MANITOBA PUBLIC INSURANCE

2021 GENERAL RATE APPLICATION

Round 2 Information Requests

September 15, 2020

Consumers' Association of Canada (Manitoba) (CAC)

MANITOBA
PUBLIC INSURANCE

CAC (MPI) 2-1

Part and Chapter:	**CAC (MPI) 1-1**	**Page No.:**	
PUB Approved Issue No:	**18.d)**		
Topic:	**Claims Incurred Impact of COVID-19 and other risks and opportunities of COVID-19**		
Sub Topic:			

Preamble to IR:

MPI's response includes the following statements from the question sub-parts:

a) *…"**MPI assumes no lasting impacts** from the COVID-19 pandemic in its claims forecast, apart from the impact on claims outlined in Claims Incurred CI.2.11 for the 2020/21 accident year"...[emphasis added]*

and

b) *…"**MPI remains agnostic** as to the return of claims counts to their pre-COVID-19 levels."… [emphasis added]*

and

c) *…"The number of months claims incurred and claims counts were below budget as a result of COVID-19 is not an adequate measure upon which to modify the claims forecast. As the COVID-19 pandemic remains ongoing, the current claims experience does not accurately identify a 'normal' claims experience. **While MPI anticipates that budget reductions will gradually decrease and eventually return to 'normal' levels**; MPI cannot accurately predict the situation more than 1-2 months into the future. At present, the best estimate of the claims experience continues to be the 'non pandemic' experience (i.e. prior to March 2020)"... [emphasis added]* and

d) *..."MPI does not anticipate any impacts by COVID-19 on its Capital Management Plan unless significant COVID-19 related claims **savings persist much longer than anticipated** or unless a second wave of COVID-19 prompts a mass shutdown. If either of these hypothetical scenarios materialize MPI will have to determine next steps based upon facts known at that time."…*

Note that the reference to "number of months" in the original question was meant to capture the degree of persistence in changed claims experience as a result of COVID-19.

Question:

a) Please provide the definition of "best estimate" that MPI is using for its response to part c). in the preamble. Please indicate if the definition varies from Actuarial Standards of Practice and justify your answer. Please elaborate on any statistical evaluation undertaken by MPI to assess whether its claim of "best estimate" is validated.

b) In both a quantitative and qualitative sense, please discuss the level of uncertainty associated with the MPI "best estimate" in the current application and compare it with the level of uncertainty associated with "best estimates" in the pre-COVID19 era.

c) Please explain how long MPI expects the impact of the COVID-19 pandemic on claims incurred to persist and the basis for that expectation.

d) Please provide any uncertainty analysis of the expectation in part c) undertaken by MPI to explore scenarios in which the material impacts of COVID-19 on claims incurred persist longer than currently expected and discuss the consequences of prolonged persistence on the projected results for the 2020-21 and 2021-22 year. If no uncertainty analysis was undertaken, please explain why not.

e) Please provide any uncertainty analysis undertaken by MPI to explore scenarios in which claims incurred expectations do not return to pre-COVID-19 "normals".

f) Please provide a detailed description of how MPI will test whether there is persistence in the claims experience trends as a result of COVID-19. Please describe the circumstances that would trigger MPI to incorporate this claims experience (i.e. pandemic experience) into the test year forecasts.

g) If MPI intends to adjust its forecasts on post-hoc basis (only after having observed effects), please explain how MPI intends to reflect this experience in customer rates for the 2021 GRA.

Rationale for Question:

MPI expects a 'gradual' return to non-pandemic experience. It has not provided any estimate of time over which this gradual return will occur or any insight into the degree of uncertainty associated with its expectation. Recognizing the unprecedented nature of the current pandemic, MPI should provide a framework for determining if, when, and how pandemic experience becomes relevant to the test year forecasts. MPI also should be accountable to that framework.

RESPONSE:

a) MPI defines the term 'best estimate' consistent with the definition ascribed to the term by the Canadian Institute of Actuaries. 'Best estimate' simply means an estimate without bias. MPI has highly credible pre-pandemic claims experience from which to drawn upon in order to furnish best estimates for longer term outlooks. In the near term (i.e. the next 3-6 months), MPI will utilize its observed pandemic experience, which includes a gradual trend towards its pre-pandemic budget, as the basis for making best estimates for this period.

In *CAC (MPI) 1-1(e)* and *(f)*, MPI provided evidence supporting the reasonableness of its initial best estimate forecasting of the pandemic experience. MPI will continue to update these forecasts based on new information to ensure they remain best estimates.

b) Forecasts made by MPI in the midst of a pandemic will naturally carry more uncertainty than those made in non-pandemic periods. Although MPI cannot predict the 'end' of the pandemic and the return to normal driving behaviour, with nearly 6 months of experience during pandemic conditions, MPI can improve its near term best estimate forecasts (i.e. 3-6 months).

c) Please see the response to part (b). For the August 31, 2020 forecast update, MPI will utilize the observed pandemic experience to date as the basis for making an updated best estimate forecast. At the time of writing, MPI anticipates presenting multiple scenarios in which the claims experience gradually returns to budget over a 3 month or 6 month period.

   For the week ending September 5, 2020, collision frequency was tracking at approximately 10%-15% below the previous 5-year average. Relative to the peak frequency reduction of 50%-55% in late March and April 2020, collision frequency is gradually returning to pre-pandemic levels. Although MPI cannot predict an exact date in which collision frequency will return to 'normal', there is enough evidence to support a gradual return to normal in the next 3-6 months. Like any forecast, there is uncertainty around a best estimate. Other factors unrelated to the pandemic could also impact the actual results relative to forecast (i.e. poor winter driving conditions).

d) See the response to part (c). MPI will test the sensitivity to the forecast and 2021/22 rate indication by providing multiple 'return to normal' scenarios. However, given the gradual return of collision frequency to pre-pandemic budgeted levels, MPI does not believe it has strong 'best estimate' evidence to assume pandemic related frequency reductions beyond the 2020/21 fiscal year.

e) Please see the response to parts (c) and (d).

f) MPI continues to track collision and injury behaviour relative to forecast. MPI also utilizes mobility and traffic data from Manitoba and other jurisdictions to understand the change in traffic during the Pandemic and whether the trend is a return to normal. For example, although collision frequency is down, serious injury highway-related accidents are up. MPI will use this information to help forecast out an estimated return to 'normal' in the August 31, 2020 forecast update.

g) MPI will provide a best estimate forecast for the 2021/22 rates.

CAC (MPI) 2-2

Part and Chapter:	**CAC (MPI) 1-1**	**Page No.:**	
PUB Approved Issue No:	**18.d)**		
Topic:	**Claims Incurred Impact of COVID-19 and other risks and opportunities of COVID-19**		
Sub Topic:			

Preamble to IR:

In response to part d), MPI states:

a) Collision severity increased markedly during the COVID-19 pandemic. This increase is partly a result of the types of claims made during this time (i.e. those with significantly more damage represent a larger percentage of the total repairs). While MPI is currently investigating this trend, it may ultimately be that, with the number of people working from home, there are fewer 'low severity' claims, resulting in an increase in the average severity of all claims.

Question:

a) Please provide the results of the investigation into the trend of increased severity during the pandemic lockdown.

b) Please discuss the implications of this investigation for the test year forecasts.

Rationale for Question:

To understand the observed severity trend during the pandemic lockdown.

RESPONSE:

a) MPI analyzed April through July 2020 collision repair claims data and discovered two main causes for the increase in the severity of collision repairs: increases in the number of wildlife claims and in the number of rural collision claims, relative to all other claims. First, wildlife claims are typically 40% to 50% higher in severity than all other claims and therefore increase collision repair severity overall. Second, rural claims (i.e. accidents occurring outside of Winnipeg) typically occur at higher speeds and are therefore, on average, approximately 10% to 20% higher in terms of severity than are claims from collisions occurring in Winnipeg. Aside from these two main causes, additional cleaning and sanitation associated with the COVID-19 pandemic also generally increased the severity of collision repairs.

The figures below show the change in the proportion of collision repair claims as of August 31, 2020 for the months of April through July.

Figure 1 Wildlife Collision Repair Distribution

Line No.	Loss Months	Wildlife Claim Counts	Wildlife Claim Counts % of Total	Wildlife Claim Severity	All Other Claim Severity
1	**April-July 2016**	2,588	11%	$3,727	$2,621
2	**April-July 2017**	2,573	11%	$3,848	$2,679
3	**April-July 2018**	2,531	11%	$3,967	$2,733
4	**April-July 2019**	2,790	13%	$4,254	$2,904
5	**April-July 2020**	2,647	17%	$4,296	$3,011

Figure 2 Rural Collision Repair Distribution

Line No.	Loss Months	Rural Claim Counts	Rural Claim Counts % of Total	Rural Claim Severity	Winnipeg Claim Severity
1	**April-July 2016**	8,171	34%	$3,025	$2,592
2	**April-July 2017**	7,938	34%	$3,103	$2,655
3	**April-July 2018**	7,660	33%	$3,180	$2,709
4	**April-July 2019**	7,462	35%	$3,465	$2,872
5	**April-July 2020**	6,432	42%	$3,598	$2,963

b) MPI will continue to closely monitor significant changes in collision repair severity throughout the COVID-19 pandemic. MPI will consider any changes to collision repair severity in its future forecasts.

CAC (MPI) 2-3

Part and Chapter:	**CAC (MPI) 1-1**	**Page No.:**	
PUB Approved Issue No:	**18.d)**		
Topic:	**Claims Incurred Impact of COVID-19 and other risks and opportunities of COVID-19**		
Sub Topic:			

Preamble to IR:

Responses to CAC (MPI) 1-1, CAC (MPI) 1-3, and CAC (MPI) 1-5 appear to outline inconsistent treatment of the pandemic effects in the test years forecast.

Question:

a) Please describe MPI's understanding of how other rate regulated auto insurers (in particular SGI and ICBC) are forecasting impacts from COVID-19.

b) Please describe MPI's understanding of how unregulated insurers are forecasting impacts from COVID-19.

c) Please file all supporting documents in MPI's possession for responses to a) & b).

Rationale for Question:

To understand MPI's approach to forecasting pandemic effects in the context of the broader insurance industry.

RESPONSE:

a), b) and c)

MPI did not investigate how other insurers forecasted the impact of COVID-19. As the impact will be different, all insurers, including MPI, must adjust their forecasts in recognition of how COVID-19 has affected their respective claims, expenses and revenues. To account for the impact of COVID-19, MPI employed best judgements, methods and forecasting techniques, using the most recent Manitoba information available at the time of filing, to establish an appropriate and reasonable 2021 GRA forecast. For the compliance filing, MPI will continue to utilize the most recent available Manitoba information and relevant information from any other rate regulated insurer, in order to establish a best estimate forecast.

CAC (MPI) 2-4

Part and Chapter:	**CAC (MPI) 1-3**	**Page No.:**	
PUB Approved Issue No:	**4. b) and 18**		
Topic:	**Revenue forecast and COVID-19**		
Sub Topic:	**Vehicle upgrade forecast**		

Preamble to IR:

In response to part b) MPI states:

> b) *MPI used the historical indication to forecast the vehicle upgrade. Due to the uncertainty surrounding the impact of COVID-19, the forecast did not include this consideration.*

Question:

a) Please explain if MPI considers that the broader economic impacts of the pandemic could impact the vehicle upgrade factor, and if so, over what timeframe?

b) Please explain if MPI has considered how it intends to handle the impact of the pandemic in future forecasts of vehicle upgrade? If so, please explain how.

c) Referencing MPI (CAC) 1-3 Appendix 1, please explain why the Total insured Vehicles row does not correspond to Vehicle Column in Figure REV-9. Please provide a numerical reconciliation, as well as a narrative description.

Rationale for Question:

To understand the rational for the current test years forecast.

RESPONSE:

a) MPI anticipates short term impacts to the vehicle upgrade factor as a result of changes in customer during the pandemic period. For example, it would be reasonable to expect that customers may defer purchases of new or used vehicle during a pandemic. Also, depending on the magnitude and duration of the economic impacts from the pandemic, customers may make different vehicle choices in the near term. MPI cannot predict the longer term impacts to the upgrade factor with any precision.

b) MPI will continue to determine its upgrade factor forecast based on best estimates and utilizing all available data. Future upgrade factor forecasts will recognize the uniqueness of the year 2020 and adjust accordingly. Further, given all vehicle classifications are priced to break-even, any short term decline in the upgrade factor should result in a similar offsetting decline in claims costs. In reality, MPI has shown that claim costs are tracking significantly below budget in 2020/21, while there has been only minor impacts to premiums.

c) The total insured vehicles row in *MPI (CAC) 1-3, Appendix 1* includes all major classes. The vehicle column in *Revenues Figure REV-9* includes only major classes 1 to 4 to avoid trailers and ORV from skewing the overall upgrade.

CAC (MPI) 2-5

Part and Chapter:	CAC (MPI) 1-5	Page No.:	
PUB Approved Issue No:	4 .b)		
Topic:	Revenue Forecast		
Sub Topic:	Volume Forecast		

Preamble to IR:

At page 9, of V-REV, MPI states:

> *"This adjustment results in a lower growth rate for 2020/21 and subsequent higher growth rate for 2021/22. This is because policy cancellations and non-renewals in 2020/21 are not expected to affect the volume for 2021/22."*

In response to part a) and b) MPI states:

> *"The effect of COVID-19 on the volume forecast is assumed to persist until August 2020, gradually returning to normal as the year progresses. MPI did not consider the economic factors mentioned and decided to rely solely on the data available since it is the best indicator of any changes in customers' behaviour."*

Question:

a) Please explain what caused MPI to rely on 'pandemic experience' to impact the test years forecast for volume factor, when it has explicitly disregarded the impacts of pandemic experience on other test years forecasts?

b) Please describe what caused MPI to determine/assume the impact of COVID-19 would persist until August 2020 specifically rather than a later date.

c) Please explain if MPI agrees that economic factors listed CAC (MPI) 1-5 could have an impact on the volume forecast, and if so, over what time frame?

d) Please explain if MPI has considered how it intends to handle the impact of the pandemic in future forecasts of volume factor?

