Excerpts from PUB Board Orders

INDEX

TAB 1

M A N I T O B A	)	
	)	
THE PUBLIC UTILITIES BOARD ACT	)	**Order 151/13**
	)	
THE MANITOBA PUBLIC INSURANCE ACT	)	
	)	**December 16, 2013**
THE CROWN CORPORATIONS PUBLIC	)	
REVIEW AND ACCOUNTABILITY ACT	)	

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

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

3.4 Information Technology Expenses

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

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

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 MPI stated that enhanced and stable IT systems (replacing its outdated systems), will ensure that it will be able to provide customers with uninterrupted service and an improved network infrastructure that can support future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

3.5 Benchmarking

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

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

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

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

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

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

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

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

3.6 Interveners' Positions

CAC

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

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

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

CAC stated that the cost of the HRMS system was exorbitant, and that the result has provided insufficient benefits to the Corporation relative to the cost of the project. With respect to IT expenditures as a whole, CAC noted that the costs growth is quite stark, representing a CAGR of 10.8%pa, and that IT costs are projected to increase to $74.8 million through 2017/18.

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

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

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

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

CMMG

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

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

3.7 Board Findings

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

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

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

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

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

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

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

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

TAB 2

M A N I T O B A	)	
	)	
THE PUBLIC UTILITIES BOARD ACT	)	Order 135/14
	)	
THE MANITOBA PUBLIC INSURANCE ACT	)	
	)	December 5, 2014
THE CROWN CORPORATIONS PUBLIC	)	
REVIEW AND ACCOUNTABILITY ACT	)	

Before: Régis Gosselin, B ès Arts, C.G.A., M.B.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): COMPULSORY 2015/2016 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

In addition, MPI has restricted all out-of-province travel and conference participation for its staff, for an indeterminate period of time, that it has restricted internal staff meeting costs and that it has formed a committee of senior managers to identify, investigate and implement operating cost reduction initiatives and further cut discretionary spending. MPI has realized $109,000 in savings in the first six months of 2014/15 and anticipates that those savings may double for the year. MPI stated that it has shown fiscal prudence in managing its operating costs and that convenience and service for its customers are its priority.

3.5 Information Technology Expenses

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, Physical Damage Re-engineering, Human Resource Management as well as other initiatives.

MPI's total Corporate IT expenses, including operating expenses and capital investments, have increased from $31.3 million in 2005/06 to $87.2 million in 2013/14, with a compounded annual growth rate of 13.7 %and are forecast to increase to $96.4 million in 2018/19. In 2013/14, approximately 42% of the Corporation's spending was directed to strategic IT initiatives. MPI has engaged approximately 120 to 140 external consultants to assist in delivering on its IT initiatives at a cost of approximately $30 million per year.

MPI's major capital IT initiative is the Physical Damage Re-engineering Project (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 2017/18. MPI expects that it will realize $13 million in annual savings as a result of the PDR Project which will be offset by $5 million in additional software licensing and other costs for a net annual savings of $8 million when the initiative is put into service. At last year's GRA, MPI advised that the final cost of its Human Resource Management System was $16 million; 60% higher than the $10 million budget provided previously. In Order 151/13, the Board stated that it was very concerned about cost overruns, and that MPI had not demonstrated the benefits of its IT investments, including financial payback. The Board ordered MPI to file, at this year's GRA, a five-year IT strategic plan, including a cost-benefit analysis, justifying its current and future IT expenditures.

3.6 Benchmarking

In Order 151/13, the Board ordered that MPI file at this GRA:

- staffing and cost control results;
- a five-year IT strategic plan, including a cost-benefit analysis, justifying its current and future IT expenditures; and
- a benchmarking framework, along with benchmarking indicators to which the Corporation intends to be held accountable.

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 filed with the Board a benchmarking framework reflecting four subject areas: Operational Efficiency, IT Service Delivery, Serving Manitobans and Community Impact.

In addition, MPI filed with the Board 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 shows that the Corporation's total gross expenses as a percentage of gross premiums written and per policy in force are below the comparators, including the Canadian Auto Group (includes 2 public insurers), the Canadian Benchmark Group (includes 2 public insurers) and the U.S. Personal Auto Group. The Corporation's FTEs per $100 million of gross premiums written are, however, in excess of each of the comparator groups by 28 - 50 FTEs, and the Corporation's ratio of staff to management is lower than the comparator groups, meaning that the Corporation has more managers and less staff than the comparator groups, which leads to higher compensation costs.

MPI filed a benchmarking study relative to its IT expenditures, and an updated CIO Scorecard prepared by The Gartner Group (Gartner), reflecting benchmarking of various elements of IT costs. Gartner stated that MPI's overall IT maturity had improved from the prior year. Gartner noted that while there were some improvements in MPI's ratings as compared with its peer group, MPI spent 8% more on personnel, 9% more on outsourcing and used 12% more contractors than its peers. The disparity between MPI's spending and that of its peer group has, on the whole, improved over past years though MPI remains above its peer group in certain aspects of spending.

In particular, MPI's IT spending per company employee is $44,046 (increased from $43,243 last year), compared with the peer group for which average spending is $27,073. Similarly, MPI's total IT spending, as a percentage of revenue, is down to 7.2% from 7.6% last year, compared with the peer group average of 4.6%. Gartner also noted that MPI's public mission to serve Manitobans, and not to maximize revenues, has an effect on the metrics reported as a percentage of revenue. Gartner has stated that as MPI adds more customer convenience capabilities and conducts more business over digital channels, its IT footprint will expand, resulting in higher steady-state IT expenses.

Gartner stated that improving MPI's long-term IT cost position is reliant upon retiring and/or eliminating duplicate functionality on an ongoing basis, in addition to regularly investing in updates to avoid significant capital outlays in future years. As well, it is critical that modernization and rationalization of IT are an ongoing part of MPI's governance process and investment strategies. Gartner has stated also that as the modernization efforts ramp down, staffing plans should be developed to ensure a core of key skills remain in-house at MPI to reduce contractor dependence, increase staff satisfaction and maintain costs.

Gartner has made a series of recommendations to MPI in the past, 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.

The Corporation did not file with the Board a five-year IT strategic plan, including a cost-benefit analysis, justifying its current and future IT expenditures, as ordered last year. Rather, the Corporation advised the Board that its IT strategy is integrated with its overall business strategy, and that it is conducting two strategy development exercises for its business, each of which includes an IT component. The first relates to the management of physical and property damage claims with a view to developing an overall strategy to enhance service. The second is the development of an overall vision and strategy for the Corporation for the next five years, to be developed by the Corporation's Board of Directors and Management Committee. The Board orders MPI to file, at next year's GRA, any reports generated relative to its vision and strategy development exercises.

3.7 *Recycled Parts*

The Board granted intervener status to the Automotive Recyclers of Manitoba (ARM), an organization that sought to bring forward important and cost-sensitive issues, and to critically evaluate the PDR Project, review cost containment initiatives relative to recycled parts, review environmental controls in the resale of total loss vehicles, and suggest improvements to reduce physical damage costs.

Since 2008 there has been a downward trend in the use of both aftermarket and recycled parts, in favour of the use of new or Original Equipment Manufacturers' (OEM) parts. The amounts spent on new, aftermarket and recycled parts from 2008 to 2013 is as follows:

Vehicle Parts Costs ($ millions)

	New		Aftermarket		Recycled	
Year	**%**	**$**	**%**	**$**	**%**	**$**
2008	56%	$44.6	33%	$26.4	11%	$8.6
2009	55%	$44.9	34%	$27.4	11%	$9.1
2010	59%	$44.8	30%	$24.7	10%	$9.0
2011	61%	$51.2	30%	$27.6	9%	$9.6
2012	62%	$48.7	29%	$26.2	8%	$8.3
2013	67%	$59.4	27%	$24.2	7%	$7.5

In the past, the Corporation had an agreement with ARM whereby the Corporation provided annual funding for the operation of the Recyclers' Central Office ("RCO") administered by ARM. The RCO acts as a clearing-house for all recycled parts requested by the Corporation, and automobile repair shops contact the RCO to determine the availability of recycled parts for the repair of damaged vehicles. MPI's agreement with ARM relative to the RCO expired on November 30, 2012, after which MPI took over the operation of the RCO.

