safety Operational Plan, the creation of the External Stakeholder Committee on Loss Prevention and MPI's involvement with the Provincial Road Safety Leadership Committee.

The Board expects, however, that MPI demonstrate in a more concrete fashion that it has optimized its road safety budget and is carrying out its responsibilities as a leader on Road Safety by spending on initiatives that can reduce the social and financial costs of collisions. The Board is not satisfied that the report prepared by Jennifer Kroeker-Hall has fully addressed the questions that MPI was asked to answer in PUB Order 135/14.

The Board orders that, at the next GRA:

- MPI produce Ms. Jennifer Kroeker-Hall as a witness;
- MPI advise the Board of what percentage of its revenue should be allocated to Road Safety and Loss Prevention initiatives and why;
- MPI provide the Board with an update on the progress and work of the External Stakeholder Committee on Loss Prevention;
- MPI provide the Board with an update on the progress and work of the Provincial Road Safety Leadership Committee;
- MPI report on the progress of:
    - The implementation of the IBM recommendations regarding the Corporation's loss prevention strategy;
    - The three-year Road Safety Operational Plan;
    - The review of Ms. Kroeker-Hall's recommendations and the implementation of those recommendations; and
    - The development of the HSDE initiatives recommended by IBM;
- MPI provide an update on the high collision intersection signage pilot;
- MPI provide an update on the Adult Driver Training Pilot;

- MPI file a report regarding the potential benefit of wildlife collision measures including the option of erecting fences at "hotspot" locations, after having studied this issue;
- MPI file a report, after analysis, relative to how to address the "hotspots" at which injuries and deaths of Vulnerable Road Users have occurred;
- MPI provide an update regarding the perceived impact of the DSR on claims frequency and severity; and
- MPI file a report with the Board on its efforts to address the issue of road safety and older drivers, including information on the Driver Assessment and Management Program.

Given the very recent major re-design of the HSDE Program, the Board is not inclined to grant CAC's request that a peer review be ordered at this time.

8.0 PRESENTERS

The Board heard from a series of presenters at the hearing of the Application. 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. Doug Houghton, a Director and Past President of the CMMG, spoke on his own behalf. Mr. Houghton stated that current premiums remain prohibitive for many and the rates for insurance on the motorcycle class remain high when contrasted with rates for passenger vehicles and light trucks. He stated that he is pleased with the premium reductions over the previous 5 years but these reductions have not offset the significant premium increases in the years prior. He commented that one-third of PIPP claims are from non-vehicle owners, and questioned why, given that PIPP benefits all Manitobans, motorcyclists pay more for coverage when other vehicle owners do not pay anything.

Mr. Houghton suggested that there ought to be a new methodology for assigning PIPP costs to premiums. He suggested that the fairest way might be to establish a flat rate for PIPP premiums in order that those premiums are spread equally across all vehicle groups, with increases based on experience and driving record, not severity of injuries. He also suggested assigning a greater share of PIPP premiums to larger vehicles, or transferring PIPP costs to the cost of a driver's license. Mr. Houghton stated that the current system encourages high risk drivers to transfer ownership of their vehicles to other family members with better driving records, in order that overall, a lesser premium is paid to the Corporation. Mr. Houghton also stated that most motorcyclists own another vehicle, and hence pay PIPP premiums on both vehicles, but are only able to drive one vehicle at a time, which results in one vehicle or the other remaining unused, reducing the risk to MPI.

Mr. Houghton recognized that some of the matters to which he spoke involved public policy, and were not within the mandate of the Board, but Mr. Houghton requested that the Board recommend that MPI and/or the Province of Manitoba study the issue of a flat rate for PIPP premiums, and learn how such a system would affect average premiums for all classes.

Mr. Houghton expressed concerns with respect to the ability of claimants to buy back claims, and stated that MPI adjusters should be better informed in estimating the value of customized upgrades in motorcycles. Mr. Houghton suggested that where a motorcycle is written off as unrepairable, the owner should have the option of buying back the motorcycle for an amount equal to the difference between the settlement price and the repair costs.