Rationale for Question:

To understand details of the volume forecast, relative to other test year forecasts.

RESPONSE:

a) MPI did not only consider the effect of COVID-19 when determining the volume forecast; it also adjusted its claims forecast (for 2020) to reflect this effect. Further, while MPI did consider the effect of COVID-19 on the upgrade factor, per its response to *CAC (MPI) 1-3*, it did not make any adjustments given "the uncertainty surrounding the impact of COVID-19".

b) MPI selected the August 2020 date using its best judgment and in consideration of the possibility that schools would reopen in September 2020. MPI did not know of the effect of COVID-19, including its persistence, when it completed its forecast in May 2020. MPI assumed nevertheless, that the situation would gradually return to something resembling "normal" at some point.

   MPI will provide an update to the forecast reflecting its actual experience up to August 31, 2020. MPI will re-evaluate its COVID-19 assumption given the available data as of August 31, 2020.

c) There are a wide range of factors that can affect the volume forecast including those cited in *CAC (MPI) 1-5*. MPI recognized that it would have to adjust the volume forecast (downwards) to reflect the economic reality when completing its forecast, and therefore made the necessary adjustments. However, MPI did not review these factors (that can affect the volume forecast) in determining the volume forecast.

Please, also see the response to (b) above.

d) MPI will continue to determine its volume forecast based on best estimates and utilizing all available data when the forecast is being completed. Future forecasts of the volume factor will recognize that 2020 was not a typical year, given the effect of COVID-19, and adjust for this year accordingly.

CAC (MPI) 2-6

Part and Chapter:	**CAC (MPI) 1-11**	**Page No.:**	
PUB Approved Issue No:	**10. Claims Forecasting**		
Topic:	**Figure CI – 13 Weekly Indemnity Ultimate Losses**		
Sub Topic:	**Follow up on the selection of LDFs**		

Preamble to IR:

In the response to CAC (MPI) 1-11 it states:

> *"Selected LDFs are based on historical LDFs with more weight given to recent experience (when applicable). The tail factors (i.e. LDFs after 10 years of development) will also be impacted by the implementation of centralized reserving, however, the impact of this change will take longer to materialize since, by definition, claims experience must have developed for at least 10 years before this experience impacts the tail development factors."*

Question:

Please provide a narrative discussion elaborating on the weight given to paid claims vs claims incurred experience to inform the selection of the LDFs for various coverages.

Rationale for Question:

The selection of LDFs have a significant impact on forecasted claims incurred (and rate requirements) and accordingly need a clearer understanding of the available methodologies in considering the selection of LDFs in the event of insufficient historical data.

RESPONSE:

Weekly Indemnity

MPI revised the Loss Development Factors (LDFs), both incurred and paid, to reflect the changes in reserving approach and recent experience. As to changes in its reserving approach, MPI revised the process for long-term PIPP claims in 2017 by centralizing it with a dedicated team. As a result, most weekly indemnity claims older than 24 months are now tabular reserved for life. MPI made no further changes thereafter. MPI gives more weight to the most recent two years when selecting LDFs.

ABO Indexed

LDFs (both incurred and paid) were revised to reflect the changes in reserving approach and recent experience. There is a significant decrease in the incurred tail factor to recognize the adequacy of case reserves as a result of centralized reserving.

ABO non-Indexed

MPI revised the LDFs, both incurred and paid, to recognize the Permanent Impairment (PI) initiative. In 2018, MPI discovered a backlog in processing payments and establishing reserves for PIs in the insurance years 2015-2017. MPI reviewed claims in those insurance years, the result of which was a significant increase in case reserves. LDFs in 2018 (for the 2015-2017 insurance years) were abnormal and MPI therefore excluded them during selection. MPI then rectified the PI benefit backlog. When selecting the LDFs, MPI also considered the impact of earlier reserving. For the incurred 8-12 month LDF, MPI selected 1.8 after considering earlier reserving for 2019. For the incurred 12-20 month LDF, MPI selected 1.13, which mirrors the figure from the previous year and brings the 2019 incurred development to approximately $28 million at 20 months. For 20-24 month, due to the PI initiative, MPI ignored the most recent year and opted instead to use a 9-year average (most recent year excluded). For 24-32 month, MPI considered the most recent year following the PI initiative year. For the period 36 to 104 months, MPI reduced the selected LDFs due to earlier reserving.

PI benefits paid for 2018 and 2019 remain slower than expected as staff focus on processing the backlog for the 2015-2017 insurance years. The paid LDFs MPI selected are higher than historical figures.

All other coverages

MPI slightly revised all LDFs based on recent experience.

CAC (MPI) 2-7

Part and Chapter:	**CAC (MPI) 1- 16** **Part VI - Ratemaking**	**Page No.:**	**47**
PUB Approved Issue No:	**2**		
Topic:	**Relativity Procedure**		
Sub Topic:			

Preamble to IR:

In response to CAC (MPI) 1-16 MPI states

> *"MPI has not explored the use of Generalized Linear Modeling (GLM) for the purpose of setting rates. MPI agrees that it is worthwhile to look into using GLM for this purpose. However, this would require significant resource commitment, and MPI is unable to commit to doing so at this time. Further, the use of the minimum-bias procedure for ratemaking is within the scope of accepted actuarial practice."*

Question:

Can the Corporation give a timeline regarding when an exploration of the use of GLM's in rate setting could begin?

Rationale for Question:

To understand if the Corporation has any plan on beginning the work to incorporate predictive modelling into their rate setting process.

RESPONSE:

MPI cannot provide a more definitive timeline. Given its commitment of resources and other rating priorities (i.e. DSR review, VFH review, and the implications of project

NOVA), MPI does not expect to explore the use of Generalized Linear Modeling in rate setting in the foreseeable future.

CAC (MPI) 2-8

Part and Chapter:	**CAC (MPI) 1-22**	**Page No.:**	
PUB Approved Issue No:	**11. Claims Forecasting (including PIPP)**		
Topic:	**Accident Benefits – Other Non-Indexed loss development selections**		
Sub Topic:	**Backlog of PIPP transactions?**		

Preamble to IR:

In the response to CAC (MPI) 1-22 it indicates MPI is still backlogged in processing PIPP transactions which seems to be reoccurring theme since the implementation of BI^3:

> *"As staff focused on processing and clearing backlog payments for accident years 2015 to 2017, payments for accident years 2018 and 2019 slowed. MPI expects to clear this backlog for 2018 and 2019 over the next year. This was reflected in the higher selected paid LDFs for periods 12 to 20 months and 20 to 24 months."*

Question:

a) Please provide a narrative discussion on the root causes of these apparently continuing backlogs in processing PIPP transactions (payments and case reserves) and the continuing impact on case reserving, central reserving, tabular reserving, Incurred but not reported reserving and the selection of LDFs during the valuation of policy liabilities at year end which ultimately impact the claims incurred forecasts used for rate setting.

b) Please explain whether BI^3 has/is facilitating the processing of PIPP transactions or creates roadblocks/difficulties in processing PIPP transactions.

c) Please discuss the implications of the long-standing backlog in PIPP payments for PIPP benefit recipients and for PIPP benefit service providers. Please provide any summary in the possession of MPI in terms of concerns expressed by recipients or service providers in terms of the backlog. Please discuss how MPI is tracking recipient and service provider responses to the backlog.

d) Please provide any analysis in the possession of MPI with regard to the historic and current backlog in terms of benefits including an explanation of how the backlog is measured, the strategy to address the backlog and how progress to eliminate the backlog is being tracked.

Rationale for Question:

To better understand the issues underlying PIPP claims transaction processing impacting the claims forecasts and rate making.

RESPONSE:

a) For clarity, it is important to understand that the response MPI provided to *CAC (MPI) 1-22* was specific to a backlog in permanent impairment (PI) payments, and did not indicate a general backlog of all Personal Injury Protection Plan (PIPP) transactions. While MPI experienced a backlog of vendor payments between July and December 2018, it was limited to a specific period of time, and was resolved in early 2019. There are no backlogs in any other payment area and MPI routinely meets or exceeds the service standards for customer and vendor invoice payments. MPI is actively working on the PI backlog. It is finalizing a significant number of payments and removing any excess reserves.

   The root cause of the PI backlog is the slow but steady growth of entitlements over many years. In response, the value of reserves under this cover increased pending payment.

   The PI schedule is a detailed and complex part of *The Manitoba Public Insurance Corporation Act*. Prior to 2010, a specialized unit comprised of staff trained on PI identification, rating and calculation, managed PI's. This unit ensured the timely and accurate payment of PI's. However, in the fall of 2010, MPI disbanded this unit as part of a cost saving measure to reduce the number of Full Time Equivalent (FTE) positions. MPI believed that it could train case managers and benefit administrators to identify, rate, and calculate PI benefits. Though correct in its assumption, with the benefit of hindsight, MPI now understands that its case managers and administrators delayed making decisions respecting entitlement to PI mainly because they lacked the capacity to complete the work, which was often detailed, complex, time consuming and conflicted with other priorities.

MPI magnified the problem with the introduction of centralized PIPP case reserving, as the process resulted in the placement on files 24 months old of reserves at a standardized and steady rate. Prior to 2010, MPI finalized and paid the vast majority of impairment payments sooner than 24 months. Concluding a PI payment also involved deleting any excess reserves and reducing the net incurred. Centralized case reserving artificially increased the loss development factor, making it appear as though PIPP liabilities had grown, when they were simply delayed.

b) With centralized case reserving, reserves are now consistently posted within the established timeframes. Any delay in the posting of reserves is eliminated. BI[3] has no impact on payment facilitation and does not hinder the ability of MPI to pay PI benefits, which are manually identified, rated and paid.

c) The backlog is specific to the PI benefit. MPI did receive some complaints from claimants related to these delays.

d) The strategy to resolve the PI backlog involved centralizing this function within the Benefit Administration Unit and, in particular, with staff fully trained on scheduling, rating and calculating payments. Nearly two years following the implementation of this strategy, the average length of a PI is two years from the date of loss, down from five years. PI should typically be assessed 14 months following the date of loss in order to allow time for injuries to reach maximum medical improvement.

The figure below demonstrates the progress made in the last year to review PI claims.

Figure 1 Permanent Impairments Reviewed

Line No.	Permanent Impairments Reviewed	Loss Year (April 1 to March 31)							
		2014	2015	2016	2017	2018	2019	2020	Total
1	**August 2019-2020**	94	828	1312	967	390	663	28	**4282**

MPI accomplished this progress through various process improvement and capacity-building initiatives that formed part of the strategy to improve the intake, triage, and analytics of claims, and which involved the addition of 13 FTEs, as outlined in *2019 GRA PUB (MPI) 1-38*.

CAC (MPI) 2-9

Part and Chapter:	**CAC (MPI) 1-26 & CAC (MPI) 1-27**	**Page No.:**	
PUB Approved Issue No:	**11**		
Topic:	**Collision Claims Forecast**		
Sub Topic:			

Preamble to IR:

In response to CAC (MPI) 1-26, MPI states:

> *"Vehicle technology including safety features like lane change assist, rear view cameras and emergency braking continue to become standard on new vehicles. These safety features play an important role in reducing claims costs by minimizing accident severity and avoiding potential accidents."*

In response to CAC (MPI) 1-27, MPI states:

> *"This decreasing trend in Collision frequency can be partially attributed to increased vehicle safety technology in new passenger vehicles as well as improved driver behaviour since the implementation of DSR in 2010/11."*

Question:

a) Please provide the level of adoption in the Manitoba vehicle fleet for each of the referenced collision avoidance technologies (lane change assist, rear view cameras, and emergency braking), as well as any other technologies that may be impacting the collision frequency. Please provide data and any available supporting analysis that indicates and projects the rate of adoption over time, and any projections that can be made, based on those trends.

b) Please file all documents related to MPI's research on collision avoidance technologies, and the observed and expected impact on collision frequency.

c) Please describe the detectable effects this technology has had on minimizing accident severity, by reducing the force of impact or other mechanisms that might impact severity. Please indicate the degree to which reduced vehicle damage is offset by the increased cost of replacing parts (sensors and other collision avoidance equipment).

d) Please file all documents related to MPI's research on collision avoidance technologies, and the observed and expected impact on collision severity.

Rationale for Question:

To understand the degree to which collision avoidance technology is impacting the collision claims forecast.

RESPONSE:

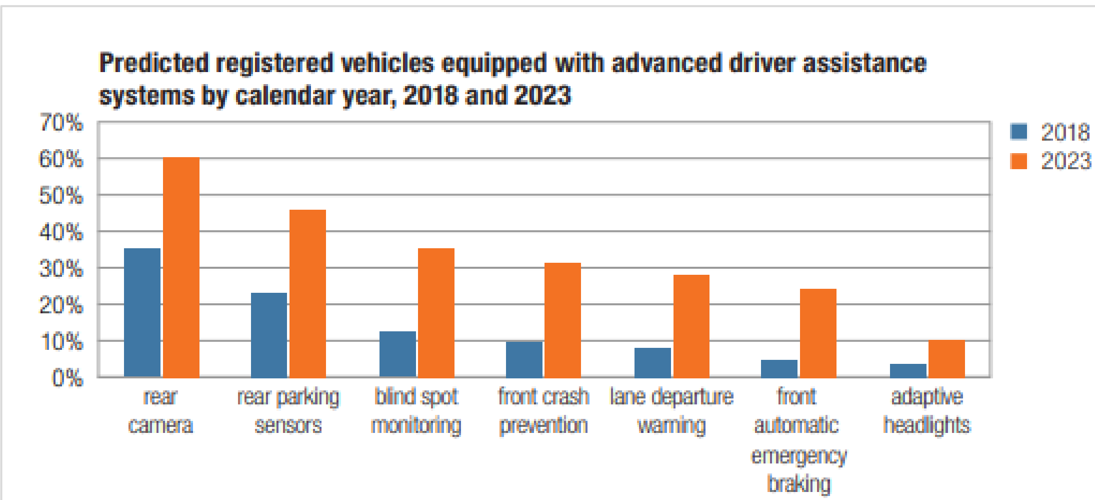
a) As of February 1, 2020, approximately 37.7% of Manitoba vehicles are equipped with driver assist and collision avoidance technology. A detailed breakdown of each technology type is shown below.

