Manitoba Public Insurance

Public Utilities Board (PUB) Presentation
October 10, 2017

GARTNER CONSULTING

Overview

- IT Score and Benchmark
  – Operating costs increased year over year
  – The gap with peers is decreasing
  – Maturity levels increasing

- PDR Program Review
  – Pilots complete, but for Remote Estimating
  – Project pace expedited, most completed by the end of this fiscal year
  – Costs are consistent with projections
  – Benefit projections consistent, longer duration to realization
  – Maintenance accounted for in operating budgets

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IT Benchmark and scorecard Background

MPI has retained Gartner to conduct an annual review of the IT service delivery capability (organization, processes, and infrastructure)

Three structured evaluation instruments	Provide the following outcomes
▪ IT Spend Analysis ▪ CIO Scorecard ▪ Infrastructure & Operations Scorecard	▪ Compare relative funding levels of IT at MPI ▪ Compare MPI's infrastructure and operations costs, staffing and service levels with those of similar enterprises ▪ Evaluate the relative maturity of the IT organization ▪ Assess the IT organization's ability to react to rapidly changing business requirements

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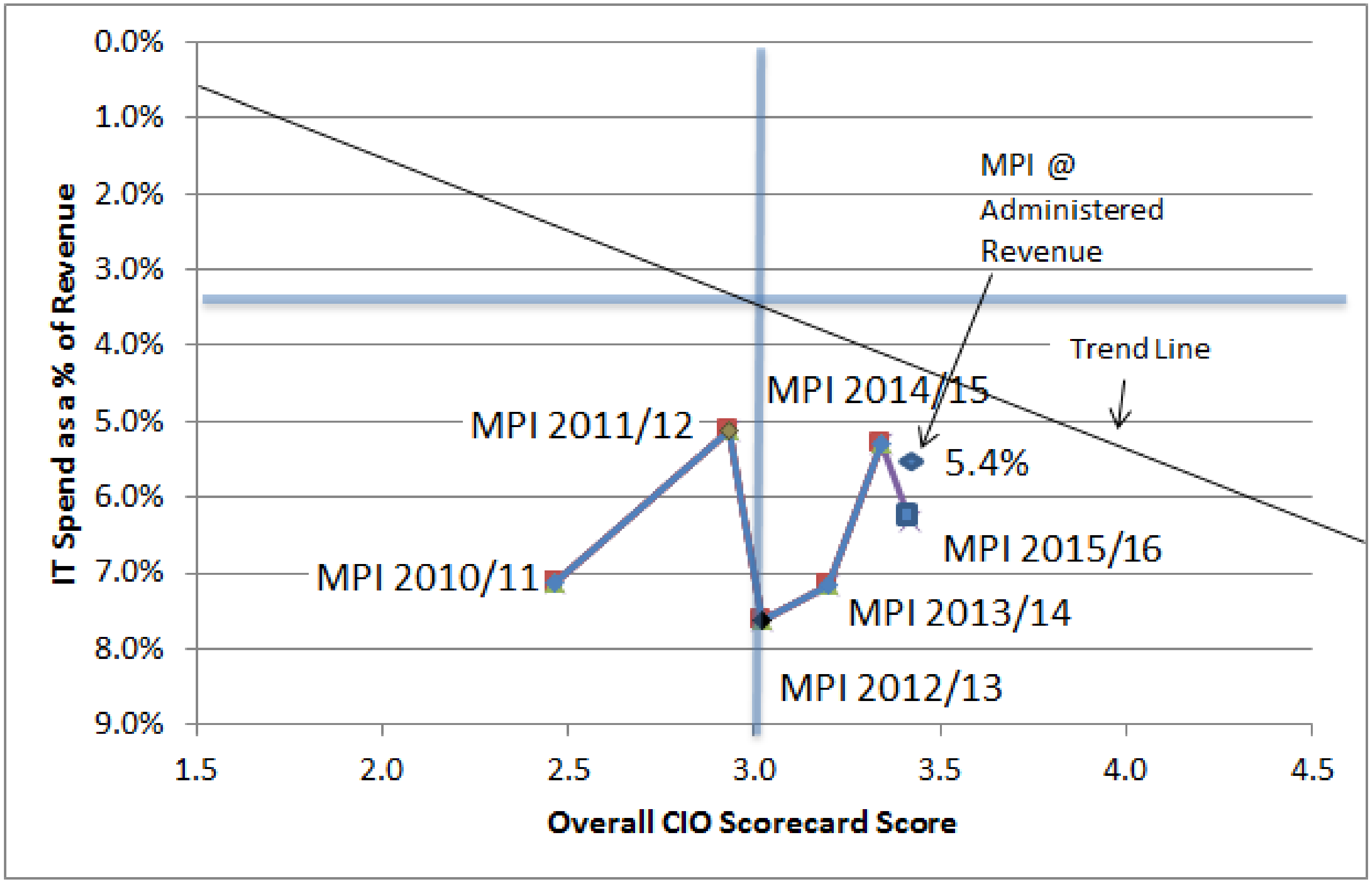
IT Benchmark and Scorecard Summary



IT Benchmark and Scorecard Key Observations

Spending

- IT Spend as a % of Revenue rose from 5.3%% to 6.3%
- IT Spend as a % of Revenue is
  - 6.3% vs. 4.4% for the Peers
- IT Spend as a % of Operating Expense rose from 5.4% to 6.1%
  - 6.1% vs 5.6% for the Peers

Spending Allocation

- "Catch-up" spending has stabilized and the focus is now on business improvement
- MPI's overall staffing level rose slightly and is higher than the peers', however it is continuing to transition from third-party services for a number of areas
- MPI continues to spend more on Contractors and external third-parties, which increases spending
- MPI's "Run the Business" spending is in line with the Peers

Alignment and Maturity

- MPI improved in almost all Process Maturity areas.
- The overall IT Maturity score increased 2.4% from last year to this year.