Aftermarket parts are manufactured and supplied by sources other than the OEM. The Corporation has negotiated pricing, warranties, delivery time and business rules with the major parts suppliers, such that aftermarket parts are obtained at a discount off of the OEM suggested list price, resulting in cost savings to MPI.

The Corporation has observed the following industry trends impacting the availability of cost-effective alternative parts. OEMs have increased their new model marketing and introduced a much wider variety of models. These changes have reduced the interchangeability of parts among vehicles. The widened variety of models also impacts recyclers. For instance, a specific auto model in a recycler's inventory may not be compatible with the current model of the same vehicle being repaired.

Another major trend is the erosion of the relative dominance of North American vehicle brands as offshore vehicle manufacturers continue to grow their market share. Offshore brands have significantly different supply chain policies and methods and the ability of aftermarket suppliers to obtain the necessary information to produce comparable alternative parts is more constrained than for the North American brands. The Corporation sees that as more offshore brands grow their market share, the opportunity to purchase alternative parts has been and will continue to be reduced.

OEMs have introduced competitive strategies for price matching aftermarket and recycled parts and if the price is the same, customers have shown a preference for OEM parts. In addition, OEM Certified Repair Programs are further limiting repair facilities from using aftermarket or recycled parts and require the use of OEM parts only.

MPI has stated that it is committed to safe, reliable and cost-effective repairs to customer vehicles, and that while cost-effectiveness is important, MPI must also ensure that the parts used are of the appropriate quality. If market trends continue to reduce the ability of the local parts industry to provide qualified parts, MPI will have no option but to authorize the use of OEM supply parts. These trends have the potential to increase claims costs and will need to be factored into MPI's overall insurance program.

MPI stated that it works with 16 auto recyclers and that when the Corporation started the PDR Project, it met with these recyclers to discuss changes in technology, parts procurement and supply chain and the sustainability of the recycling industry. MPI stated that if market trends continue, auto recyclers are going to be defunct within five years given the aggressive aftermarket business. MPI stated that it will be required to make a policy decision whether to support the recycling industry, after weighing the impact on ratepayers and issues of sustainability.

3.8 Interveners' Positions

CAC

CAC questioned whether MPI's IT investments are delivering value to Manitobans as promised, and whether the core strengths of MPI, including claims management and cost control, are being neglected in MPI's rush to IT solutions. In particular, CAC stated that from 2009/10 to 2013/14, the Corporation's IT costs increased by $27 million; a compounded annual growth rate of almost 18%, and that from 2013/14 to 2018/19 there are expected increases of an additional $23 million; a compounded annual growth rate of 7.1%. CAC noted that the forecast through 2018/19 does not include an additional $3.5 million to be expended relative to the purchase of software pursuant to the PDR Project.

CAC stated that MPI is not conducting itself in a manner consistent with having suffered losses of $133 million in the last two fiscal years, particularly given its compensation costs, including costs for outside consultants ($30 million per year), the budget for which MPI stated clearly would not be changed.

CAC expressed the view that MPI seems to be moving sharply away from service centre control over the estimating process, and to management by exception, such that Board may wish to direct MPI to provide an updated estimate of the projected costs and benefits associated with the PDR Project including empirical information assessing this approach. CAC also recommended that MPI be directed to give advice to the Board on how barriers (including training) to cost-effective estimating and collision repair are being addressed. CAC identified this as an important risk mitigation issue.

CAC recommended also that MPI be directed to provide, at the next GRA, baselines in terms of duration of repair shop contact with MPI as well as preliminary metrics by which to assess cost containment achievements of the PDR Project.

CAC noted that last year the Board expressed a concern that the Corporation did not have in place a cost containment framework, although the BI^3 Project was implemented in September 2010 and continues to function today. CAC submitted that the BI^3 Project has not led to any success in controlling claims costs, increased consistency in claims handling between case managers or reductions in claims leakage as promised by MPI, and that in fact there has been deterioration in the Corporation's performance compared to pre-BI^3 benchmarks.

CAC pointed to the following issues encountered relative to the BI^3 Project, which issues it states affect PIPP reserving estimates and therefore cast doubt upon the credibility and reliability of some of the ultimate PIPP forecasts:

- Double reserving resulting in overstatement of certain reserves (addressed in November 2012);
- Lag in complying with case reserving guidelines gave rise to gaps in reserving that were more extensive than expected;
- Lag in complying with case reserving guidelines was identified by actuaries not claims managers through monthly reporting; and
- Deterioration in duration performance compared to pre-BI^3 benchmarks.

CAC stated that there is still opportunity for improvement pursuant to the BI^3 Project, but that in its view, MPI has not established that the BI^3 Project has demonstrated its ability to control claims costs, or that there has been value received for the funds expended on the BI^3 Project. CAC asked that MPI be directed to provide an update at the next GRA relative to the duration issue and management of PIPP claims that includes whether pre-BI^3 benchmarks are being achieved, when higher post-BI^3 benchmarks will be implemented and what those benchmarks will be.

CAC also requested that consideration be given to MPI undertaking an external, independent review of the management and oversight of PIPP claims pursuant to the BI^3 Project.

CMMG

CMMG stated that MPI is not focused on controlling its costs. Rather it continues to pursue expensive IT projects.

ARM

ARM stated that recycled parts provide to MPI the largest discount by percentage of any other replacement part option. In particular, recycled parts are priced at between 45% and 60% of OEM rates, which represent savings passed on to ratepayers in their insurance premiums. At one time, MPI had a "recycle first" policy to ensure maximum savings on recycled parts and since the removal of that policy, MPI's costs for replacement parts have increased significantly. ARM asked the Board to recommend that a "recycle first" policy be maintained in any future arrangements between auto recyclers and MPI.

ARM stated that there has been a significant decline in the quantity of recycled parts sold, from 11% of all replacement parts purchased by MPI in 2008 to 7% in 2013, with a concurrent increase in the use of new (OEM) parts. ARM advised that it would like to work with MPI to reverse this trend or reduce the decline in the use of recycled parts, and to continue to offer a viable alternative to new parts. ARM asked the Board to recommend that MPI adopt a strong initiative to both foster and assist the auto recycling industry to assist it to remain viable and sustainable.

ARM also asked the Board to recommend that the development of the PDR Project be done by MPI in a co-operative and considered manner, together with ARM, including the automation of the parts processing and repair estimates. ARM stated that auto recyclers can work with MPI to reduce the parts-ordering timeline, and to eliminate redundancies within the system. ARM stated that recyclers can provide parts quickly and cheaply, to the benefit of all ratepayers.

ARM stated that when MPI took over responsibility for running the RCO in December 2012, it was on the basis that there would be a greater and more efficient use of recycled parts. ARM states that no such improvement has materialized, and asked the Board to recommend that MPI meet its pledge, and work with ARM to revisit operation of the RCO to ensure transparency and efficiency.

ARM advised that it has met with MPI to determine what changes can be made to the Canadian Automotive Recyclers' Environmental Code (CAREC) computer system, that effectively shuts out recyclers where there is a glass component in an insurance claim (or where the word "glass" is referenced relative to any replacement part), and where a required part is stored by recyclers as part of an assembly, rather than an individual part. ARM has stated that MPI has agreed to review and resolve these issues in consultation with ARM.