Figure 1 Advanced Vehicle Tech MB Numbers 2020-09-01

Line No.	MB Vehicles	Adaptive Cruise Control (ACC)	Lane Keeping Assist System (LKA)	Autonomous Emergency Braking (AEB)	Lane Departure Warning (LDW)	Night Vision & Pedestrian Detection (NVPD)	Forward Collision Warning (FCW)	Traffic Sign Recognition (TSR)
1	**With**	31,571	51,178	42,224	213,411	3,889	113,985	11,142
2	**Without**	780,429	760,822	769,776	598,589	808,111	698,015	800,858
3	**Total**	**812,000**	**812,000**	**812,000**	**812,000**	**812,000**	**812,000**	**812,000**
4	**Percent of the MB Fleet With/Without These Features**							
5	**With**	4%	6%	5%	26%	0%	14%	1%
6	**Without**	96%	94%	95%	74%	100%	86%	99%

Since May 1, 2018, all new cars sold in Canada (weighing 4,536 kg or less) are required to be equipped with a rearview camera. Prior to that, many vehicle manufacturers offered rearview cameras as standard or optional equipment. As MPI does not track whether a vehicle is equipped with an optional rearview camera; it is unable to accurately determine the adoption of rearview camera technology in Manitoba.

Research from the Insurance Institute of Highway Safety (IIHS), Highway Loss Data Institute (HLDI), from September 2019, suggests that the rate of adoption of such technologies in vehicle fleets can take many years, perhaps decades, before most vehicles on the road incorporate new technologies, including driver assist safety technologies. Below is their estimate on the percentage of vehicles equipped with advanced driver assistance systems by 2023, though MPI has not made any collision projections based on these forecasts.



b) MPI collected secondary research on the impact that crash avoidance technologies can have on collision frequency and severity; primarily from AAA Foundation for Traffic Safety, the Insurance Institute for Highway Safety (IIHS), and the Highway Loss Data Institute (HLDI), to help inform our road safety programming and awareness efforts. This research suggests collision avoidance technologies can significantly lower crash rates.

c) MPI has seen a decline in collision frequency, which it has incorporated into its collision claims forecast. However, MPI cannot determine the degree to which vehicle safety technology impacts collision frequency and severity in Manitoba. MPI does not know the exact safety features on a vehicle at the time of a collision and cannot determine whether the presence of vehicle safety technology resulted in the avoidance of a collision. As a result, MPI has not analyzed to what extent vehicle technology offers a cost savings, even after factoring in the increased costs of replacement parts.

d) Please see response (b).

CAC (MPI) 2-10

Part and Chapter:	**CAC (MPI) 1-27**	**Page No.:**	
PUB Approved Issue No:	**11**		
Topic:	**Claims Incurred**		
Sub Topic:	**Collision Frequency Forecast**		

Preamble to IR:

In response to CAC (MPI) 1-27, MPI states:

> *"Overall, MPI is forecasting Collision frequency to decline over time due to recent historical experience. In particular, winter months can be highly variable as road conditions can change rapidly along with the weather. Relative to the winter months, summer months are fairly stable and can indicate the underlying trend in Collision frequency". This decreasing trend in Collision frequency can be partially attributed to increased vehicle safety technology in new passenger vehicles as well as improved driver behavior since the implementation of DSR in 2010/11."*

Question:

a) Please provide the recent historical experience, disaggregated between summer and winter months, demonstrating stable underlying trend in collision frequency, that was relied on to develop the collision frequency forecast.

b) Please discuss relative contribution of improved driver behavior since the introduction of the DSR, and collision avoidance technology to the decreasing trend in collision frequency.

c) Please provide an analysis of DSR stability across the population of drivers. Please explain if changes in driver behavior were detectable in the short term after implementation of the DSR, and if those behavior changes are still occurring today.

d) Please refile CAC (MPI) 1-27 Figure 1 on both a claims count and dollar value basis.

Rationale for Question:

To understand the factors affecting the collision frequency forecast.

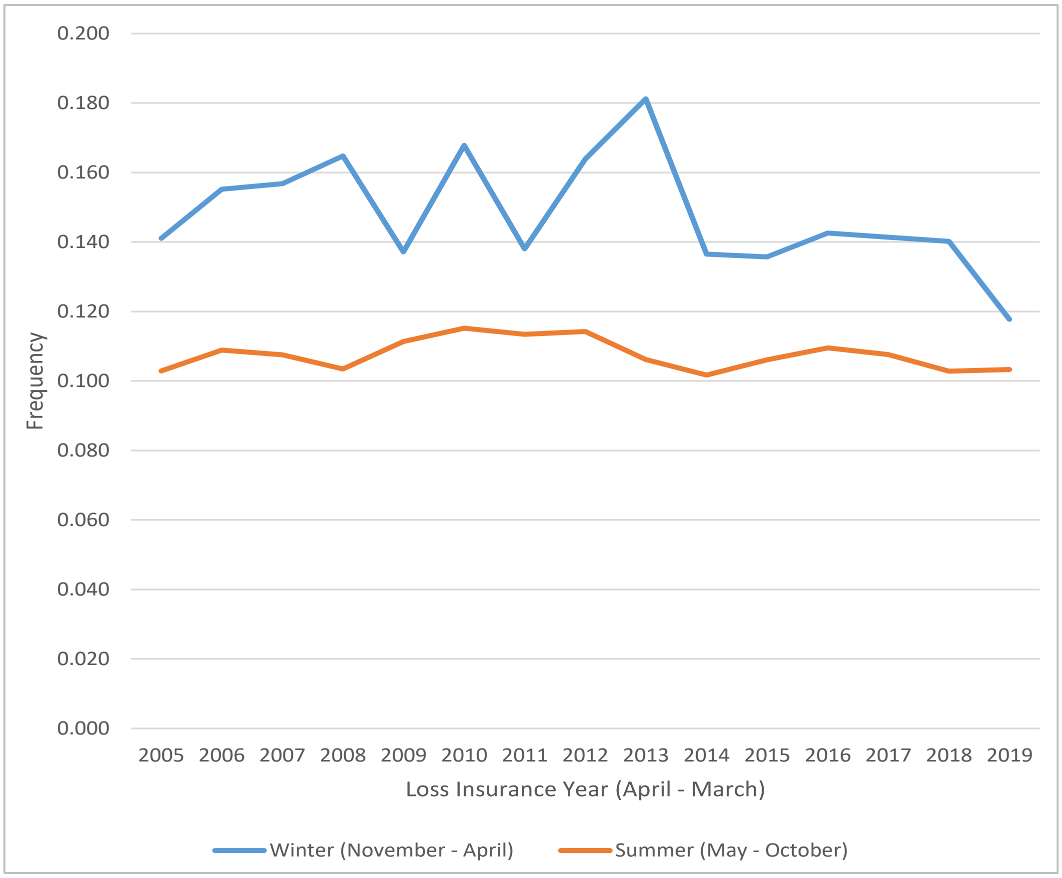
RESPONSE:

a) See *Figure 1* and *Figure 2* below. Stability in the summer months results from the low variance, not the frequency trend. By removing the more variable winter months, the underlying decreasing trend becomes more visible.

Figure 1 Collision Frequency by Season

Line No.	Loss Insurance Year	Winter (November - April)	Summer (May - October)
1	**2005**	0.141	0.103
2	**2006**	0.155	0.109
3	**2007**	0.157	0.107
4	**2008**	0.165	0.103
5	**2009**	0.137	0.111
6	**2010**	0.168	0.115
7	**2011**	0.138	0.113
8	**2012**	0.164	0.114
9	**2013**	0.181	0.106
10	**2014**	0.137	0.102
11	**2015**	0.136	0.106
12	**2016**	0.143	0.110
13	**2017**	0.141	0.108
14	**2018**	0.140	0.103
15	**2019**	0.118	0.103
16	**Standard Dev.**	0.016	0.004

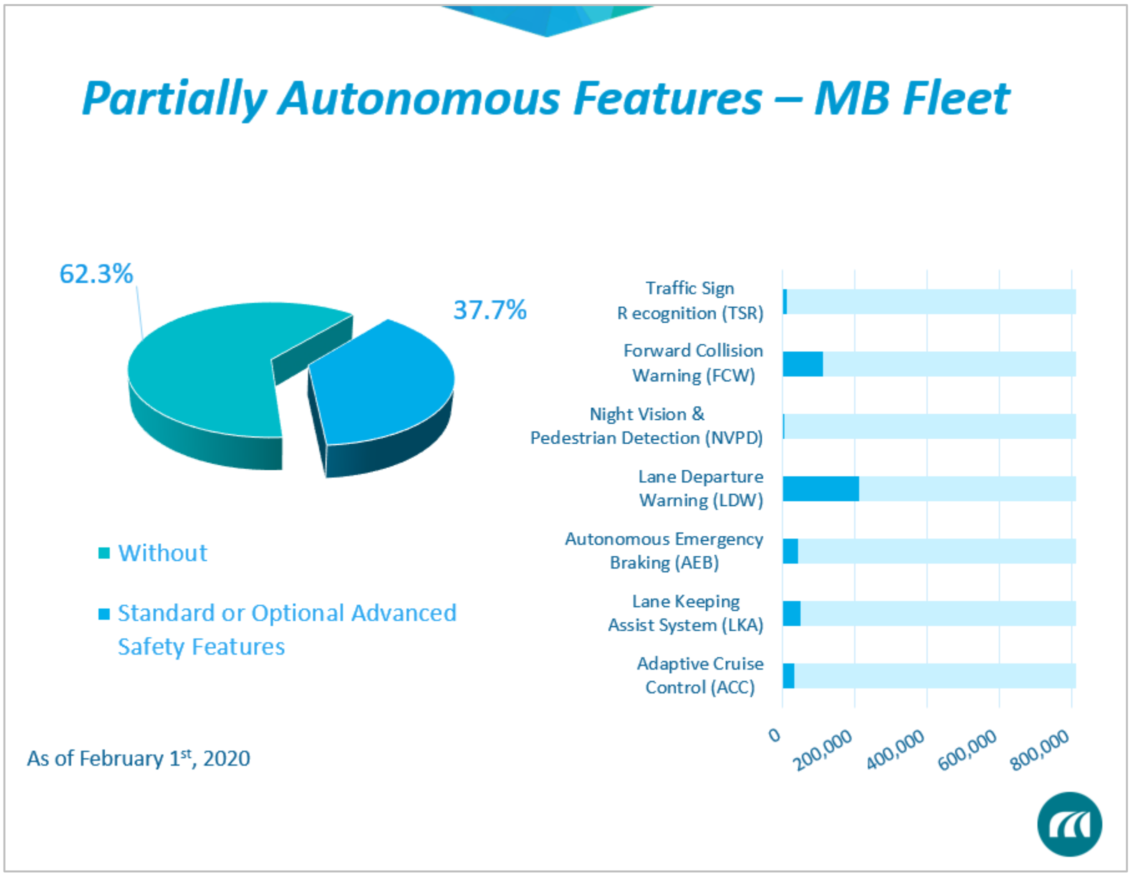
Figure 2 Collision Frequency by Season Chart



b) MPI believes that both driver behavior and vehicle technology has impacted collision frequency. Collision frequency is trending lower and has been doing so since 2010 (excluding winter months). This was the same year that the Driver Safety Rating (DSR) system was introduced.

A significant portion of the fleet are now equipped with vehicle safety features such as lane departure warning, and forward collision warning. The figure below shows the portion of vehicles in the fleet that could have such safety features.