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PDR Program Review
Context and Background

- Goal: Transform the physical damage claims operation to enhance the MPI Value Equation

- Transitioned from a complex initiative made up of five programs and 20 projects within those programs
  - Completed eight projects
  - Cancelled seven projects after determining that they are not strategic and do not add to the business case.
  - Created five restructured projects which now comprise the remainder of the PDR program

- Evaluation Approach
  - Reviewed key program artifacts and interviewed key individuals.
  - Applied a proven risk and readiness methodology to address the five key questions raised in the PUB order
  - Developed the report

The PUB order specified five key areas to be addressed:

1 Progress of pilots to date

- The PDR program has completed all but one of its pilots and moved the piloted solutions into production.
- The Remote Estimating pilot is on hold
  – The business case for the current program is not as strong as was projected
  – MPI is combining this into an overall Rural Strategy
- The PDR Program is currently comprised of the following projects:

1. Appointment Manager – ability to support external partners and customer self-service
2. Enhanced Direct Repair Capabilities – complete what was originally known as Distributed Estimating
3. Partner Portal – authentication and authorization for external partner access to MPI services
4. Remote Estimating – support remote and rural repair shops to participate in a collaborative estimating
5. Customer Claims Reporting System (CCRS) – rebranding of the initial IFAM / FNOL project (Optimized Adjusting, and co-development of the Mitchell solution)

The PUB order specified five key areas to be addressed:
2 Timing of full implementation

- There have been a number of changes to vision, direction, and scope of PDR
- While progress had been relatively slow prior to the last assessment, a number of significant components have been put in place over the last year
- The sharpened focus of the program should enable an ability to maintain the pace of project completions and transition to operations
- While the overall documented and approved Program Charter has not been updated, all changes have been documented in approved Change Requests.
- The MPI team is projecting that of the five remaining projects
  – Three will be completed in the 2017/18 fiscal year
  – The CCRS project will be completed in fiscal year 2019/20
  – The Remote Estimating project is on hold pending outcome of the Rural Support Strategy

The PUB order specified five key areas to be addressed:

3 Project costs

- The overall program budget has been consistently $65.5M (in 2012 dollars)
- While some projects required more than the original budget, others were under budget, and yet other originally planned projects were cancelled due to value projections being lower than originally projected
- Approximately $43.4M has been spent on the program to date with $18.1M remaining to complete the program
- The PDR Program is currently projected to be complete by the end of fiscal 2019 / 2020, for a total projected spending of $61.5M, $4.0M less than the approved $65.5M PDR budget
- Given the current slate of five projects, the scope clarity for each of the five projects, and how far they are into their overall lifecycle, there is a high level of confidence in the projected spending
- The program is unlikely to undergo further scoping with respect to functionality and business capabilities

The PUB order specified five key areas to be addressed:

4 Savings / benefits to be realized

- The Program is now structured as an investment of about $65.5M
- Investment period is 9 years
- Benefits started to be realized in 2016 / 2017
- There is a slow but steady ramp up in benefits
  - Benefits started to be realized in FY 2016/17 (year 7 of the program)
  - Ramping up to a steady state ongoing $13.65M annual benefit
  - The steady state is achieved in 2021/22 (year 12 of the program)
  - The program returns an Internal Rate of Return of 7% and a Net Present Value of $13.7M (using a 3% cost of capital), over the period from inception (2010/11) until 10 years after go-live (2026/27)
  - The pay back period is achieved in 2023/24 (year 14 of the program)

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The PUB order specified five key areas to be addressed:

5 Maintenance Costs

- MPI has accounted for ongoing maintenance and support in IT and Line of Business Operating budgets

- MPI has used a range of approaches to implement and operationalize the PDR projects, each of which has different maintenance and support structures
  – Software as a Service (SaaS)
  – Commercially available off the shelf (COTS) solutions
  – Custom developed software

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The PUB order specified five key areas to be addressed:

5 Maintenance Costs

- Software as a Service (SaaS)
  - No upgrade, support, or maintenance fees and the maintenance and upgrade charges are included in the SaaS subscription agreement

- Commercially available off the shelf (COTS) solutions
  - Require the customer to pay an ongoing license fee for ongoing support and maintenance and the rights to install any new versions or upgrades
  - MPI pays ongoing license fees for all such products out of the IT operating budget

- Custom developed software
  - Gartner estimates that the cost for maintaining software that was custom developed within the PDR program is likely to be about $300k per year
  - MPI reports a budget for ongoing support of custom developed software in its overall IT operating budget

- Some of the PDR solutions have an ongoing need for development or a physical asset replacement cycle
  - MPI has budgeted for this kind of support in the operating budgets of the line of business organizations most affected by production operations

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