In addition, ARM is in discussions with MPI relative to reviewing the process by which the use of recycled parts can be rejected by body shops in Manitoba in favour of the use of OEM parts, which may increase the profit margin to the shops. ARM expressed confidence that MPI will resurrect its policy of monitoring the rejection of recycled parts that has contributed substantially to the decline in the use of recycled parts in Manitoba.

ARM stated that these types of joint activities as between it and MPI are critical to ensure that ratepayers receive the benefit of the use of the least expensive replacement parts, and maintain critical safety parameters. ARM also cited the importance of ARM and MPI working together to ensure a consistent set of practices that are aligned with applicable laws and regulations as well as within product and industry stewardship programs.

The Board also heard a presentation on behalf of ARM, by Mr. Stephen Fletcher, which is summarized in section 9.0 below.

IBAM

Mr. David Schioler, the CEO of IBAM, testified before the Board that IBAM represents 2,000 broker members from all communities in Manitoba, who are the sole distributors of MPI products, and that MPI sales represent approximately 33% to 35% of all insurance transactions processed by brokers in Manitoba. In 2013, brokers processed over $3.7 million in transactions for MPI, for about 900,000 customers.

IBAM sought to raise awareness with the Board regarding the complexity of selling MPI's Basic and Extension products and to ensure that MPI has the funding envelope required to ensure the viability of professional insurance brokers. IBAM has worked collaboratively with MPI over the last eight years to ensure that costs would be managed effectively both at brokerage offices and at MPI without reducing the level of service that Manitobans expect. IBAM stated that ensuring that MPI has appropriate funding to facilitate training and product development, and to improve broker conditions will ensure the viability of brokers and provide protection and proper service to Manitobans.

IBAM stated that alternative delivery models such as MPI selling directly to consumers would surely prove cost-prohibitive and would be unacceptable in terms of the level of accessibility and service that Manitobans have come to expect.

IBAM stated that MPI has a shared responsibility to ensure that Manitoba customers are adequately covered with the best-fit insurance products for their needs, and that to do so, MPI must be in a position to manage effectively, to respond to changes in process, and to support brokers through research, training and feedback. IBAM stated that any rate premium deficiency must be addressed and that adequate capital requirements are very important for MPI.

With respect to MPI's dominant position in the Extension line of business, IBAM stated that MPI offers a good Extension product and that Basic customers are familiar with MPI and choose MPI's Extension products because they are attached to the Basic product.

3.9 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, as reflected in Order 98/14 issued in this proceeding.

With respect to Operating Expenses, in last year's Order 151/13, the Board expressed the view that the Corporation's approach to operating expenses appeared to be unchanged from prior years. The Board expressed significant concern that there were no savings in operating expenses over the two years previous, and that the growth rate of expenses continued to be higher than inflation. The Board stated that the Corporation <u>must</u> 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 had continued to increase.

The Board ordered the Corporation to review its efficiencies on a go-forward basis, and take steps to rein in its operating expenses. The Board ordered MPI to file with the Board staffing and cost control results at this GRA.

The Board accepts that in the last year, the Corporation has made more effort to contain costs than previously, and that it has established a specific set of strategies to do so including the creation of a cost containment committee, the implementation of a hiring freeze and the modification of certain internal expense policies. The Board is hopeful that these initiatives will moderate cost increases.

With respect to compensation, the Board recognizes that the collective agreement into which the Corporation entered with the MGEU in 2012 is a significant driver of cost increases in 2015/16, and that staff will receive step in scale increases as they gain seniority and progress in their employment by MPI. The Board finds that the hiring freeze and reduction in positions implemented by MPI have partially mitigated the Board's concerns about operating expenses as expressed in the past, though the Board expects to see MPI meet its minimum target of 30 FTE reductions by next year.

The Board notes MPI's submission that the increase in its normal operating expenses from 2014/15 to 2015/16 is 1.31%, less than inflation, and looks forward to seeing the outcome of MPI's cost savings initiatives next year, including the work of the cost containment committee formed this year.

With respect to IT expenditures, in last year's Order 151/13, the Board expressed significant concern about cost overruns, given the Gartner report filed which reflected that MPI had poor control over its IT spending versus peer groups and that even though its relative position has improved over past years, it remained at the high end of the peer group with respect to spending. The Board directed MPI to file at this GRA a five-year IT strategic plan, including a cost-benefit analysis, justifying its current and future IT expenditures which MPI did not do. The Board orders MPI to file an update at next year's GRA 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 in Order 151/13.

With respect to the PDR Project, the Board orders that MPI file with the Board at next year's GRA:

- both the terms of reference and the outcome of the pilot project on "management by exception" collision estimating;
- an updated estimate of the projected costs and benefits associated with the PDR project including empirical information assessing the success of management by exception in terms of collision estimating as compared to other collision claims control options;
- an update on how barriers (including training) to cost effective estimating and collision repair are being addressed; and
- baselines in terms of duration of repair shop contact with MPI and preliminary metrics by which to assess cost containment achievements of the PDR Project.

With respect to benchmarking generally, the Board acknowledges that the Corporation has made progress again this year, and is doing more than it has before, including the presentation of a benchmarking framework as requested by the Board. Moreover, the benchmarking results presented by the Corporation from the Ward Group and Gartner reflect that its position relative to peers has improved from last year, for which the Board commends the Corporation.

With respect to the BI^3 Project, the Board accepts that duration benchmarks are not being met, and that the Corporation has had challenges meeting pre-BI^3 initiative duration expectations, as well as compliance in reserving guidelines. The Board directs MPI to provide, at next year's 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.

The Board also orders MPI to undertake 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 file the result of the review at next year's GRA.

The Board encourages MPI to continue to conduct benchmarking relative to Serving Manitobans and Community Impact, and directs MPI to file updated results relative to that benchmarking with the Board at next year's GRA.

With respect to the use by MPI of recycled parts in the context of vehicle repairs, the Board recognizes the significant cost savings available to MPI, and strongly encourages MPI to work with ARM to address the ongoing use of recycled parts in Manitoba, to maximize savings to MPI, and in turn to ratepayers, wherever possible. In addition, the Board recognizes the benefit to MPI of the availability of recycled parts as an alternative parts source to OEM or aftermarket parts.

The Board accepts that joint activities as between ARM and MPI are needed to ensure that ratepayers receive the benefit of the use of the least expensive replacement parts, and maintain critical safety parameters. In addition, the Board supports ARM and MPI working together to ensure a consistent set of practices that are aligned with applicable laws and regulations as well as within product and industry stewardship programs.

Given the potential for cost savings to MPI arising from the ongoing and increased use of recycled parts, the Board accepts the submissions of ARM and recommends that:

- a "recycle first" policy be maintained in any future arrangements between auto recyclers and MPI, to ensure maximum savings relative to the use of recycled parts;
- MPI adopt a strong initiative to both foster and assist the auto recycling industry to assist it to remain viable and sustainable;
- the development of the PDR Project be done by MPI in a co-operative and considered manner, that engages ARM, including the automation of the parts processing and repair estimates; and
- MPI meet its pledge relative to the RCO, and discuss and examine the operations of the RCO with ARM to ensure transparency and efficiency.

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 $2.4 billion as at February 28, 2014.