Figure 3 Vehicle Safety Features



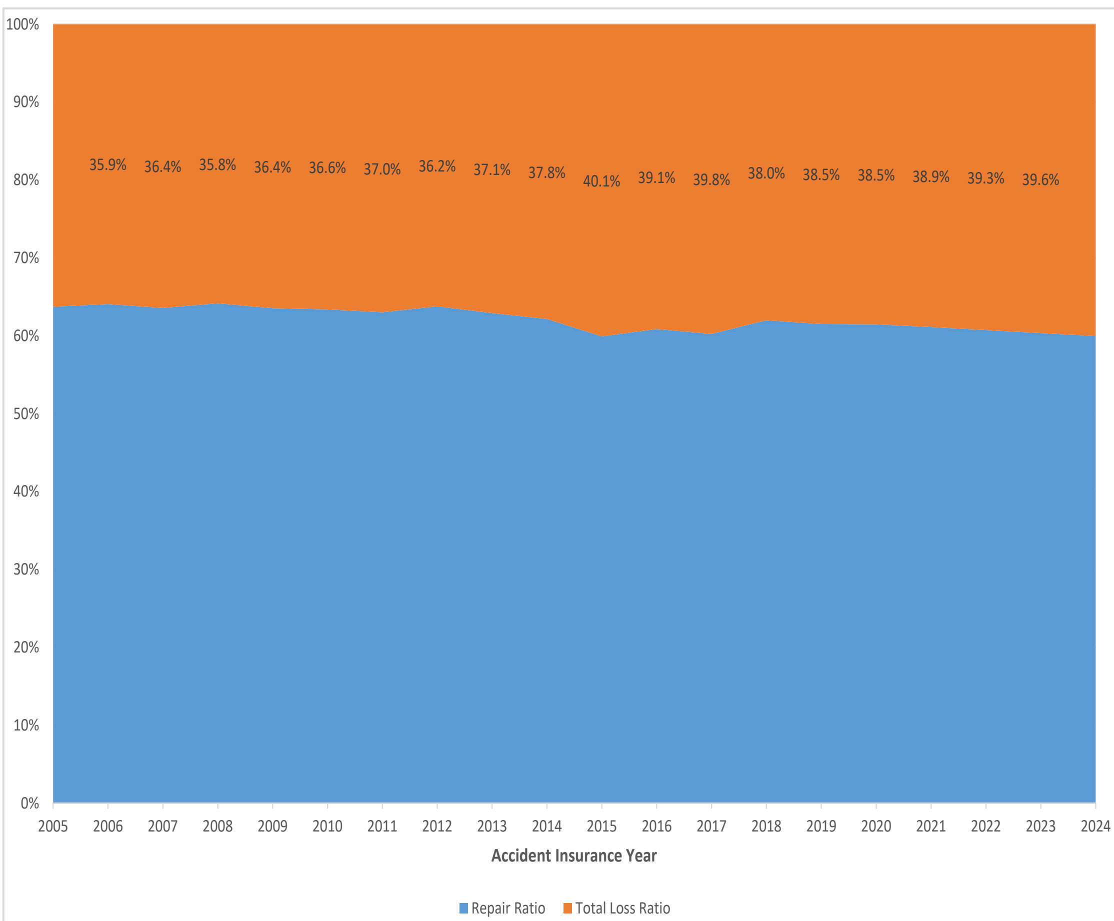
c) MPI implemented the DSR program in March 2010. MPI forecasted the driver movement probabilities to be the same as the actual driver movement probabilities from the most recent policy year, since the recent policy year is the latest complete policy year and is considered to be the most relevant predictor of future movement on the DSR scale. The table below compares the actual average DSR level to the forecasted average DSR level by policy year. The positive difference figures confirms improvement in the behaviour of drivers following the implementation of the DSR system. Note that because the majority of drivers are at DSR +15, their DSR cannot improve. MPI believes that changes in driver behaviour change resulting from the implementation of the DSR system have stabilized. There are other factors impacting DSR movement, such as stricter rules pertaining to impaired driving, distracted driving, the impacts of COVID-19 and other random events.

Actual VS Forecasted in Average DSR Level

Policy Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Average DSR Level (Actual)	8.27	8.21	8.15	8.14	8.16	8.14	8.11	8.09	8.08
Average DSR Level(Forecasted from previous year)		8.10	8.11	8.05	8.05	8.00	8.07	8.02	8.00
Difference in Average DSR Level (Actual - Forecasted)		0.11	0.04	0.09	0.11	0.14	0.04	0.07	0.08

d) Please see the figure below.

Figure 4 Collision Repair and Total Loss Ratio by Incurred



CAC (MPI) 2-11

Part and Chapter:	**CAC (MPI) 1-29**	**Page No.:**	
PUB Approved Issue No:	**1, 2, 11**		
Topic:	**Claims Incurred**		
Sub Topic:	**Collision Severity Forecast, Claims Management**		

Preamble to IR:

In response to CAC (MPI) 1-29, MPI states:

> *"In general, the entire auto repair industry will be continuing with increases in collision severity into the future as they have in the past few years. This industry average is roughly in the mid-single digits annually in North America due to complexity of vehicle materials and parts costs.* ***MPI has had volatility in its severity after the introduction of Mitchell and, since 2016,*** *has placed a greater focus on claims management and increased partnership with the repair trade." [emphasis added]*

Question:

a) Please confirm that the introduction of Mitchell software *caused* volatility in the collision repair severity. If not confirmed, please explain the meaning of the emphasized text in the pre-amble.

b) Please elaborate on the magnitude of increased volatility in collision severity after the introduction of Mitchell Software, and explain the reasons for the software system's impact

c) Please describe and quantify the impact of this volatility on trend in collision severity.

d) Please provide all documents and analysis related to the Mitchell software system's impact on volatility in collision severity.

e) Please provide any correspondence from the repair trade that supports the MPI claim of increased partnership with the repair trade.

f) Please discuss how and to what degree the "greater focus on claims management and increased partnership with the repair trade" has addressed the increases in severity that followed the introduction of Mitchell. Please provide any analysis in the possession of MPI that quantifies the impact on collision severity of a greater focus on claims management and partnership with the repair trade.

Rationale for Question:

To understand the impact of Mitchell software on collision repair severity, noting that improvement in claims management processes outlined in response to CAC (MPI) 1-29 do not appear to be related to Mitchell software.

RESPONSE:

a) MPI believes the introduction of the Mitchell software to be a driver of the spike in severity observed in 2015 (which reached over 8% in that year). It should be noted however that severity rates returned to industry normal levels (low to mid-single digits) in the years following the initial spike. With Mitchell software, repair shops have easier access to the information they require to complete an industry standard repair and, as a result, increasingly apply Original Equipment Manufacturer (OEM) standards and practices to their repairs and billing. This increased the average number of parts and associated labour amounts to vehicle estimates.

b) MPI considers the magnitude of the impact of severity volatility to be small to moderate. The use of Mitchell software improves billing accuracy as repair facilities transition from use of pen, paper and memory to electronic data entry, additional repair information resources and compliance software. This software allows repair shops to easily add parts and labour amounts to estimates and otherwise reminds them to do so.

c) MPI anticipates increases in severity levels year over year as vehicles become more complex resulting in associated increases in the cost of parts and labour operations. MPI cannot attribute or isolate the amount of any increase in severity solely to the use of Mitchell software. One could perhaps attribute 4% of the increase in severity in the two year period following the introduction of the Mitchell software (roughly $10-15m annually) to the software itself. However, without the software and any associated increase in remuneration, MPI expects that repair shops would have demanded higher labour rates or other items in subsequent years to make up for that difference. Further, MPI experienced lower than average severity increases than the industry since 2016 (i.e. industry sees roughly 4-6% severity growth annually).

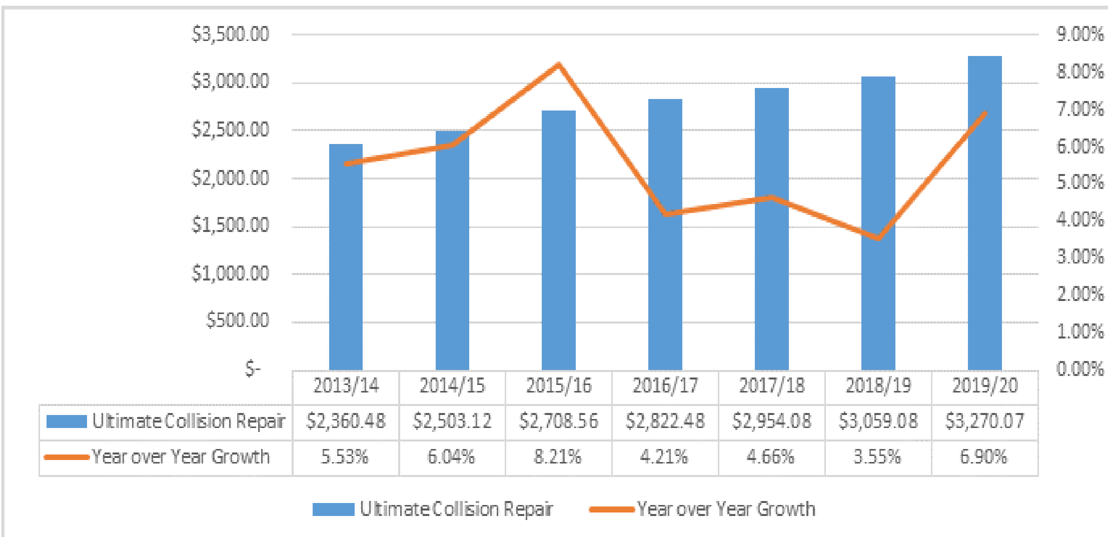
In addition to the above, other factors may also explain the larger severity increase observed during the period of implementation of the Mitchell software. For example, MPI shared its Estimating Standards with the industry in July 2015 and conducted large scale estimatics training in autumn 2016, which increased shop awareness and clarified repair expectations. MPI also increased its focus on ensuring industry accountability for performing a proper repair. Concurrently, OEM manufacturers increased their presence and stance on proper repairs, which impacted labour and parts decisions.

d) As indicated above, MPI cannot attribute the 8.2% change in severity experienced in 2014/15 to the use of the Mitchell software alone. In addition to the use of the Mitchell software, MPI believes that the following may also explain this increase: increased emphasis on performing proper repairs, increased sharing of estimating standards, changes in vehicle technology and changes in shop processes. The analysis from MPI connecting the use of Mitchell software to changes in severity volatility arose from its awareness of shop billing practices pre and post Mitchell. MPI estimate data identified that average labour hours increased by 6.4% and average parts per claim increased by 7.7% in 2015/16. Conversations with members of the repair industry supported the conclusion that shops are now better positioned to provide a complete estimate than they were prior to the introduction of Mitchell.

For more information on Mitchell please refer to:

https://www.mitchell.com/collision-estimating-software-canada/?elqcid=usppc_gg_ppc_11.1.12&gclid=EAIaIQobChMI9ai02JnG6wIVJPC1Ch1MDQ0JEAAYASAAEgKoGPD_BwE

Graph: Average Severity per Repair and Annual Severity Growth



*All Year ranges are based on April to March Fiscal

*Ultimate Collision Repair Severity - Developed actuarial estimate of the total expected losses that occurred in the posted insurance year.

*Year over Year Growth - Compares the difference in severity from the prior loss year to the posted loss year.

e) Through its Executive and Technical Committees, MPI continues to work through a governance model with the Automotive Trades Association and the Manitoba Motor

Dealers Association to address various concerns. The MPI Partners website (https://mpipartners.ca/) maintains a communication channel between MPI and its partners and allows for greater transparency regarding changes to policy and program guides.

f) Changes to the management of claims by MPI have mitigated the magnitude of severity increases. Changes to the Shop Relationship Management process increased communication with shops regarding performance, audit results and actions on performance management, which impacts the management of severity growth. Shop Measures or Key Performance Indicators (KPIs) monitor shops compliance to MPI's estimating standards, proper repair, customer service and administrative efforts. The ask versus approve variance KPI is a good example of a KPI that holds repair facilities accountable for additional work in alignment with MPI policies and procedures.

Year	AAV Average
2016/2017	**2.1%**
2017/2018	**1.7%**
2018/2019	**1.4%**
2019/2020	**1.2%**

Changes to the Quality of Repair KPI placed greater focus on monitoring and holding shops accountable for performing proper repairs. Requests for additions to an estimate to support a proper repair require supporting documentation.

MPI reviews earned approval limits on a monthly basis to ensure that the level of trust granted to a particular repair shop is earned. Many other jurisdictions review earned approval limits annually.

MPI recalibrates its Audit Program quarterly which allows it to focus on new audit trends (which not only controls severity but also provides support to the shop management process to identify concerns and areas for improvement).

In its recent compensation discussions, MPI eliminated the automatic Canadian Price Indexing of repair shop labour rates because it does not otherwise exist in the North American repair market. It also eliminated the $81 per repair payment for any Direct Repair shop (which would have created a two-tier system in Manitoba) as it could find no other instance of such payment in the insurance environment of North America. This has saved MPI over $6 million annually. MPI has also kept the labour rate flat at $74/hr since 2018 as it remains among the highest labour rates paid in North America.

CAC (MPI) 2-12

Part and Chapter:	**CAC (MPI) 1-30**	**Page No.:**	
PUB Approved Issue No:	**10, 13**		
Topic:	**DSR**		
Sub Topic:	**Timeline for Proposal Development**		

Preamble to IR:

In response to CAC (MPI) 1-30, MPI states:

> *"However, as outlined in the GRA, MPI intends to use the current Registered Owner model in the near term and find ways to move the premiums closer to the actuarial target. It is anticipated that a detailed actuarial examination of the current model, including the "pure" rate indication, will be provided to the PUB in fall 2020. This information will help identify ways of moving premiums closer to the actuarial target. These movements will occur independent of Project Nova***.**
>
> ***Given the independence of changes to the current DSR model and Nova, there is no critical path****." [emphasis added]*

PUB Order 130/17 states:

> *"Accordingly, the Board has ordered that the issue of vehicle premium discounts based on principal driver rating rather than simply registered driver rating also be addressed at the DSR Technical Conference.* ***The Board has also ordered that by the 2021 GRA, the Corporation file proposed vehicle premium discounts that are actuarially indicated based on principal driver performance evaluation.****" [emphasis added]*

Question:

a) Please explain how MPI intends to address the issue of reflecting principal driver risk, outlined in PUB Order 130/17, in the near term.

Rationale for Question:

To understand MPI's intention to comply with the Board Order 130/17.

RESPONSE:

a) MPI will submit to the Public Utilities Board a summary of its findings on the current Driver Safety Rating (DSR) model, which is based on the registered owner model, prior to the October hearings. Apart from this, MPI does not have any plans to make changes to the current DSR model prior to the completion of project NOVA. MPI is developing future state proposals for the DSR system as part of the Product Road Map for project NOVA. Any changes to the structure of the DSR system would have to be approved by government.

CAC (MPI) 2-13

Part and Chapter:	**CAC (MPI) 1-30**	**Page No.:**	
PUB Approved Issue No:	**10, 13**		
Topic:	**DSR**		
Sub Topic:	**Timeline for Proposal Development**		

Preamble to IR:

In response to CAC (MPI) 1-30, MPI states:

> *"If, at the end of the PUB review of the DSR Model, either MPI, the PUB or both recommend changing the model, MPI will initiate the process to have the Lieutenant Governor in Council consider changing the model. If both MPI and the PUB do not recommend changes than the process will not be commenced."*

Question:

a) Please confirm that this approach may result in changes to the DSR being recommended to government, against the recommendation of either the PUB, or MPI (that is to say, supported by one party, but not the other).

b) Please comment on any foreseeable complications of the above noted approach, with respect to section 25(1) of *The Crown Corporations Governance and Accountability Act*.

c) Please discuss if the above noted approach would have been appropriate for the CERP changes, and if so, why this approach was not used.