Mr. Houghton stated that he wanted to commend MPI for making certain Extension products available to motorcyclists in the spring of 2015, including rental vehicle insurance, loss of use, excess vehicle coverage, and new and leased vehicle protection. Mr. Houghton also expressed that he was pleased that CMMG had been invited to participate as a member of the External Stakeholder Committee on Loss Prevention.

The Board also heard from Mr. Alcide Delaurier, who spoke on his own behalf. Mr. Delaurier expressed frustration with a number of claims that he has made with MPI.

In addition, the Board received a letter from the Automotive Recyclers of Manitoba (ARM), which was read into the record. ARM stated in its letter that it is pleased that MPI is working with ARM in the ongoing PDR project. Discussions have taken place with MPI which include plans to adopt an initiative to foster and assist the auto recycling industry. ARM also informed the Board that MPI has adopted the Canadian Auto Recyclers Environmental Code, which demonstrates to ARM that their environmental concerns have been acted upon.

9.0 IT IS THEREFORE RECOMMENDED THAT:

9.1 The Corporation develop an ongoing and transparent strategy for the disposition of non-Basic excess retained earnings to the benefit of ratepayers.

9.2 The Board's jurisdiction be extended to include non-Basic lines of business, including rates and retained earnings.

10.0 IT IS THEREFORE ORDERED THAT:

10.1 There shall be an overall 0.0% rate increase in compulsory Motor Vehicle Premiums for 2016/17 insurance year, effective March 1, 2016 for all major classes combined, which rate increase BE AND HEREBY IS APPROVED.

10.2 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.

10.3 MPI include in next year's GRA filing an update with respect to additional cost containment efforts relative to staffing levels and compensation expenses.

10.4 MPI assess opportunities for savings relative to external IT consultants, including bringing consultants in-house, and file the results at next year's GRA.

10.5 MPI file at next year's GRA the details of the IT Modernization initiative and the corresponding budget.

10.6 MPI file at next year's GRA an independent assessment on the development and roll-out of the PDR Project, including the progress of the pilots, the timing of full implementation, the costs of the project and the anticipated savings to be derived.

10.7 Prior to proceeding with this independent assessment, MPI file with the Board the proposed Terms of Reference of the assessment for approval by the Board.

10.8 An in-camera briefing relative to the results of the distributed estimating pilot project shall take place prior to the next GRA and no later than May 31, 2016.

10.9 MPI base claims forecasts on statistically significant fitted trends wherever possible using accident year trends, and MPI take advantage of the detailed data available to it to explore coverage trends.

10.10 MPI seek to gain insight on longer tail experience from outside Manitoba, and in particular from the SAAQ.

10.11 MPI file with next year's GRA a report regarding its current asset mix, duration matching strategy and strategy to manage Basic interest rate risk, including an update on the status of the use of corporate bonds in the bond portfolio including insight on the performance of those bonds.

10.12 MPI bring to next year's GRA hearing an expert witness to testify to the issues referenced at sub-paragraph 10.11 above.

10.13 MPI file with next year's GRA a study with respect to the composition and performance of the investment portfolios of each of the Workers' Compensation Board, the Teachers' Retirement Allowances Fund and the Civil Service Superannuation Board of Manitoba.

10.14 MPI file next year's GRA on the basis of the interest rate forecasting methodology that it uses currently, as well as on the basis of an Olympic style average (i.e. excluding each of the highest and lowest values of the non-long term standard interest rate forecasts utilized), and utilizing at least one additional longer term forecast.

10.15 MPI file with next year's GRA a proposed, revised definition of the RSR.

10.16 MPI continue to participate in the collaborative process reflected in Order 135/14, and complete Phase II thereof.

10.17 For Fiscal 2016, the two year, 1-in-40, Combined scenario including Management and Regulatory action will be utilized for the purposes of setting the lower total equity capital target for Basic, calculated at $231 million by MPI.

10.18 The use of a 100% MCT ratio for the upper target capital total for Basic is approved on a notional basis.

10.19 MPI report to the Board annually with respect to what MCT Guideline was used within the DCAT report, whether that MCT Guideline was the most recently issued Guideline, and what upper limit target capital level MPI seeks for the upcoming fiscal year.

10.20 MPI must commit to proactively model the MCT as it is changed by OSFI to assess how changes might affect target capital levels.