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, 2014, and forecast for 2015/16 are as follows:

	2013/14 Actual		**2015/16 Forecast**	
	Ending Asset Values (C$ millions)	**Ending Rebalanced Allocation (%)**	**Ending Asset Values (C$ millions)**	**Ending Rebalanced Allocation (%)**
Cash/Short Term Investments	93	3.8	25	1.0
Canadian Fixed Income	970	39.7	792	32.3
MUSH Non-Marketable Bonds*	581	23.7	614	25.1
Total Long Term Bonds	**1,551**	**63.4**	**1,406**	**57.4**
Canadian Equities	381	15.6	439	17.9
US Equities	139	5.7	160	6.5
Real Estate	231	9.4	305	12.5
Infrastructure & Venture Capital	52	2.1	114	4.7
Total	**$2,447**	**100.0%**	**$2,449**	**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.*

TAB 3

MANITOBA	)	
	)	
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

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 <u>must</u> 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

TAB 4

Order No. 162/16

MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION): COMPULSORY 2017/2018 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

December 15, 2016

BEFORE: Robert Gabor, Q.C., Chair
Karen Botting, B.A., B.Ed., M.Ed., Vice Chair
The Hon. Anita Neville, P.C., B.A. (Hons.), Member
Allan Morin, B.A., ICD.D., Member

expenses. Budgets are reviewed monthly, and possible variances are investigated at the earliest possible stage and managed proactively. The Corporation advised that innovative strategies and processes will continue to be identified in order to contain and/or reduce corporate operating expenses.

3.5. Information Technology Expenses

MPI's total Corporate IT expenses, including operating expenses and capital projects, have increased from $50.9 million in 2011/12 to $74.0 million in 2015/16, representing a compounded annual growth rate of 6.4%. IT expenses are forecast to be $84.5 million in 2016/17 and to increase to $99.5 million in 2020/21, representing a compounded annual growth rate of 7.2%.

Over the last number of years, MPI has pursued IT capital projects targeted towards modernizing its IT infrastructure, 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 provided detailed information on the PDR and IT Modernization projects, including Gartner's PDR Evaluation Report and Terms of Reference for the PDR project, and the Program Financial budget for the IT Modernization project.

MPI's largest current 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 in streamlining collision repair processes in order to realize claims cost savings. Originally the PDR project was to be completed in 2017 but was reported last year to be delayed to 2020 due to changes in scope and direction to the project. MPI estimates that the PDR Project cost remains unchanged at $65 million (based on 2012 dollars), and is now expected to be completed in 2021, which is a further one-year delay.

In Board Order 128/15, the Board directed MPI to file 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. In response, MPI filed a report prepared by the Gartner Group, entitled Physical Damage Re-Engineering (PDR) Program Evaluation.

Martin Geffen of Gartner Group appeared as a witness called by MPI in the hearings, and addressed Gartner Group's PDR Program Evaluation, and the CIO Scorecard and Infrastructure Benchmark (CIO Scorecard). Mr. Geffen is a Vice President of Gartner Group and provides consulting services in the areas of technology planning, architecture, design and implementation issues. Mr. Geffen was qualified to testify as an expert in the area of the use and planning of information technology, and information technology governance.

As indicated by Mr. Geffen, Gartner had found that the overall total budget of the PDR Project had not been changed, but that costs had been reallocated among various components of the projects. Of the budget, $32.8 million, or 50%, had been spent on the project. Mr. Geffen noted that Gartner has found that, in programs as large and complex as the PDR project, it is not unexpected to have a course correction, because at the outset of a project it is not unusual for an organization to expect to progress more quickly with a project than is the reality.

With respect to the savings and benefits of the PDR project, Mr. Geffen noted that Gartner had determined the net present value benefit overall of the project of $18 million. The cost/benefit analysis conducted by Gartner did not include the cost of maintaining the program. Gartner estimated the maintenance cost, based on industry standards, to be 18 to 20% per annum.

In the 2016 GRA, the Corporation advised the Board that it was budgeting for IT Modernization costs of $33.3 million over the next four years, to ensure its existing systems are fully supported. MPI revised the budget in this Application, to $40 million. 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. To date, no quantified financial benefits for this project have been identified, as it is primarily designed to maintain the current IT assets and avoid significant future costs.

MPI utilizes both internal FTEs and external consultants to maintain MPI's IT systems and deliver on IT capital projects. MPI's IT actual and forecast staffing levels including consultants are as follows:

IT Staff Complement (FTE)

	Actual					Forecast		
Year Ended February 28/29	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Internal FTE	215	227	212	210	223	236*	249*	251*
Consultants	98	129	120	110	114	116	107	91
Total	313	356	332	320	336	352	356	342
% IT Consultants	31%	36%	36%	34%	34%	33%	30%	27%

* rounded.

In Board Order 128/15, the Board directed MPI to assess opportunities for savings relative to external IT consultants, including bringing consultants in-house. In response to this directive, the Corporation advised the Board that MPI made a conscious effort to reduce the number of external consultants eventually, by replacing them with permanent IT staff. MPI undertook a comprehensive review to develop an approach that optimizes the use of internal and external resources. The proposed approach, to transition up to 27 positions from external resources to internal staff over the next three years, is expected to achieve $2.4 million annual recurring cost savings in 2019/20. MPI indicated that it has internalized 12 IT positions previously filled by consultants in 2016/17.

Mr. Geffen, in his testimony, also explained what he would consider challenges to MPI's ability to employ IT staff internally as opposed to relying on IT consultants. First, he indicated that skilled IT resources are very difficult to acquire in the marketplace. In addition, organizations are often looking for flexibility to be able to ramp up skills and experience to address needs of a specific project, or on a term basis. Lastly, based on compensation structures, some organizations cannot attract resources to carry out the specific roles and responsibilities. The solution is to go out and contract those types of resources when they are needed on staff.

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. MPI uses the benchmarking results to identify opportunities to reduce costs, effective management approaches, and efficient resource allocation.

In Order 135/14, the Board ordered that MPI file in the 2016 GRA:

> 11.5 - 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; and
>
> 11.6 - 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.

As stated in Order 128/15, MPI indicated last year that it was not in a position to fully comply with the above directives and 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. The Corporation stated that a review of the management and oversight of PIPP claims at this time would be non-conclusive given that BI^3 at that time would not be fully implemented for another two years. A full review would be considered at that time.

As also stated in Order 128/15, the Corporation advised that as BI^3 was implemented in September 2010 and, at that time was entering its fifth (now sixth) year post-implementation, it was too early to finalize post-BI^3 benchmarks as open post-BI^3 claims are not yet fully developed. MPI stated that the BI^3 business case indicated that it will take at least seven years for the initiative to be fully functioning and achieving desired outcomes.

In Order 128/15, the Board had directed MPI to seek to gain insight on longer tail experience from outside the Province of Manitoba, and in particular, from the Société de l'assurance automobile du Québec (SAAQ). The Corporation advised that it did not undertake the review as directed, and has indicated that it will conduct a review of mortality assumptions in the coming year, on the assumption that SGI and SAAQ are willing to share their mortality experience with the Corporation.

MPI engaged the Ward Group to provide an independent perspective on how the Corporation compares to other companies, identify and prioritize improvement opportunities, set performance expectations and monitor performance. Ward identified the most meaningful indicators of operational efficiency for corporate performance and claims performance.

The Ward Group's 2014/15 comparison 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 (which includes two public insurers), the Canadian Benchmark Group (which includes two public insurers) and the U.S. Personal Auto Group. MPI compared well on several different metrics against peer groups. MPI's performance on FTEs per $100 million of Gross Premiums Written (GPW) has improved since 2011/12 moving from $150.6 to $140.4 in 2014/15, yet remains materially higher than its peers.

MPI filed a benchmarking study relative to its 2014/15 IT expenditures, including the CIO Scorecard prepared by the Gartner Group, reflecting benchmarking of various elements of IT costs. Mr. Geffen provided testimony at the hearings on the CIO Scorecard, and commented that MPI had improved its overall IT maturity: seven of eight of its measures were as good or better than its peers, and in only one area, business process management, was MPI below its peers. To improve business process management, Mr. Geffen suggested that the use of workflow technologies or analytics technologies for process management will assess inefficiencies of a business process. In his view, increasingly efficient business process would drive down costs.

Gartner's CIO Scorecard report also showed that MPI spends 63% of its IT budget on personnel, versus 44% among its peers. Mr. Geffen, in his testimony, explained that the variance was attributable to the fact that 34% of MPI's IT staff is made up contractors, and among its peer group, 17% is comprised of IT contractors.