Rationale for Question:

To better understand the approach suggested by MPI.

RESPONSE:

a) Confirmed.

b) Section 25(1) of *The Crown Corporations Governance and Accountability Act* does not provide the Public Utilities Board (PUB) with the requisite jurisdiction to order regulatory changes or to establish or approve the regulations it considers in approving rates and which form the basis for the rates it approves. In fulfilling its obligation to review and approve rates for services, MPI expects that the PUB decision will be based upon all applicable legislation. That said, the PUB has a long history of making recommendations for regulatory or legislative changes and MPI expects that if the PUB believes there should be changes to the Driver Safety Rating (DSR) model that the reasons for doing so will be set out in an order).

   At its conclusion, the DSR model review will have been considered many times over a number of hearings. If MPI or the PUB conclude that regulatory amendments are appropriate, MPI will initiate the process to have the Lieutenant Governor in Council (LGIC) consider changing the model. In so doing, MPI will inform the Government as to whether the recommended amendments are supported by the PUB or by MPI (as the case may be). For MPI, "initiating the process" means alerting the Government to the issue and leaving it to decide whether to bring the matter forward for consideration by the LGIC to bring about a regulatory amendment.

c) MPI does not believe that the above approach was appropriate for the implementation of the CERP changes. As the administrator of *The Manitoba Public Insurance Corporation Act* MPI will advise Government when it believes it is appropriate to make changes to Basic or Extension coverages. The rate setting process is not a public consultation step in the regulation making process.

CAC (MPI) 2-14

Part and Chapter:	**CAC (MPI) 1-40**	**Page No.:**	
PUB Approved Issue No:	**19**		
Topic:	**Coverage Changes**		
Sub Topic:	**Supporting Rational for changes**		

Preamble to IR:

CAC requires further information with respect to the CAC (MPI) 1-40 response.

Question:

a) Please reformat the chart provided in response to part c) as a histogram, or alternatively order the data points in descending order, and provide the data table (in excel format).

b) From 2018 to present, has the distribution of TPL claims, presented in response to part c), changed materially? If so, please provide supporting data.

c) With reference to response e), please explain the general nature of the 14 TPL claims originating within Manitoba.

d) If available, please indicate the proportion of multi-car households in Manitoba.

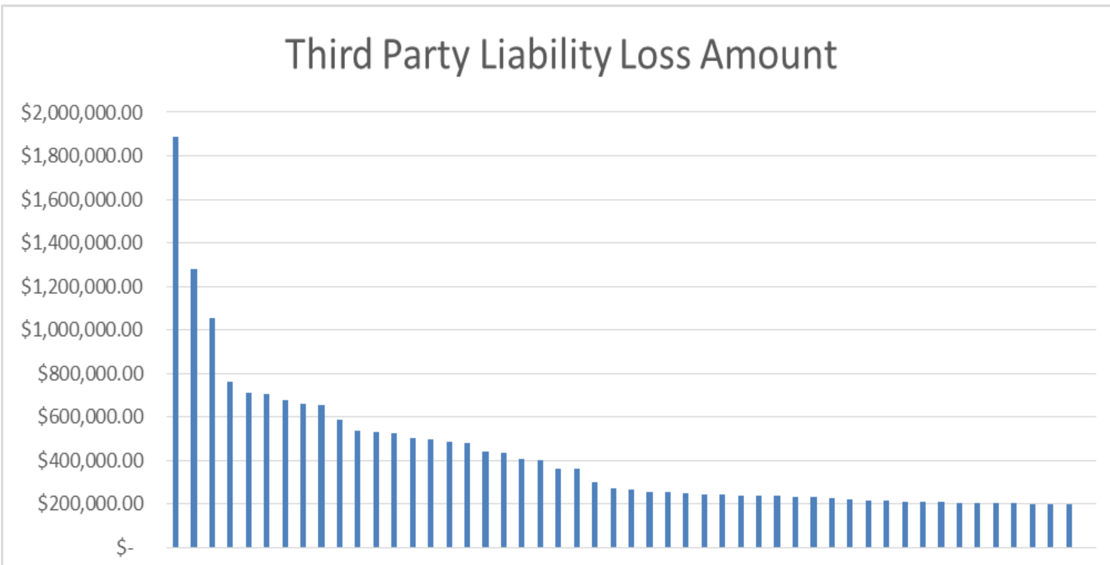
e) To the extent that increasing deductible (while maintaining deductible buy-down options at the same price for the same coverage) has been characterized by MPI as increasing customer choice (see Part II BAC, Page 24, lines 12 and 13), please discuss if increasing TPL and MIV coverages under Basic, that were previously elective coverages under extension, is akin to reducing customer choice.

Rationale for Question:

To understand the rational for, and impact to customers of, changes to Basic TPL coverage.

RESPONSE:

a) Please see the chart below. MPI included the supporting data in its CAC Round 2 Information Request (IR) workbook.



b) The loss amounts from 2019 and 2020 claims may not be complete in time for MPI's respond to this IR given the time it can take to estimate and settle these type of large losses. Taking this into account, MPI does not notice material change in the distribution from 2018 to present.

c) Many of these 14 Third Party Liability (TPL) claims involve collisions with high-value commercial vehicles within Manitoba. Others involve single passenger vehicles colliding with buildings, resulting in extensive damage.

d) Data indicating the proportion of multi-car households in Manitoba is not available.

e) MPI does not view increasing the TPL coverages in Basic as being akin to reducing customer choice. The Extension TPL options ($1 million, $2 million, $5 million, $7 million or $10 million) offered by MPI remain unchanged.

Increasing the MIV coverage limit to $70,000 for customers with vehicles valued at $50,000 or less does not reduce customer choice since these customers would not be eligible for Extension MIV coverage at the $50,000 or $70,000 coverage limit. Customers with vehicles valued at over $50,000 will no longer have a choice of coverage between $50,000 to $70,000 since this coverage will now be provided under Basic. This increased MIV coverage reflects increased vehicle values and increased cost of repairs. Customers retain the choice to further increase their MIV limit above the $70,000 coverage limit with optional coverage.

CAC (MPI) 2-15

Part and Chapter:	**PUB (MPI) 1-49 a)**	**Page No.:**	**2**
PUB Approved Issue No:	**9. Cost of operations and cost containment measures**		
Topic:	**Internal Operating Metrics**		
Sub Topic:			

Preamble to IR:

In response to PUB (MPI 1-40 a) MPI attributes the increase in loss ratio to an expected decrease in earned premiums.

> *"Within the forecast for premiums earned, MPI assumes rate decreases of –0.5% in 2020/21 and -10.5% in 2021/22. Due to staggered renewals, MPI will not experience the full effects of these decreases for approximately two years (i.e. 2022/23). The increased loss ratio therefore results from an expected reduction in premiums earned and a steady growth in claims incurred."*

The proposed decrease in premiums in 2021/22 of 10.5% includes a capital release of 5%.

Question:

Please explain how the capital release of 5% would impact premiums earned in future years.

Rationale for Question:

To clarify and better understand the accounting and reporting of the proposed capital release of 5% which is a distribution of prior year profits (retained earnings) to policyholders.

RESPONSE:

Staggered policy renewals result in the 5% reduction of premium to be earned over the rating period (2021/22 and 2022/23). While the 5% capital release provision for this year is carried forward throughout the remainder of the forecast (i.e. 2023/24 and onward), the general rate application filed next year (i.e. the 2022 GRA) will result in a re-calculated capital build/release provision.

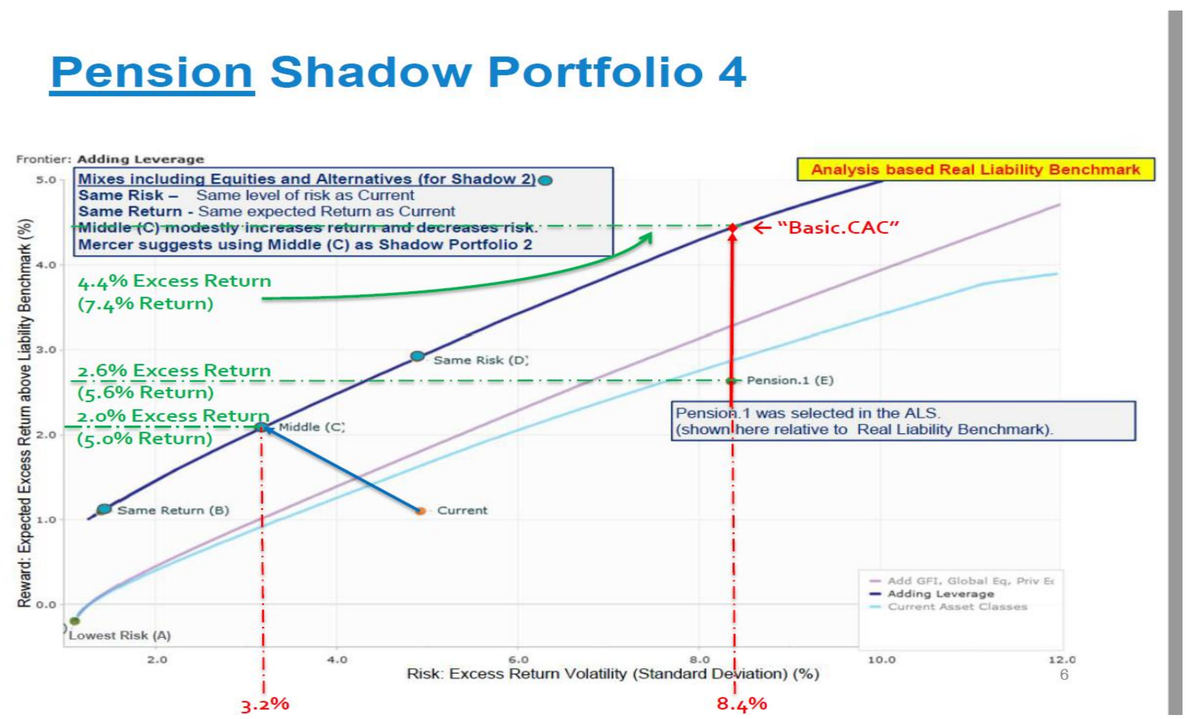
CAC (MPI) 2-16

Part and Chapter:	**CAC (MPI) 1-49, Part VII - Investments**	**Page No.:**	**1363 - 1369**
PUB Approved Issue No:	**4)a), 4)d), 8**		
Topic:	**Shadow Portfolios**		
Sub Topic:	**Real Return Bonds and Surplus Volatility**		

Preamble to IR:

In CAC (MPI) 1-49, MPI said that it "does not accept the premise of the risk adjustment identified by CAC as it is unaware as to how it calculated the 7.4% return."

The 7.4% return comes from Mercer's Study, shown below from a document presented by CAC in last year's GRA. (CAC's document is attached again.)



Note: The "Basic CAC" portfolio shown above in red has a typo. It represents the Pension (not Basic) Shadow Portfolio that CAC proposed as an alternative to the Shadow Portfolio adopted by MPI. (The label should read "Pension.CAC" rather than "Basic.CAC", and we will refer to this as the "CAC Approach".)

MPI also said, in CAC (MPI) 1-49, "the return to risk ratio of the Shadow Portfolio developed using the MPI/Mercer approach (5.0/3.2 = 1.56) is significantly better than the approach of the CAC (7.4/8.4 = 0.88), meaning that the Shadow Portfolio developed by MPI/Mercer is much more efficient (i.e. has a higher return per unit of risk)".

As shown in Mercer's graph above, both the Shadow Portfolio developed by MPI/Mercer and the CAC Approach are on the **same** efficient frontier. i.e., MPI's statement that the MPI/Mercer Shadow Portfolio is "significantly better" is not correct because both portfolios are equally efficient, though they have different return/risk profiles.

Question:

a) Would MPI agree that both the MPI/Mercer approach described above (5.0/3.2 = 1.56) for the Shadow Portfolio selected by MPI and the CAC Approach (7.4/8.4 = 0.88) are on the **same** Efficient Frontier developed by Mercer, though they have different return/risk profiles?

b) Would MPI agree that a 0.88 return/risk ratio is not necessarily worse than a 1.56 return/risk ratio and that a 1.56 ratio is not necessarily better than a 0.88 ratio, since both portfolios with these return/risk characteristics are on the same efficient frontier?

c) Would MPI agree that the **Pension.1(E)** Portfolio in Mercer's graph shows the return/risk profile of the Policy Portfolio selected by MPI, and that the MPI Policy Portfolio has an expected return of ~ 5.6% and volatility of ~ 8.4%?

d) Would MPI agree that the **Shadow** Portfolio selected by MPI is represented by "Middle C", and that it has a return/risk profile of ~ 5.0%/3.2%?

e) Would MPI agree that the Shadow Portfolio has less risk (3.2%) than the Policy Portfolio (8.4%)?

f) Would MPI agree that the CAC Approach, with a return/risk ratio of 7.4%/8.4% has:

   i. The same risk as the MPI Policy Portfolio (i.e., 8.4%)?;

   ii. A return that is 1.8% higher than the MPI Policy Portfolio (i.e., 7.4% for the CAC Approach, compared to 5.6% for the Policy Portfolio)?; and

   iii. A return that is 2.4% higher than the Shadow Portfolio (7.4% return for CAC Approach compared to 5.0% for Shadow/Middle C)?

Rationale for Question:

To incorporate risk considerations when assessing the performance of the Shadow Portfolios in relation to the Passive MPI Portfolio.