10.21 MPI work collaboratively with the Board's actuarial advisor and the advisors of interveners (as determined by the interveners) to enhance the transparency and robustness of the analysis toward the continued development of MPI's rate-making model to be in accordance with accepted actuarial practice in Canada.

10.22 MPI must address a number of technical improvements to its actuarial methodology, including the forecasting of Basic written premium, the treatment of exceptions relative to ranking rules, and the treatment of exceptions to Motorcycle experience adjustments.

10.23 With respect to Road Safety and Loss Prevention, at next year's GRA:

- MPI produce Ms. Jennifer Kroeker-Hall as a witness;

- MPI advise the Board of what percentage of its revenue should be allocated to Road Safety and Loss Prevention initiatives and why;

- MPI provide the Board with an update on the progress of:

    - the work of the External Stakeholder Committee on Loss Prevention;
    - the work of the Provincial Road Safety Committee;
    - the implementation of the IBM recommendations;
    - the three-year Road Safety Operational Plan;
    - the review and implementation of Ms. Kroeker-Hall's recommendations;
    - the development of the HSDE initiatives recommended by IBM;
    - the high collision intersection signage pilot;

- the Adult Driver Training Pilot; and
- the perceived impact of the DSR on claims frequency and severity; and

- MPI file a report regarding:

  - the potential benefit of wildlife collision measures;
  - the "hotspots" at which injuries and deaths of Vulnerable Road Users have occurred; and
  - efforts to address the issue of older drivers, including information on the Driver Assessment and Management Program.

Board decisions may be appealed in accordance with the provisions of Section 58 of The Public Utilities Board Act, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

THE PUBLIC UTILITIES BOARD

"Karen Botting, B.A., B.Ed., M.Ed.,"
Acting Chair

"Darren Christle MPA, BA, CCLP, P.Log, MCIT"
Secretary

Certified a true copy of Order No. 128/15 issued by The Public Utilities Board

Secretary

Appendix A

Glossary of Acronyms and Terms

Application	2016 General Rate Application
AOCI	Accumulated Other Comprehensive Income
Basic	Compulsory motor vehicle insurance
Board	Public Utilities Board
BW	Bike Winnipeg
CAA	Canadian Automobile Association
CAC	Consumers' Association of Canada (Manitoba) Inc.
CLEAR	Canadian Loss Experience Automobile Rating
CMMG	Coalition of Manitoba Motorcycle Groups
Corporation	Manitoba Public Insurance Corporation
DART	Driving Ahead in Real Time
DCAT	Dynamic Capital Adequacy Testing
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	Highway Traffic Act
IBAM	Insurance Brokers Association of Manitoba
ICWG	Investment Committee Working Group (MPI)
IT	Information Technology
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
PDR	Physical Damage Re-engineering
PIPP	Personal Injury Protection Plan

Province	Government of Manitoba
RSR	Rate Stabilization Reserve
SRE	Optional Special Risk Extension motor vehicle insurance

Appendix B

Appearances

C. Grammond / K. McCandless	Counsel for the Public Utilities Board (“the Board”)
K. L. Kalinowsky	Counsel for Manitoba Public Insurance Corporation (“the Corporation”)
B. Williams / A. Nisbet	Counsel for the Consumers’ Association of Canada (Manitoba) Inc. (“CAC”)
R. P. Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups (“CMMG”)
L. Kulyk	Canadian Automobile Association (Manitoba Division) (“CAA”)
D. Schioler	Insurance Brokers Association of Manitoba ("IBAM")
C. Monnin	Bike Winnipeg ("BW")

Appendix C

Witnesses

Witnesses for the Corporation

D. Guimond	President and Chief Executive Officer
L. Johnston	Chief Actuary and Director of Pricing and Economics
H. Reichert	Vice-President Finance and Chief Financial Officer

Witness for CAC

A. Sherry	Actuary

Witness for IBAM

D. Schioler	Insurance Brokers Association of Manitoba

Appendix D

Interveners

Canadian Automobile Association (“CAA”)

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

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

Insurance Brokers Association of Manitoba ("IBAM")

Bike Winnipeg ("BW")

In-person Presenters

D. Houghton	Private Citizen
A. Deslaurier	Private Citizen