Mr. Geffen testified that Gartner will be finalizing its review of 2015/16 IT spending this fall. The Board anticipates that the results of Gartner's review will be filed in the 2018 GRA.

Gartner has, in recent years, made a series of recommendations to MPI, several of which MPI has adopted and/or are in the process of being implemented, while others remain to be evaluated. In particular, two recommendations from 2015 have been rearticulated in Gartner's most recent evaluation and read as follows:

> 3.05 Plan the future state architecture to support MPI's goals of access and support for existing and new services; and
>
> 3.06 Perform a baseline of the current, and perform gap analyses as the architecture is implemented.

The Corporation stated that it is continuing to work towards evaluation and implementation of many of Gartner's outstanding recommendations. It has also indicated that it will be evaluating the above two recommendations in the current year.

3.7. Interveners' Positions

CAC

CAC commented upon the prudence and reasonableness of the Corporation's spending on initiatives with significant IT components, including BI^3, PDR, and the Financial Re-Engineering Project. CAC also provided comments on the Corporation's staffing on IT and the findings in the Gartner Group evaluations of IT and the PDR project.

CAC recommended that the Board make certain findings regarding the Corporation's IT expenditures: first, that IT staffing and capital expenditures have been a significant driver of current and future cost pressures on the Corporation; and second, that significant challenges still exist regarding the rollout of BI^3. CAC characterized some of those challenges as follows:

- One of the three drivers of the budget variance in 2015/16 was higher non-interest-related adverse developments related to PIPP, in the range of $34 to $35 million.

- The Corporation is six years in to BI^3, which created profound changes in reserving practices in four areas: initial reserves, subsequent reserves to align with rehabilitation planning, step reserving after 24 months, and the reserving calculator.

- BI^3 case reserves do not reflect its exposure, and the duration benchmarks exceed pre-BI^3 benchmarks.

- The primary savings from BI^3 were to flow from leakage savings, based in large part on the duration expectations. BI^3 reserve practices may not fully reflect the risk exposure.

With respect to PDR, CAC referred to the Corporation's statement that the project would generate leakage costs as well. The experience with BI^3 to date should inform the Board on the likelihood of savings generated by PDR. CAC also asked the Board to find that the original design of PDR failed to follow the value management gatekeeping process, which was not in place at the outset of the project. CAC observed what it characterized as continuing significant risks associated with PDR:

- The First Notification of Loss (FNOL) and advanced analytics, technologies which are central to the PDR project, are not mature technologies.

- Whether the oversight approach based on advanced analytics will be effective, given a different business model: previously, most estimating was done by the Corporation initially; this will change with distributed estimating, which is anticipated to take place with 70-75% of estimates.

- Concentration within the industry, which could affect MPI's negotiating power.

CAC also commented on the compound annual growth rate of the amortization expense for the Technology Innovation, Technology Risk Management, and PDR. CAC argued that the increase in the annual growth rate from 2.5% in the 2016 GRA to 7.5% out to 2020/21 in the Application was an indication that IT is putting pressure on rates. In addition, CAC referenced the information from Gartner that the number of FTE staff in IT increased by 6.4% compounded year over year, between 2010/11 and 2014/15, and that MPI is spending more on IT FTEs than its peers. CAC argued that MPI relies on a disproportionate amount of contractors for IT. Reasonable and prudent IT management would include: (1) good gatekeeping that would be established prior to spending; (2) mature benefits realization metrics which would include an understanding of a baseline; and (3) the use of business cases to justify IT spending. It stated that there is a lack of financial metrics in business cases, against which MPI can assess new IT projects. As an example, the business charter related to the Financial Re-Engineering Project does not contain financial metrics. CAC stated that an adverse inference must be drawn as a result of what it characterized as MPI's failure to justify the business case for its IT portfolio. CAC argued that the Board cannot have confidence in the cost/benefit analysis that has been supplied in support of the PDR. For example, the cost/benefit analysis performed by Gartner did not take into account the costs for maintaining the system. There should be an analysis of total cost of ownership of the program. CAC also made a number of recommendations regarding MPI's IT expenses.

CAC also stated 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. MPI should base claims forecasts on accident year trends rather than on fiscal year trends. CAC reiterated its recommendation from the 2016 GRA, that MPI should seek to gain insight on longer tail experience from outside, and in particular from SAAQ. CAC recommended that the Board require MPI to report back on its consultations, in terms of terminations and long-term claimants, including implications for liabilities and forecasts. This would assist in understanding the data which indicate that terminations are earlier than MPI has expected.

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 compensation, the Board recognizes that the collective agreement into which the Corporation entered with the MGEU in September 2016 will continue to be a driver of cost increases, and that staff will receive step in scale increases as they gain seniority and progress in their employment by MPI. The Board acknowledges MPI's efforts in internalizing IT staff and that long term savings will be realized from this approach. The Board directs the Corporation to continue its efforts to find further savings beyond the over $9 million identified in 2017/18 and 2018/19. 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 understands that MPI uses a vacancy allowance mechanism to demonstrate its control on staffing levels. The Board finds the actual 2016/17 staffing level should form the basis of budgeting staffing levels for next GRA. The Board directs that in the 2018 GRA, MPI provide a zero based budget for staffing, using that actual figure as a starting point for forecasting purposes. The Board directs MPI to demonstrate the targeted staffing level reductions identified by the Corporation on that basis.

The Board notes that MPI does not specifically track targeted savings embedded in the overall operating budgets. To assess whether the actual targeted savings has been realized, MPI relies on an overall budget to actual comparisons. The Board finds that relying on overall budget attainment does not represent effective control over targeted costs, as other either savings or cost overruns could impact a global comparison. To improve transparency of operating expense control efforts, the Board directs MPI, in the 2018 GRA, to report on specific targeted savings forecast in the Application and compare with actual results to allow the Board to assess how MPI has controlled budgeted costs.

The Board remains concerned about MPI's costs relative to both the level of IT staff and the level of external IT consultants. The Board notes that Gartner has observed that MPI's overall personnel spending and staffing are higher than peers. As MPI increases its use of third-party support for infrastructure services, it should review the size of its retained staff.

The Board directs MPI to assess further opportunities for savings relative to external IT consultants, including a review of whether further savings can be achieved by bringing any of those consultants in-house and optimizing IT staffing levels in general. The Board orders that MPI file the results of its IT in-sourcing efforts at next year's GRA.

In Order 151/13, the Board had ordered that MPI file, in the 2015 GRA, a five-year IT strategic plan, including a cost-benefit analysis, justifying its current and future IT expenditures. MPI did not file a strategic plan in the 2015 GRA, but rather, advised the Board that the Corporation's IT strategy is integrated with its overall business strategy. The Board then required, in Order 135/14, that MPI file in the 2016 GRA, any reports generated relative to its vision and strategy development exercises. This was not done. The Board highlights this history to note that the Board continues to express concern about cost overruns with respect to IT expenditures. The Board finds there is a lack of business cases in the IT area.

The Corporation's plan for IT Modernization spending has increased to $40 million over the next four years from the associated cost reported in the 2016 GRA, which was $33.3 million. The Board understands that the scope of the PDR has changed with reduced functionality, yet there is no change in the overall budget. The Board orders an update to the Gartner report on the project be filed at the next GRA. The Board remains concerned that a complex multi-year project has the potential to run over budget unless appropriately managed.

Given the Board's concern with the potential for cost overruns and the lack of business cases in the IT area, the Board directs that in the 2018 GRA, MPI file an overall five-year strategic plan with respect to its IT projects. The plan shall include all major projects, including the IT Modernization and PDR projects, full business cases with cost/benefit financial metrics for each of the projects, shall clearly articulate the benefits of the projects, and provide updates on their progress to implementation.