RESPONSE:

In response to the entirety of the Information Request, MPI repeats a finding from Public Utilities Board Order No. 159/18:

> *"Based on the evidence presented to the Board, the Corporation had a range of options available to it with respect to its portfolio composition. It appears to the Board that the Corporation has selected from a range of reasonable options for its portfolios as a result of the Mercer ALM study."*

a) Agreed. The Shadow Portfolio selected by MPI is on the **same** Efficient Frontier developed by Mercer as the CAC Approach.

b) As selecting the appropriate point on the efficient frontier is a preference driven by appetite for risk, characterizing portfolios as being better or worse is a subjective exercise.

c) Agreed. However, Mercer completed the original optimization on a nominal basis, which showed that the selected pension portfolio was on the efficient frontier.

d) Agreed.

e) Agreed.

f) Response:

   i. Agreed

   ii. Agreed

   iii. Agreed

<u>CAC (MPI) 2-17</u>

Part and Chapter:	**CAC (MPI) 1-49, Part VII - Investments**	**Page No.:**	**1363 - 1369**
PUB Approved Issue No:	**4)a), 4)d), 8**		
Topic:	**Shadow Portfolios**		
Sub Topic:	**Real Return Bonds and Surplus Volatility**		

Preamble to IR:

In CAC (MPI) 1-49, MPI was asked if

> *"the pension plan has been adversely impacted, from a funding (surplus) perspective, by the recent market environment".*

MPI's response was:

> *"… pension liabilities of MPI are discounted based upon the Fiera Capital CIA Method Accounting Discount Rate Curve, which itself is based upon the yield on highly rated corporate bonds. Therefore, changes in the real yield of real return bonds do not impact the present value of the liabilities of MPI."*

To clarify the nature of the question, "funding" refers to market valuations and the potential impact on future cash flows, as distinct from impacts on accounting or actuarial valuations.

In CAC's testimony during the 2017/18 GRA, two excerpts from the annual report of Ontario Teachers' Pension Plan were presented (see next page), which stated that "the main source of liability risk is a drop in real interest rates, which increases the present value of future pensions ... It makes new pension liabilities more difficult to finance and puts upward pressure on contribution rates."

TEACHERS' FOCUS: SURPLUS RISK METRIC: VALUE AT RISK (VAR)

RISKS AND RISK MANAGEMENT

We manage **surplus risk** using a Value at Risk (VaR) methodology. VaR has forced us to think of surplus risk as the aggregate of liability risk, asset-mix policy risk, and active management risk, taking into account correlation and diversification between the components.

The main source of **liability risk** is a drop in real interest rates, which increases the present value of future pensions accumulated up to that point. It makes new pension liabilities more difficult to finance, and puts upward pressure on contribution rates. Higher real interest rates have the opposite effect.

Asset-mix policy risk would be the mirror image of liability risk, and surplus risk would be zero, if investments perfectly matched the plan's long-term objective that asset growth will average a real rate of about 4.5 percent plus inflation. Real return bonds come close, but fall a bit short on yield.

The absence of a perfectly matching asset forces us to consider assets that individually do not always behave like our pension promise, but collectively give us the best trade-off between longer term expected surplus return and acceptable short-term surplus risk. Consequently, our asset mix is heavily weighted to equities because they meet our long-term goals, while our inflation-sensitive investments give more modest real returns but dampen surplus risk.

Source: Teachers' 2000 Annual Report, page 22

14

Question:

Does MPI agree with the suggestion that:

a) the main source of liability risk is a drop in real interest rates and that

b) new pension liabilities are more difficult to finance when real interest rates fall, and this puts upward pressure on contribution rates? Please explain your answer.

Rationale for Question:

To distinguish between the value of pension liabilities, and their value at risk, as measured for different purposes (e.g., accounting, actuarial, and portfolio risk management).

RESPONSE:

a) Agreed. The main source of liability risk is a drop in real interest rates, assuming that liability risk is defined as increases in the present value of the liabilities based upon market valuations, as distinct from accounting or actuarial valuations.

b) Agreed. New pension liabilities are more difficult to finance when real interest rates fall as this increases the present value of the liabilities, which puts upward pressure on contribution rates.

CAC (MPI) 2-18

Part and Chapter:	**CAC (MPI) 1-50**	**Page No.:**	
PUB Approved Issue No:	**4)a), 4)d), 8**		
Topic:	**Investment Forecasts**		
Sub Topic:	**Return Assumptions**		

Preamble to IR:

A number of return assumptions have not been recently tested to support the ongoing validity of those assumptions.

Question:

a) Please discuss when and how MPI intends to test the return assumptions that are otherwise infrequently tested? Please provide specific responses for each of the asset classes outlined in CAC (MPI) 1-50.

b) Where no benchmark is readily available, please discuss the merits of testing the prior forecasts against observed actuals. Said differently, given the benefit of hindsight, how well have the return assumptions applied in prior years actually performed against actuals?

c) Please confirm that for MPI's forecast, the only relevant assumption from Mercer's May 21, 2020 capital market assumptions, is the spread between global equity and global low volatility equity returns (0.60%). If this cannot be confirmed, please explain why not.

Rationale for Question:

To assess the ongoing reasonableness of the Investment Income forecast.

RESPONSE:

a) MPI follows the return assumptions approved by the PUB for each respective asset class. MPI will test the validity of the return assumptions for each asset class prior to the 2022 GRA by comparing the forecasted returns to actual returns.

MPI bases its *Canadian equity* total return forecast on the 5th percentile 20-year Canadian equity return, using index data from 1956 to March 31, 2020. This methodology was approved by the PUB and MPI will therefore continue to use it for the 2021 GRA.

MPI assumes the total return on the *global equity* portfolio to match that of the Canadian equity total return, whereas it forecasts the forecasted total return for the *global low volatility* portfolio to be 60 bps lower than the return on global equities. MPI bases this return difference on the capital market assumptions document by Mercer from the 2018 Asset Liability Study, which assumptions were recently validated by the May 2020 capital market assumptions document from Mercer. As a result, it remains in use for forecasting purposes. According to Mercer's capital market assumptions as at May 31, 2020, the median 20-year annualized returns for Canadian equity, global equity and global low volatility equity are 6.4%, 6.4% and 5.8%, respectively.

The total return on the *real estate pooled fund* is based on the forecast for the Canadian Consumer Price Index (CPI), plus a spread of 4%. This assumption for real estate remains unchanged since the first investment by MPI in this asset class (2009). Being an illiquid asset class, it is very difficult to find a suitable benchmark that is investable to use as the basis to forecast future returns. MPI continues to believe that CPI + 4% is an appropriate forecast.

The total return on the *infrastructure* portfolio is based on the forecasted Canadian Consumer Price Index (CPI) plus a spread of 5%. Like Real Estate, being an illiquid asset class, it is very difficult to find a suitable benchmark that is investable to use as the basis to forecast future returns. MPI continues to believe that CPI + 5% is an appropriate forecast.

b) Given the benefit of hindsight, *Figure 1* below illustrates how well the Real Estate return assumptions applied in prior years performed against the actual returns for the asset class:

Figure 1 Real Estate Returns vs. Forecast

Line No.	Year	Real Estate Returns	Forecasted Returns	Source	Variance
1	**2015**	6.18%	4.90%	GRA 2016	1.28%
2	**2016**	6.12%	5.80%	GRA 2017	0.32%
3	**2017**	7.55%	6.20%	GRA 2018	1.35%
4	**2018**	12.41%	6.20%	GRA 2019	6.21%
5	**2019**	7.72%	5.70%	GRA 2020	2.02%
6	**Avg**	**8.00%**	**5.76%**		**2.24%**

Given the benefit of hindsight, *Figure 2* below illustrates how well the Infrastructure return assumptions applied in prior years performed against the actual returns for the asset class:

Figure 2 Infrastructure Returns vs. Forecast

Line No.	Year	Infrastructure Returns	Forecasted Returns	Source	Variance
1	**2015**	8.50%	5.90%	GRA 2016	2.60%
2	**2016**	0.90%	6.80%	GRA 2017	-5.90%
3	**2017**	5.00%	7.20%	GRA 2018	-2.20%
4	**2018**	15.80%	7.20%	GRA 2019	8.60%
5	**2019**	10.90%	6.70%	GRA 2020	4.20%
6	**Avg**	**8.22%**	**6.76%**		**1.46%**

c) Yes, for the MPI forecast, the only relevant assumption from Mercer's May 21, 2020 capital market assumptions is the spread between global equity and global low volatility equity returns (i.e. 0.60%).

CAC (MPI) 2-19

Part and Chapter:		**Page No.:**	
PUB Approved Issue No:			
Topic:			
Sub Topic:			

No question was submitted as Information Request #19.

CAC (MPI) 2-20

Part and Chapter:	**CAC (MPI) 1-55**	**Page No.:**	
PUB Approved Issue No:	**5, 7, 10**		
Topic:	**Capital Project Funding**		
Sub Topic:	**Implications for CMP, and impact on Reserves**		

Preamble to IR:

The CAC requires further information with respect to the CAC (MPI) 1-55 response.

Question:

a) Referencing the answer to part d), please confirm that cash accounts would be considered in the estimate of Capital Available, under the MCT calculation.

b) Having not considered the option to debt finance major capital expenditures, please explain how MPI satisfies itself, its regulator, and its shareholder that it has performed adequate due diligence on major capital expenditures, and that it is approaching its capital spending program in a manner that delivers maximum value to Manitobans.

c) Please provide the cost and terms to acquire debt through the Province of Manitoba.

Rationale for Question:

To understand the implications of not analyzing the option of debt financing capital program.

RESPONSE:

a) Confirmed

b) and c)

MPI considered using debt financing as part of its capital structure and is currently examining a strategic alignment of its capex/capital structure. MPI anticipates a Management Review will be completed in late 20/21. It should be noted that the maximization of value insinuated in the question requires taking on additional risk; i.e. the risk of not generating returns in excess of cost of borrowing funds. This risk/reward trade-off will be considered in the Management Review.

Please refer to *Attachment A* for the term sheet for Sept/20.

Attachment A:
Manitoba Finance Term Sheet for Sept/20

Manitoba
Finance
Treasury
350-363 Broadway, Winnipeg, Manitoba, Canada R3C 3N9
www.manitoba.ca

September 1, 2020

Province of Manitoba
Crown Corporations and
Government Agencies

Dear Sir or Madam:

Effective September 01, 2020 the interest rates on fixed term loans made by the Province of Manitoba to its Crown Corporations and Government Agencies shall be:

Term (Years)	Principal to be Repaid at end of Term (%)	Principal to be amortized over the Term (%)
2	1.000%	1.000%
3	1.125%	1.125%
4	1.250%	1.250%
5	1.375%	1.250%
7	1.625%	1.500%
10	1.875%	1.750%
15	2.375%	2.125%
20	2.625%	2.375%
25	2.625%	2.500%
30	2.625%	2.500%

The one year cost of financing for the Province as at September 01, 2020 is 0.875%.

Yours very truly,

Don Delisle
Director, Capital Markets
Treasury Division

CAC (MPI) 2-21

Part and Chapter:	**CAC (MPI) 1-72**	**Page No.:**	**2**
PUB Approved Issue No:	**9. Cost of operations and cost containment measure**		
Topic:	**Special Services**		
Sub Topic:			

Preamble to IR:

Special services expenses per Figure 1 contain Internal Audit Fees (2019/20A of $200,000 and for 2020/21B $310,000) and special services – other (2019/20A $2,275,000 and 2020/21B of $2,518,000)

Question:

a) Please provide a narrative discussion relating to the internal audit fees paid by MPI. Has MPI outsourced the internal audit function? If yes, please provide a copy of the engagement contract.

b) Please provide a detailed, by expense item, analysis of the Special Services – Other expenses for the two fiscal years sighted in the preamble.

c) Please indicate whether the external auditor is engaged in any consulting work for MPI. If yes, please provide the consulting contracts and explain how the maintenance of independence by the external attest auditor is achieved.

Rationale for Question:

To better understand the internal audit arrangement (an internal control function) and the expenses/rationale of expenses contained in Special Services – Other. Also better understand the relationship of the attest external auditor to MPI.

RESPONSE:

a) Meyers Norris Penny [MNP] performs the Internal Audit. MPI outsourced the Internal Audit function in order to leverage industry best practices and to ensure significant engagement/perspective with experts in the various departments [Actuarial/Legal/Finance/Accounting]. Moreover, the internal costs for the Internal Audit Department was ~$750K a year. Since outsourcing, the ongoing budget is approximately $320k – representing a significant savings to MPI.

   The fees for 2019 - $200K and 2020 fees - YTD [as at Aug 31st/2020] is $106K. Please see the Internal Audit Engagement Letter, Appendix 1.

b) Please refer to Appendix 2.

c) External Auditor PricewaterhouseCoopers (PwC) is engaged in consulting services as the Governance Lead on the NOVA Project. Independence is aligned based on independence criteria maintained by accounting governing bodies and adherence to accounting frameworks by PwC in engagement design and execution.

   On October 10, 2019, in accordance with Board policy, the Board of Directors specifically reviewed the PwC contract prior to its approval in order to ensure no conflict with the responsibilities of the External Auditor.

Manitoba Public Insurance

An Agreement for Services dated the 1st day of July, 2020.

BETWEEN:

THE MANITOBA PUBLIC INSURANCE CORPORATION
(called "**Manitoba Public Insurance**")

- and -

MNP LLP
(called the "**Vendor**")

WHEREAS:

A. Manitoba Public Insurance previously engaged the Vendor to perform internal audit services in accordance with a services agreement dated July 1, 2018;

B. The above-described agreement has now expired; however Manitoba Public Insurance wishes to continue to engage the Vendor to carry out the audit reviews as provided in its risk-based audit plan and perform other internal audit services, as more particularly described in this Agreement (the "**Services**"); and,

C. Manitoba Public Insurance wishes to engage the Vendor, and the Vendor wishes to be engaged, to provide the Services to Manitoba Public Insurance in accordance with the terms and conditions contained in this Agreement.

NOW THEREFORE, in consideration of the foregoing recitals, terms, conditions and covenants contained herein, it is hereby agreed as follows:

1.00 TERM OF AGREEMENT

1.01 Term of Agreement and Renewal

(a) This Agreement comes into effect as of July 1st, 2020, and shall continue until and including March 31st, 2021 (the "**Initial Term**").

(b) Manitoba Public Insurance may, at its sole option, not later than thirty (30) days prior to the expiration of the Initial Term, renew the Agreement for a twelve (12) month term (the "**Renewal Term**"), on the same legal terms and conditions as were in force during the Initial Term (including rates).

(c) The "**Term**" shall collectively mean the Initial Term and Renewal Term, if applicable.

2.00 SERVICES TO BE PROVIDED

2.01 The Vendor agrees to be bound solely by this Agreement. For greater certainty, "**Agreement**" means this agreement, any schedules attached hereto, and any statement of work and/or other document incorporating or made pursuant to this Agreement. If the Vendor begins the Services before the start of the Term, all Services provided by the Vendor before the start of the Term will be considered to have been provided under all of the terms and conditions of this Agreement.

2.02 Manitoba Public Insurance agrees to retain the Vendor to perform the Services, which are further detailed in the Service Requirements attached as Schedule B. The Vendor agrees to perform such Services during the Term, on the terms and conditions set out in this Agreement and as directed by Manitoba Public Insurance, to its reasonable satisfaction.

3.00 CORPORATE VALUES & SUSTAINABLE DEVELOPMENT PROCUREMENT GUIDELINES

3.01 The Vendor represents and warrants that the Services shall be delivered in a manner that is consistent with Manitoba Public Insurance's Corporate Values and Sustainable Development Procurement Guidelines, attached hereto as Schedule C.

4.00 VENDOR'S FEES

4.01 Subject to the following subsections, in consideration of Services performed to the reasonable satisfaction of Manitoba Public Insurance during the Term, Manitoba Public Insurance agrees to pay the Vendor on a time and materials basis for completed internal audit reviews and related services. The Vendor shall charge for its time at the following hourly rates:

Engagement Role	Hourly Rate
Engagement Partner/Quality Assurance Partner	$370.00
Senior Manager	$270.00
Manager	$240.00
Senior Auditor	$200.00
Auditor	$180.00

The hourly rates set out above are in Canadian Dollars and shall remain the same throughout the Term. Notwithstanding the time and materials nature of this engagement, if Manitoba Public Insurance determines that the Vendor will, at any time during the Term, exceed an aggregate maximum cap approved by

Manitoba Public Insurance's Board of Directors, Manitoba Public Insurance may suspend the Services until such time that it obtains the additional required approvals to exceed such cap. If Manitoba Public Insurance is unable to obtain approvals to exceed such cap, Manitoba Public Insurance may immediately terminate the Agreement written notice to the Vendor.

4.02 The Vendor shall provide invoices to Manitoba Public Insurance. All Services listed on an invoice must have been completed by the Vendor prior to that invoice being submitted to Manitoba Public Insurance. All invoices shall be in writing and satisfactory to Manitoba Public Insurance, acting reasonably, in both form and content. The Vendor shall also provide to Manitoba Public Insurance such supporting documents, vouchers, statements and receipts as may be requested by Manitoba Public Insurance acting reasonably.

4.03 Manitoba Public Insurance shall pay the invoice within thirty (30) days after the receipt and approval of an invoice and any supporting materials requested under Section 4.02. In the event any invoice is not satisfactory, Manitoba Public Insurance shall notify the Vendor of the problem within seven (7) days of receipt of invoice.

4.04 If Manitoba Public Insurance in good faith (i) disputes any invoice on the grounds that there is an objectively verifiable error in any invoice; or (ii) disputes the adequacy or correctness of any supporting documentation provided in connection with any invoice, or (iii) the Vendor has materially breached this Agreement, then Manitoba Public Insurance may withhold, in the case of (i) and (ii), the disputed portion of the invoice until the dispute is resolved, and in the case of (iii), all outstanding balances of the invoice until the dispute is resolved. The parties shall work promptly to resolve any such disputes. Manitoba Public Insurance will advise the Vendor of the amount of the invoice Manitoba Public Insurance considers to be in dispute and the basis for such dispute, and will pay any undisputed portion in accordance with this Article 4.00. Payment by Manitoba Public Insurance shall not preclude Manitoba Public Insurance from questioning any fees or charges Manitoba Public Insurance believes to be improper or incorrect.

4.05 Those undisputed invoiced amounts not paid by Manitoba Public Insurance within thirty (30) days of receipt and approval, shall bear interest from the thirty-first (31st) day at the prime rate in effect on that day at the Winnipeg main branch of the Bank of Montreal.

4.06 Where not tax-exempt, Manitoba Public Insurance shall also pay all applicable sales and use taxes. Manitoba Public Insurance is exempt from the Goods and Services Tax and the Harmonized Sales Tax. The applicable Goods and Services Tax and Harmonized Sales Tax exemption information is attached hereto as Schedule D.

4.07 Unless explicitly stated otherwise in this Agreement, Manitoba Public Insurance shall reimburse the Vendor for reasonable out-of-pocket expenses relating to the provision of the Services if:

(a) such expenses were reasonably required for the performance of the Services;
(b) prior written permission to incur such expenses was first obtained from Manitoba Public Insurance;
(c) the Vendor uses the most economical rates possible for the expenses;
(d) the Vendor provides receipts and/or supporting documents to the satisfaction of Manitoba Public Insurance, unless it is agreed that submission of receipts for certain categories of expenses is not required (e.g. a per diem approach); and,
(e) reimbursement to the Vendor for out-of-pocket expenses shall be in accordance with the amounts and guidelines set out in the Manitoba Public Insurance's Corporate Directives.

Manitoba Public Insurance shall not be responsible for payment of any other expenses incurred by the Vendor in the performance of this Agreement. The Vendor acknowledges and understands that any out-of-pocket expenses approved under this section are subject to and will be counted toward the maximum aggregate cap described in Section 4.01 above.

4.08 The Vendor shall advise Manitoba Public Insurance if any non-resident of Canada will be, or has performed any of the Services in Canada. Manitoba Public Insurance may withhold and/or remit any taxes or duties required by federal, provincial, or municipal law in relation to the purchase or performance of the Services.

5.00 STANDARD TERMS & CONDITIONS

5.01 The parties agree to comply with the additional terms and conditions which are attached hereto as Schedule A, and acknowledge that such terms and conditions form an integral part of this Agreement.

5.02 To the extent there is a conflict or inconsistency, the following is the order of precedence of documents comprising this Agreement:

(a) the main body of this Agreement and Schedule B; and
(b) Schedules A, C and D.

6.00 NOTICES

6.01 Any notice or other communication under this Agreement shall be delivered:

<u>To the Vendor</u>:

Attention: Gustavo Meschler
Partner, Enterprise Risk Services
MNP LLP
2500 – 201 Portage Avenue

Winnipeg MB R3B 3K6
Email: Gustavo.meschler@mnp.ca

To Manitoba Public Insurance:

Attention: Ben Graham
President & CEO
Manitoba Public Insurance
P.O. Box 6300, 234 Donald Street
Winnipeg MB R3C 4A4
Email: bgraham@mpi.mb.ca

6.02 Any notice or communication:

(a) sent by registered mail shall be deemed to have been received on the third business day following the date of mailing;
(b) sent by electronic transmission (including email) shall be deemed to have been received on the day of transmission; and,
(c) sent by courier or personal delivery shall be deemed to have been received on the day that it was delivered.

This Agreement has been executed on behalf of each party by their duly authorized representatives.

for **THE MANITOBA PUBLIC INSURANCE CORPORATION**

Per: ______________________
Benjamin Graham
President & CEO

Date: 15/5/2020.

Per: ______________________
Mark Giesbrecht
Vice President, Finance & CFO

Date: MAY 15, 2020

for **MNP LLP**

Per: ______________________
Gustavo Meschler
Partner, Enterprise Risk Services

Date: May 14, 2020

5

SCHEDULE A

MANITOBA PUBLIC INSURANCE
TERMS AND CONDITIONS

THIS PAGE IS INTENTIONALLY BLANK

Manitoba Public Insurance

SCHEDULE A
TERMS AND CONDITIONS

1.00 SCOPE

1.01 Manitoba Public Insurance and the Vendor agree that any work performed by the Vendor outside the scope of the Services without prior written approval of Manitoba Public Insurance shall be deemed to be gratuitous on the Vendor's part, and Manitoba Public Insurance has no liability with respect to such work.

1.02 Manitoba Public Insurance reserves the right to change, modify, delete or add to the Services, if necessary and upon advance notice to the Vendor. In addition to the foregoing, the Vendor shall provide to Manitoba Public Insurance any other services, documentation, or data related to the Services as may be reasonably required by Manitoba Public Insurance.

1.03 Unless specifically stated to the contrary, nothing in this Agreement grants the Vendor exclusivity in providing the Services to Manitoba Public Insurance.

1.04 Vendor will perform the services based on the information Manitoba Public Insurance provides to the Vendor. The Vendor will rely on that information to be accurate and complete and the Vendor will neither verify the information nor perform any procedures designed to discover errors or other irregularities in the information, although the Vendor may ask Manitoba Public Insurance to clarify or supplement such information. The Vendor will not independently verify financial statements or data submitted by Manitoba Public Insurance to allow the Vendor to perform services, nor will the Vendor review furnished working papers for technical and mathematical accuracy. The engagement of the Vendor cannot be relied upon to uncover errors in the underlying information incorporated in Manitoba Public Insurance's tax returns or other information, should any exist.

2.00 PERFORMANCE OF VENDOR'S OBLIGATIONS

2.01 The Vendor represents and warrants that:

(a) it possesses the necessary skills, expertise and experience to perform the Services in accordance with this Agreement;
(b) the Services shall be provided in a professional manner and as outlined in this Agreement unless Manitoba Public Insurance and the Vendor agree otherwise in writing;
(c) the Services shall be provided in compliance with every federal, provincial, and municipal law which is or could be applicable to the Services;
(d) the Representatives designated to perform the Services shall devote the time, attention, abilities, and expertise necessary to properly perform the Vendor's obligations;
(e) it shall comply with all reasonable directions and requests of Manitoba Public Insurance within the scope of the Services as set out in this Agreement;
(f) it shall deliver the Services in a manner that is consistent with Manitoba Public Insurance's Corporate Values and Sustainable Development Procurement Guidelines;
(g) all representations and warranties contained in this Agreement are true and correct and shall so remain throughout the Term of this Agreement;
(h) Manitoba Public Insurance shall have the right of prior approval of any Representatives designated to provide the Services. Manitoba Public Insurance shall have the right to request the removal of any Representatives so designated and the Vendor shall immediately comply with all such requests for removal;
(i) it shall conduct itself in a manner that does not negatively affect the public perception, business reputation, community standing, or business operations of Manitoba Public Insurance (collectively, "**Reputation**"); and,
(j) it has full right and authority to enter into this Agreement.

2.02 The Vendor shall provide biweekly written progress reports. Such progress reports shall be in form and content satisfactory to Manitoba Public Insurance acting reasonably.

2.03 If applicable, and unless explicitly stated otherwise in this Agreement, delivery of goods and/or deliverables shall be to Manitoba Public Insurance's mail & warehouse services at B100 – 234 Donald Street, in Winnipeg, Manitoba. All goods/deliverables shall remain at the risk of the Vendor until they are delivered to the reasonable satisfaction of Manitoba Public Insurance. All goods/deliverables supplied shall be subject to inspection and acceptance by Manitoba Public Insurance for a period of sixty (60) days after delivery. Defective or deficient goods/deliverables or goods/deliverables not conforming to specifications may be returned at the Vendor's expense. At Manitoba Public Insurance's option, such deficient or non-conforming goods/deliverables shall be returned for either exchange or full refund. In addition to the foregoing, the Vendor shall pass through any other warranties that are applicable to such goods/deliverables, and Manitoba Public Insurance shall have the right to rely on same, and on any other warranties offered by the Vendor that are applicable to such goods/deliverables.

2.04 The Vendor does not warrant and is not responsible for any third party products or services obtained independently by Manitoba Public Insurance notwithstanding any participation or involvement by the Vendor. Manitoba Public Insurance shall have the sole and exclusive rights and remedies with respect to any defect in third party products or services and any claim shall only be brought against the third party vendor and not against the Vendor.

3.00 RESTRICTION ON OTHER WORK

3.01 For the purposes of this Agreement, "**Representatives**" shall mean the directors, officers, shareholders, employees, subcontractors, partners, volunteers, affiliates, agents, delegates and other such representatives of a party. While this Agreement is in effect, the Vendor and its Representatives shall not provide services to any other person, corporation, or entity in a manner that interferes or conflicts with the proper performance of the Vendor's obligations under this Agreement.

4.00 INDEPENDENT CONTRACTOR

4.01 The Vendor is an independent contractor, and this Agreement does not create the relationship of employer and employee, of principal and agent, of joint venture, or of partnership between Manitoba Public Insurance and the Vendor or between Manitoba Public Insurance and any Representatives of the Vendor. The Representatives of one party shall not be deemed or construed to be the Representatives of the other party for any purpose whatsoever.

4.02 The Vendor is responsible for any deductions or remittances, which may be required by law.

4.03 Except as authorized in this Agreement, the Vendor shall not incur any expenses or debts on behalf of, nor make any commitments for Manitoba Public Insurance without first obtaining written permission from Manitoba Public Insurance.