The Board appreciated the in-camera briefing provided on the distributed estimating pilot. The Board directs MPI to provide an updated briefing on that and any other pilot of this multi-pronged project at the next GRA, to take place no later than May 31, 2017, given the significant expected PDR Project cost and the delay reported by the Corporation.

The Board points out that the Corporation did not comply with last year's directive requiring MPI to seek to gain outside insight on longer tail experience. As such, the Board again orders that MPI seek insight on longer tail experience from outside, and in particular from SAAQ. The Board also directs MPI to provide a full set of preliminary benchmarks to assess the performance of BI[3] for the Board's review at the next GRA.

TAB 5

Public Utilities Board

Régie des services publics

Order No. 130/17

MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION): COMPULSORY 2018/2019 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

December 4, 2017

BEFORE: Robert Gabor, Q.C., Chair
Carol Hainsworth, Member
Allan Morin, B.A., ICD.D., Member
Robert Vandewater, B.A., FCSI, CPA (Hon), CA (Hon), KStJ., C.D., Member
Michael Watson, Member

MPI's actual Normal Operations 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	1,927.7	(52.9)
2015/16	1,866.7	1,898.7	(32.0)
2016/17	1,898.9	1,927.5	(28.6)
2017/18 Budget		1,910.0	

The consistent under budget variance is a reflection of the Corporation's Vacancy Management Program, which as discussed above, is used as a means to control costs.

5.5. Information Technology Expenses

The Corporation currently has a number of active or future Information Technology (IT) projects, with the total Corporate budgeted cost for these projects at $167.1 million.

Total Corporate IT expenses, including operating expenses and capital projects, have increased from $62.8 million in 2012/13 to $64.3 million in 2016/17, representing a compounded annual growth rate of 0.6%. IT expenses are forecast to be $69.3 million in 2017/18 and to increase to $77.0 million in 2021/22, representing a compounded annual growth rate of 2.7%.

In Order 162/16, the Board noted concern with the MPI's expenditures on IT and directed the Corporation to file an overall five-year strategic plan with respect to its IT projects. The Corporation responded in the Application that its ability to comply with that directive was limited by the fact that its corporate strategic direction had not been established by its new Board of Directors. The Corporation is expecting strategic direction from its Board of Directors in December of 2017, after which it will be able to apply the strategic direction to shape an IT strategic plan. Accordingly, MPI indicated in this Application that the IT Strategic Plan it filed in the 2016 GRA continued to be in place.

The Corporation advised that it has a limited set of IT investments planned during the rating years for this Application, which are a continuation or completion of existing projects, or to address a technical requirement to be completed. Those IT projects are: Human Resources Management System Phase 3 & 4, Customer Claims Reporting System, Customer Self Service, Technology Risk Management, and AOL/CARS Replacement.

In this Application, MPI provided detailed information about one of its major IT initiatives, the PDR program. The PDR program has been in progress since 2010/11 and is now scheduled for completion in 2019/20. MPI filed an evaluation of the PDR project prepared by Gartner Consulting, the Physical Damage Re-Engineering (PDR) Program Evaluation (Gartner Report). The Gartner Report was a follow-up to a report filed by the Corporation in the 2017 GRA, in response to Board Order 128/15, which directed the Corporation to file an independent assessment on the development and roll-out of the PDR project. In Order 162/16, the Board ordered that the Corporation file 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. The analysis was to incorporate all maintenance costs.

The Gartner Report filed in this Application found that in the past year the program had "made significant strides in completing some projects, and reevaluating and cancelling others that would provide low value." The Gartner Report also found that a number of significant components had been put into place over the previous year. There are five IT projects required to complete the PDR project, with four scheduled to be completed in 2017/18 and the fifth and final project, the Customer Claims Reporting System, to be completed in 2019/20. The original PDR program contained 20 projects, seven of which Gartner found had been cancelled. Eight of the IT projects contained within the PDR program are complete.

The Gartner Report found that the overall program budget had been consistent at $65.5 million, with $43.4 million spent to date and $18.1 million remaining to complete the program. The total projected spending would be $61.5 million, or $4 million less than the approved budget amount. The PDR program is expected to generate an internal rate of return of 7%, with a net present value of $13.7 million over the period from inception until ten years after full implementation. The Gartner Report found that the PDR program was starting to produce measurable benefits.

Martin Geffen of Gartner Group appeared as a witness called by MPI in the hearings, as he did in the 2017 GRA. He addressed the Gartner Report along with Gartner's CIO Scorecard and Infrastructure Benchmark (CIO Scorecard). Mr. Geffen is a Vice President of Gartner Group and provides consulting services in the areas of technology planning, architecture, design and implementation issues. Mr. Geffen was pre-qualified by Order 73/17, following the Pre-Hearing Conference, to testify as an expert in the area of the use and planning of information technology, and information technology governance.

In the 2017 GRA, Gartner had assessed that the PDR program had a net present value benefit overall of $18 million, with an internal rate of return of 8%. The cost/benefit analysis conducted by Gartner for the 2017 GRA did not include the cost of maintaining the program. Mr. Geffen testified in this Application that the updated calculation of the net present value of $13.7 million was conducted by MPI. The reason for the reduction in the net present value and internal rate of return was explained by Gartner as being due mainly to a reduction in the pace of the benefits realization. The Corporation also advised of its IT Modernization project, which is aimed at replacing legacy IT programs such as the Autopac Online (AOL) and Claims Administration and Reporting System (CARS). The IT Modernization project has a total corporate budget of $62 million.

MPI utilizes both internal FTEs and external consultants to maintain MPI's IT systems and deliver on IT capital projects. MPI's IT actual and forecast staffing levels including consultants are as follows:

IT Staff Complement

	Actual					Forecast		
Year Ended February 28/29	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Internal FTE	227	212	210	223	236*	248*	253*	249*
Consultants	129	120	110	114	107	92	81	80
Total	356	332	320	337	343	340	334	329
% IT Consultants	36%	36%	34%	34%	31%	27%	24%	24%

* rounded.

In Board Order 128/15, the Board directed MPI to assess opportunities for savings relative to external IT consultants, including bringing consultants in-house. In response, MPI undertook a comprehensive review and developed an approach to transition up to 27 positions from external to internal over the 2016/17 to 2019/20 fiscal years. This is expected to achieve $2.4 million in annual cost savings by 2019/20. In Order 162/16, the Board directed the Corporation to assess further opportunities for savings relative to external IT consultants, including a review of whether further savings can be achieved by bringing any of those consultants in-house and optimizing IT staffing levels in general. In response, the Corporation provided a summary of the progress made in the 2016/17 fiscal year:

- 15 positions were converted from external to internal;
- A further review of the external labour strategy resulted in the adjustment of priorities, resulting in four additional opportunities to replace consultants with staff being incorporated in the strategy, and four opportunities to replace consultants with staff identified for action in 2017/18 being deferred;
- The target remains at 27 external positions being converted to internal; and
- MPI is using students and third-party service providers to manage internal and external labour costs.

MPI advised it is "hawkish" on cost containment, and testified that it is now employing a formal Value Management Process (VMP) to manage new IT investments. The VMP will apply to all new initiatives with a budget of $500,000 or more. The VMP consists of the following components:

- Business case development: The first phase is a thin business case, which is a high-level presentation of the initiative. If the initiative is approved by the Corporation's leadership, further time is spent in determining the qualitative and quantitative elements of the proposal. The second phase involves developing a detailed business case in accordance with the template developed by the Corporation;
- Business case approval;

- Business Transformation Office (BTO) Project Delivery. The initiative will move through seven phases of project delivery, overseen by the BTO; and
- Post-Implementation Reviews. The Corporation advised that it is developing a template that will be used to conduct post-implementation reviews on all approved business cases. The reviews may be conducted by independent third-parties, depending on their size.

5.6. Benchmarking

As in previous GRAs, the Corporation filed with the Board its benchmarking framework reflecting four subject areas: Operational Efficiency, IT Service Delivery, Serving Manitobans and Community Impact. MPI uses the benchmarking results to identify opportunities to reduce costs, effective management approaches, and efficient resource allocation.

MPI engaged the Ward Group, as it has done previously, to provide an independent perspective on how the Corporation compares to other companies and monitor performance. The Ward benchmarking process involves on-site best practice analyses at MPI, and on-site meetings with MPI management to review customized results developed for MPI. The Corporation advised that after the second year of collecting information, a trend analysis report is prepared annually to assist MPI management in monitoring year-to-year performance improvement. Ward compared MPI to three benchmark groups:

- 10 Canadian insurers for the Canadian Personal Auto Benchmark Group;
- 10 Canadian insurers for the Canadian Benchmark Group; and
- 9 US insurers for the US Personal Auto Benchmark Group.

The Ward Group's 2015/16 comparison showed 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 three benchmark groups listed. MPI's performance on FTEs per $100 million of Gross Premiums Written (GPW) has improved since 2011/12 moving from 150.6 to 130.9 in 2015/16; however, it remains materially higher than its peers, which range from 103.2 to 107.6. The Corporation explained that this is due to its business model, where customer service is performed by MPI employees. This requires more employees than other models, which use out-sourced call centres or damage estimates handled by repair shops. With respect to the latter, the Corporation has targeted staff reductions associated with the completion of the PDR program.

The Ward benchmarking also indicated that MPI's personnel expenses are lower than the comparators, which MPI attributed to lower base salaries and the fact that MPI does not pay employee bonuses.

The key observations from the Gartner CIO Scorecard, which was filed in this Application in respect of MPI's 2015/16 IT expenditures and staffing, were the following:

- MPI's IT expenditures as a percentage of revenue increased by 4.7% over the previous five years, while its peers increased their IT spending as a percentage of revenue by 5.1% from 2012/13 to 2015/16;
- MPI's IT expenditures as a percentage of operating expenses decreased by 4.5% over the last five years;
- Personnel expenses and staffing levels by MPI remain higher than its peers;
- MPI spends 63% of the IT budget on personnel, compared to 44% for its peers;
- MPI is focusing IT investment on reliability, availability and lowering risk;
- MPI improved its overall maturity rating from 3.34 in 2014/15 to 3.42 in 2015/16; and
- Business process management remains generally low, at 1.60 compared to 1.78 for MPI's peers.

In his testimony, Mr. Geffen commented on MPI's efforts to transition third-party contractors to staff, which he described as a positive step. When it comes to IT expenditures, MPI is spending more than its peers on initiatives to grow the business, and its spending is in line with peers on IT initiatives associated with running its business. Mr. Geffen indicated that MPI had improved its overall IT maturity score, which was a positive trend.

Mr. Geffen also commented on certain recommendations that Gartner had made to the Corporation in respect of IT in previous years, and how they might affect MPI's business process management. In particular, Mr. Geffen commented on the following recommendations:

- 3.05: Plan the future state architecture to support MPI's goals of access and support for existing and new services.

Mr. Geffen commented that future state architecture could include workflow management tools and other business process analytics tools, to achieve better business process management.

- 3.06: Perform a baseline of the current state, and perform gap analyses as the architecture is implemented.

Similarly, Mr. Geffen commented that the purpose of this recommendation would be for the Corporation to develop a baseline to establish whether the Corporation had any kind of business process in place, any workload tools, or any analytics in place to assess effectiveness of business processes, and from there develop a gap analysis and a plan to close any gaps.

- 3.07: Continue to increase the span of Enterprise Architecture's influence throughout business areas by ensuring that governance processes (as measured by process maturity) and their importance is clearly communicated such that they are not circumvented. Often this involves building up stakeholder support and requires clear communications regarding Enterprise Architecture's value to the business.

Lastly, the purpose of the third recommendation would be to ensure that the Enterprise Architecture organization has the requisite authority or influence to drive the changes that are required.

The Corporation had advised its progress on the implementation of these three recommendations, which was:

- 3.05: the progress was on hold, to be reviewed in the fourth quarter of fiscal year 2017/18;
- 3.06: the progress was on hold, to be reviewed as part of the budgeting process in the third quarter of fiscal year 2017/18; and
- 3.07: In progress.

In Order 128/15, the Board had directed MPI to seek to gain insight on longer tail experience from outside the Province of Manitoba, and in particular, from the Société de l'assurance automobile du Québec (SAAQ). In the 2017 GRA, the Corporation advised that it did not undertake the review as directed, and has indicated that it will conduct a review of mortality assumptions in the coming year, on the assumption that SGI and SAAQ are willing to share their mortality experience with the Corporation. As a result, in Order 162/16 the Board again directed the Corporation seek to gain insight on longer tail experience from SAAQ, and report back on the results of its efforts in the 2018 GRA. The Corporation did not comply with this directive, and advised that the Chief Actuary had begun discussions with outside parties, but was unable to complete this task prior to the 2018 GRA filing due to other priorities.

5.7. Business and Injury Improvement Initiative (BI3)

The Business Improvement and Injury Initiative (BI^3) was implemented by the Corporation in 2010. The purpose of BI^3 was to implement a new claims management system for the Corporation's Personal Injury Protection Program (PIPP). Central to BI^3 was the implementation of injury claims management software and a document management system, along with resulting organizational changes.

In Order 135/14, the Board ordered that MPI file in the 2016 GRA:

> 11.5 - 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; and

11.6 - 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.

MPI indicated in the 2016 GRA that it was not in a position to fully comply with the Board's directives and 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. The Corporation advised at the time that as BI^3 was implemented in September 2010 and, at that time was entering its fifth year post-implementation, it was too early to finalize post-BI^3 benchmarks as open post-BI^3 claims were not yet fully developed. MPI stated that the BI^3 business case indicated that it would take at least seven years for the initiative to be fully functioning and achieving desired outcomes. Accordingly, in Order 162/16, the Board directed MPI in this Application, now seven years post-implementation, to provide a full set of preliminary benchmarks to assess the performance of BI^3.

In response, the Corporation filed the Post-Implementation Review of the Business and Injury Improvement Initiative (BI^3), prepared by Ernst & Young LLP (Ernst & Young Report), dated April 27, 2017.

The Ernst & Young Report has concluded that the BI^3 initiative has met or exceeded its anticipated benefits. The findings of the Ernst & Young Report are summarized as follows:

- Qualitative Benefits - IT Systems Renewal: the purpose of BI^3 was to implement a "best in class" claims management system, in order to minimize organizational and financial risk to PIPP. Ernst & Young found that the functionality as envisioned in the business case was in place and meeting the Corporation's stated business goals;

- Qualitative Benefits - Organizational Effectiveness: Ernst & Young found that the document management and case management capabilities had generated benefits across all identified areas;

- Quantitative Benefits - Productivity Savings: Ernst & Young calculated actual savings to the Corporation of $9.53 million associated with the implementation of BI^3; and

- Quantitative Benefits - Leakage Savings: Ernst & Young found favourable claim duration reductions in excess of the Corporation's 4-day benchmark target, as a result of processing efficiencies.

MPI stressed the following with respect to IT:

- That IT is essential in any modern business and that MPI pursues IT initiatives that ensure security, and system reliability, as well as enhance the customer experience. IT initiatives support the business strategy, and MPI has a demonstrated track record of delivering IT initiatives on time and on budget;

- The VMP is maturing and formalizing elements such as business cases;

- That MPI's IT initiatives deliver value and reduce risks, but IT expenditures have many drivers and initiatives are often not discretionary; and

- That Gartner has found that MPI's overall IT maturity is improving and that MPI is successfully implementing an external staffing strategy. The PDR program is on track, and although it has evolved, its original objectives have been preserved and project costs have been consistent.

5.8. Interveners' Positions

CAC

CAC was critical of the Corporation's IT expenditures. It noted that MPI continues to operate at a low level of business processes maturity and is investing significantly more in infrastructure and operations than its peers, including significantly higher investments in staffing, outsourcing and software.

CAC commented that IT personnel levels remain relatively high and MPI compares unfavourably with its peers in respect of staffing expenditures. There should be further opportunities to reduce staff over time.

With respect to PDR, CAC stated that the program was initiated in the absence of a well-articulated business case and the program has changed dramatically in scope. CAC noted this resulted in the cancellation of projects which had been part of the original PDR program, and the replacement of the CARS program, originally part of the PDR budget, has now been removed from the program. CAC was also critical that key projects forming the PDR program, such as the Customer Claims Reporting System, lack independent business cases. CAC further stated that there is not much available information on what transpired with the Remote Estimating pilot, except that the program is at risk and on hold, which would have significant implications for rural Manitobans. In addition, operating and maintenance costs have been excluded from the calculation of the PDR project costs. With respect to the budget for PDR, CAC observed that in addition to the overall budget, there are projects which have been described by Gartner as linked with the PDR program but have been excluded from the budget, including Predictive Analytics at a budget of $2.2 million and Centre of Excellence at a budget of $6.3 million.

CAC made recommendations for certain findings in respect of PDR:

That, notwithstanding the exclusion of capital costs of the Predictive Analytics project from the cost side of the cost/benefit analysis, the savings from that program have been included on the benefit side;

That the assessment of the business case for the PDR program is not consistent with good practice because it did not incorporate the Corporation's weighted cost of capital; and

That the calculation of the net present value of the PDR program cannot be relied upon.

With respect to other aspects of IT, CAC suggested that MPI has not demonstrated that it is practicing modern IT portfolio management or optimization, and there is an absence of financial information related to a large expenditure, the replacement of the AOL/CARS systems. With respect to AOL/CARS, there is currently no project charter or business case, nor does the Corporation have an estimate of the cost of maintenance of these programs.

CAC recommended that for the next GRA, the Corporation file an analysis of the financial impact of IT costs on rates, and for IT Modernization (the replacement of AOL/CARS), the Corporation file a detailed calculation of the total cost of ownership, a net present value analysis, and an internal rate of return analysis.

CAC also recommended that in the next GRA, MPI file an articulation of how it conducts project portfolio management and demonstrate how projects are aligned to strategic organizational objectives, as well as an update on opportunities to achieve savings in software and staffing.

CAC observed that depreciation and amortization account for approximately 10% of all Basic expenses for fiscal year 2017/18, and the compound annual growth rate from 2013/14 to 2016/17 was 17.5%. The forecast for 2017/18 through to 2019/20 is a compound annual growth rate of 13.3%. Amortization and deferred development has been growing rapidly at the Corporate level, and a significant proportion of total project costs are borne by Basic.

5.9. 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 Governance and Accountability Act*, and in particular, s. 25 thereof.

The Board notes that the Corporation has stressed that it is continuing to make efforts to control and reduce costs. The Board is keenly interested in the Corporation's operating expenses and cost containment efforts and intends to review them in detail in the 2019 GRA.

The Board points out that the Corporation again did not comply with last year's directive requiring MPI to seek to gain insight on longer tail experience in other jurisdictions. As such, the Board again expects that in the 2019 GRA, MPI will be in a position to report back on its efforts to seek insight on longer tail experience from outside, and in particular from SAAQ, and directs the Corporation to do so.

The Board notes MPI's comments that its IT initiatives make up a small proportion of its overall expenses. Nonetheless, the Board finds that strategic and appropriate IT expenditures can serve to create efficiencies and reduce future costs to the Corporation, as was found by Ernst & Young with respect to BI[3]. IT projects that are not subject to rigorous controls or oversight can result in cost overruns to the Corporation.

In Order 162/16, the Board expressed concern about MPI's costs relative to both the level of IT staff and the level of external IT consultants. The Board notes that Gartner has observed that MPI's overall personnel spending and staffing are higher than peers. The Board is encouraged by the Corporation's efforts to continue to reduce reliance on IT consultants and reduce the number of IT staff overall. The Board notes that the Corporation has targeted further staff reductions associated with the completion of the PDR program and anticipates that the Corporation will be able to demonstrate achievements in that respect in the future.

The Board directed in Order 162/16 that in this Application, MPI file an overall five-year strategic plan with respect to its IT projects, including all major projects, full business cases with cost/benefit financial metrics for each of the projects, and articulating the benefits of the projects, with updates on their progress to implementation. This was not done, as the Corporation advised that it was awaiting strategic direction from its Board of Directors in the fourth quarter of 2017/18.

Accordingly, the Board expects to receive a new IT Strategic Plan from the Corporation, and directs that it be filed with the Board forthwith following its approval by the MPI Board of Directors, which the Board understands will take place following its presentation to the Board of Directors in December 2017. The Board looks forward to receiving the IT Strategic Plan and anticipates that this will be an important issue, which will be subject to a thorough review, or "deep dive", in the 2019 GRA.

In Order 162/16, the Board expressed concern at the lack of business cases in the IT area. The Board notes the implementation of the Value Management Process, which it understands will apply to all new initiatives with a budget of $500,000 or more, and expects that this process will bring in valuable controls and contribute to better business process management in IT. However, the Board expresses some concern over the fact that business cases will not be created for any IT projects currently "in-flight", that do not already have business cases.

With respect to PDR, the Board finds that although Gartner's evaluation has indicated that the program will be completed under the initial budget of $65.5 million, there have been significant budgetary adjustments such that MPI has not clearly established that the program is in fact operating within its original budget. Most significantly, the Board finds that the Optimized Adjusting project, which had an original budget of $32.6 million, and was conceived as a replacement for the CARS / First Notice of Loss systems, has now been removed from the PDR program budget. Accordingly, notwithstanding Gartner's observations, a further, more detailed review of the evolution of the PDR budget leads the Board to the conclusion that the Corporation has been challenged in reining in spending on the PDR program. The Board further finds that the net present value and internal rate of return calculations for the PDR program are of limited value as they do not take into account the costs of operating and maintaining the program and utilize a 3% discount rate, which may not reflect the risks of the project. The Board also notes that there has been a deterioration in the assessed benefits of the PDR program since the Gartner analysis filed in the 2017 GRA.

The Board finds, as was stated by CAC, that the PDR program was initiated in the absence of a well-articulated business case and the program has changed dramatically in scope. The Board is also concerned with the fact that there are projects that are linked with the PDR program but have been excluded from the budget. In addition, the Corporation has not disclosed the costs to operate the PDR program. The Board views this information as a critical component in assessing the costs and benefits associated with the program and accordingly orders that in the 2019 GRA, the Corporation file a detailed breakdown of its analysis on the costs to operate and maintain the PDR program. Further, the Board finds that there is a lack of information on the costs and benefits of the IT Modernization program. Therefore, the Board also orders that in the 2019 GRA, the Corporation file:

- An update, prepared by Gartner, to the PDR Program Evaluation;
- A cost/benefit analysis of the five remaining projects to be completed as part of the PDR program, if no such cost/benefit analyses form part of the new IT Strategic Plan. The discount rate used in the cost/benefit analysis should be higher than the 3% previously used in the PDR project cost benefit evaluation. The Board finds that 3% discount rate is not fully reflective of the risks associated with the program. The Board will expect the Corporation to select and justify the use of an appropriate discount rate consummate to the risks inherent in the project; and
- A business case and a cost/benefit analysis for the IT Modernization project, specific to the AOL and CARS redevelopment or replacement.