5.00 CONFIDENTIALITY AND INFORMATION SECURITY

5.01 The Vendor acknowledges that *The Freedom of Information and Protection of Privacy Act* ("**FIPPA**") and *The Personal Health Information Act* ("**PHIA**") each impose obligations on Manitoba Public Insurance to collect, use, or disclose "personal information" and "personal health information", as those terms are defined in FIPPA and PHIA (collectively called "**Personal Information**"), in the strictest of confidence, and in accordance with those Acts. In performing the Services under this Agreement, the Vendor acknowledges that they may collect, use, or have access to Personal Information.

5.02 While this Agreement is in effect, and at all times thereafter, the Vendor agrees to treat as confidential all information and materials acquired by it, or to which it has been given access, in the course of the performance of this Agreement (collectively called "**Confidential Information**"), excluding information that is in the public domain (for greater certainty, this does not include information in the public domain which was made public as a result of an unauthorized disclosure by a third party). For the purposes of this Agreement, Personal Information shall be considered to be Confidential Information.

5.03 The Vendor agrees that during the Term of this Agreement and at all times thereafter:

(a) the Personal Information disclosed to the Vendor by Manitoba Public Insurance may only be used by the Vendor in a manner expressly permitted by FIPPA or PHIA (as the case may be);
(b) Personal information that is not relevant for the purposes of this Agreement will not be disclosed to anyone for any reason without Manitoba Public Insurance's prior consent. Manitoba Public Insurance may review the Vendor's privacy policy at www.mnp.ca.
(c) it shall not disclose or permit the disclosure of Confidential Information, or any copies of it, in any format, to any third party without Manitoba Public Insurance's knowledge and consent, or as may be required by law;;
(d) it shall comply with all directives given to it by Manitoba Public Insurance with respect to safeguarding, or otherwise ensuring the confidentiality, of any Confidential Information disclosed to it by Manitoba Public Insurance;
(e) it shall ensure that access to the Confidential Information by the Representatives of the Vendor is restricted to a "need-to-know" basis, and that access, when given, shall be to the minimum amount of Confidential Information necessary to accomplish the task;
(f) it shall use the Confidential Information only for those purposes that have been expressly permitted by Manitoba Public Insurance;
(g) it shall not reproduce Confidential Information, in any format, without the express prior written consent of Manitoba Public Insurance;
(h) it shall ensure that it, or its Representatives, do not transport or store any Confidential Information outside of Canada without the express prior written consent of Manitoba Public Insurance. Without limiting the generality of the foregoing, in Manitoba Public Insurance's sole discretion, the Vendor may be permitted to remotely access Confidential Information if required to provide the Services, provided that the Vendor

follows all of Manitoba Public Insurance's policies regarding remote access; and,

(i) after the Confidential Information has been used for its authorized purpose, or where destruction of the Confidential Information is requested by Manitoba Public Insurance or is required by this Agreement, the Vendor shall destroy the Confidential Information (and all copies of the Confidential Information in any form) in a manner which adequately protects the confidentiality of the Confidential Information, provided, however, that the Vendor may retain one copy in its confidential files, for reference in the event of a dispute or if required by law, regulation, or regulatory authority.

5.04 The Vendor represents and warrants that it has established an information security management practice that follows its industry standards and best practices. During the Term of this Agreement and at all times thereafter, the Vendor shall take reasonable technical, physical and administrative security measures to prevent any unauthorized disclosure of the Confidential Information. The standard of such precautions taken by the Vendor shall be the greater of:

(a) the standards the Vendor has in place to protect its own confidential information; or,
(b) the standards imposed on the Vendor by Manitoba Public Insurance.

5.05 The Vendor shall immediately notify (and in any event, by no later than 48 hours) Manitoba Public Insurance in writing upon becoming aware of any unauthorized use, disclosure, or destruction of, or any unauthorized access to, Confidential Information (a "**Confidentiality Breach**"). The Vendor shall send Manitoba Public Insurance further written notification including full details of the Confidentiality Breach no later than 72 hours after becoming aware of same. The Vendor shall immediately take all reasonable steps to prevent the recurrence of any such Confidentiality Breach and shall notify Manitoba Public Insurance in writing of the steps taken. In the event of a Confidentiality Breach Manitoba Public Insurance may impose increased standards on the Vendor related to the Vendor's treatment of the Confidential Information and the Vendor shall comply with such increased standards.

5.06 The Vendor shall inform its applicable Representatives of the obligations imposed upon it in this Agreement with respect to Confidential Information, and shall take whatever steps are necessary to ensure that all of its applicable Representatives comply with those obligations.

5.07 The Vendor acknowledges that monetary damages may not be a sufficient remedy for a Confidentiality Breach, and that Manitoba Public Insurance may, without waiving any other rights or remedies, seek appropriate injunctive or equitable relief from a court of competent jurisdiction.

5.08 If the Vendor receives a subpoena or other validly issued administrative or judicial order seeking Confidential Information, the Vendor shall provide prompt notice to Manitoba Public Insurance and deliver to Manitoba Public Insurance a copy of its proposed response to the demand. Unless the demand has been time-limited, quashed, or extended, the Vendor shall thereafter be entitled to comply with the demand to the extent permitted or required by law.

5.09 The Vendor undertakes not to publish any public statement or advertisement with respect to this Agreement, and further undertakes not to seek publicity of this Agreement without the express prior written consent of Manitoba Public Insurance, except as otherwise required by law or by this Agreement.

5.10 In the event that the Vendor or its Representatives use any of Manitoba Public Insurance's premises, the Vendor and such Representatives shall comply with all of such premises' security requirements as may be in effect from time to time and which are known or presented to the Vendor in advance of use.

5.11 The Vendor shall cooperate with Manitoba Public Insurance so that Manitoba Public Insurance can verify that the Vendor has complied, and is complying, with the provisions of this Article 5.00.

6.00 ACCESSIBILITY

6.01 The Vendor acknowledges that *The Accessibility for Manitobans Act* ("**AMA**") imposes obligations on Manitoba Public Insurance to provide accessible customer service to all persons in accordance with the Customer Service Standard Regulation ("**CSSR**") and to achieve accessibility in its business and administrative practices by preventing and removing barriers that disable people ("**Accessibility**").

6.02 For the purposes of this Agreement, "accessible customer service" shall mean service which ensures that all persons who are reasonably expected to seek to obtain, use, or benefit from a good or service have the same opportunity to obtain, use, or benefit from the good or service.

6.03 Throughout the Term of this Agreement, the Vendor agrees to comply with the accessible customer service obligations under the CSSR, and further agrees that when providing the Services or otherwise acting on Manitoba Public Insurance's behalf, the Vendor shall comply with all obligations under the AMA applicable to public sector bodies.

6.04 The accessible customer service obligations include, but are not limited to:

(a) providing barrier-free access to goods and services;
(b) making reasonable efforts to ensure that any communication with individuals who self-identify as being disabled by a barrier takes into account said barrier;
(c) reasonably accommodating assistive devices, support persons, and support animals;
(d) facilitating barrier-free access to built environments;
(e) providing adequate training of staff and documentation of same; and
(f) providing a mechanism or process for receiving and responding to public feedback on the accessibility of all Services and goods.

7.00 OWNERSHIP OF INFORMATION

7.01 All documents produced by the Vendor, in any form whatsoever, for delivery to Manitoba Public Insurance (collectively, the "Deliverables") are prepared in contemplation only of the Client's use for the purpose stated in this Agreement and not for any other purpose, or by any other party. The Vendor hereby grants to Manitoba Public Insurance a limited, non-exclusive, perpetual, world-wide license, without payment of any royalty, so that Manitoba Public Insurance may use, copy and distribute the Deliverables internally and externally as required for business purposes. Manitoba Public Insurance shall not use the Deliverables directly or indirectly, for any purpose competitive with the business of the Vendor. The Vendor retains all intellectual property rights, title and interest in and to all its existing methodologies, processes, techniques, ideas, concepts, trade secrets, artwork, logos and identifying script and know-how that MNP may develop or supply in connection with this Agreement ("Vendor Knowledge") whether or not such is embodied in the Deliverables. Subject to the confidentiality restrictions contained in Article 5.00, the Vendor may use the Vendor Knowledge for any purpose.

7.02 Working Papers. The Vendor owns all working papers and files, other materials, reports and work created, developed or performed during the course of providing the Services, including intellectual property used in the preparation thereof. The Vendor agrees, upon request from Manitoba Public Insurance, to provide Manitoba Public Insurance with a copy of all practitioner-prepared working papers necessary for Manitoba Public Insurance's accounting records. The Vendor may develop software, including spreadsheets, documents, databases, and other electronic tools, to assist with providing the Services. Where these tools are developed specifically for the Vendor's purposes and without consideration of any purpose for which Manitoba Public Insurance might use them, any such tools provided to Manitoba Public Insurance are made available on an "as is" basis only, and remain the exclusive intellectual property of the Vendor, and are not to be distributed to or shared with any third party and the Vendor shall be entitled to the return of all such property, uncopied, at any time.

7.03 This Agreement is not intended for the express or implied benefit of any third party. No third party is entitled to rely, in any manner or for any purpose, on the advice, opinions, reports, Deliverables or Services of the Vendor contemplated in this Agreement.

7.04 Any property, materials and information provided by Manitoba Public Insurance to the Vendor under this Agreement is only provided for the limited use in the performance of the Services, shall remain the property of Manitoba Public Insurance, and shall be returned, without cost, to Manitoba Public Insurance upon request or upon termination of this Agreement. The foregoing shall not give the Vendor or its Representatives any rights in any of Manitoba Public Insurance's intellectual property.

8.00 INDEMNIFICATION OF MANITOBA PUBLIC INSURANCE

8.01 The Vendor shall indemnify and save harmless Manitoba Public Insurance and its Representatives from all losses, damages, costs, causes of action, claims, liabilities, or demands of any kind with respect to any injury to persons (including, without limitation, death), damage to or loss of property, Confidentiality Breach, economic loss, incidental or consequential damages, or infringement of rights (including, without limitation, privacy rights) caused by, or arising directly or indirectly from:

(a) the default of the Vendor or its Representatives of any term of this Agreement; or,
(b) any negligent or willful act or omission of the Vendor or its Representatives.

The above includes all costs and expenses associated therewith, including reasonable solicitors' fees.

9.00 **LIMITATION ON LIABILITY**

9.01 Manitoba Public Insurance and the Vendor agree to the following with respect to each party's liability to the other:

(a) A party's liability (the "**Injuring Party**") to the other party (the "**Injured Party**") for the aggregate of all losses, claims, liabilities, penalties, damages, or expenses shall not exceed the amount of fees paid by Manitoba Public Insurance to the Vendor pursuant to this Agreement, except to the extent such loss, claim, liability, penalty or expense suffered by the Injured Party (1) has been finally judicially determined to have resulted from the bad faith or intentional misconduct of the Injuring Party, or (2) is the result of or arises out of a Confidentiality Breach by the Injuring Party.

(b) In no event shall the Injuring Party be liable for consequential, special, indirect, incidental, punitive or exemplary loss, damage or expense or any loss of revenue or profit or any other commercial or economic loss or failure to realize expected savings.

(c) The Injuring Party's liability will be several and not joint and several and the Injured Party may only claim payment from the Injuring Party of the Injuring Party's proportionate share of the total liability based on the degree of fault of the Injuring Party as finally determined by a court of competent jurisdiction.

Any notice required under this Article 9.00 or any action by way of filed court process against the Injuring Party by the Injured Party must be brought and served within two (2) years after the cause of action arises and, if not so brought, such notice or action shall be null and void to the same extent as if the right to bring such were statute barred.

10.00 SUSPENSION

10.01 Manitoba Public Insurance may, at its sole option, from time to time, delay or suspend the Services being provided under this Agreement, in whole or in part, for such period of time as may, in the opinion of Manitoba Public Insurance, be necessary. Unless another notice period has been provided elsewhere in this Agreement, Manitoba Public Insurance shall provide five (5) days prior written notice to the Vendor of its intention to delay or suspend the Services. Manitoba Public Insurance shall not be obliged to make payments to the Vendor except with respect to those Services already satisfactorily performed prior to such delay or suspension.

10.02 Where there is a delay or suspension under Section 10.01, all terms and conditions of this Agreement shall continue in full force and effect against the Vendor. The Vendor shall not be entitled to make any claim for damages by reason of the delay or suspension.

11.00 TERMINATION

11.01 Either party may terminate this Agreement at any time for any reason by giving the other party fourteen (14) days prior written notice.

11.02 Neither party shall be responsible for any failure to comply with, or for any delay in performance of the terms of this Agreement where such failure or delay is directly or indirectly caused by, or results from events of force majeure beyond the control of either party. The time in which the Services are to be provided shall be extended by a period of time at least equal to the length of the force majeure event, provided that in the event the extended period of time exceeds, or is reasonably anticipated to exceed a period of fourteen (14) days, then Manitoba Public Insurance may terminate this Agreement and pay the Vendor for all Services performed to the date of the force majeure event.

11.03 In addition to its rights under Sections 10.01, 11.01 and 11.02 above, and without restricting any other remedies available, Manitoba Public Insurance may immediately terminate, or immediately suspend this Agreement in writing if:

(a) the Vendor makes an assignment for the benefit of creditors, takes any other action for the benefit of creditors, becomes bankrupt or insolvent, or takes the benefit of or becomes subject to any legislation in force relating to bankruptcy and insolvency;

(b) in the opinion of Manitoba Public Insurance, the Services provided by the Vendor or its Representatives are unsatisfactory, inadequate, or otherwise improperly performed;

(c) in the opinion of Manitoba Public Insurance, the Vendor or its Representatives have failed to comply with, or breached any term or condition of this Agreement; or

(d) in the opinion of Manitoba Public Insurance, continuing to engage the Vendor under this Agreement may adversely affect its Reputation.

11.04 Upon termination of this Agreement, the Vendor shall cease to perform any further Services. Manitoba Public Insurance shall be under no obligation to the Vendor other than to pay, upon receipt of an invoice or statement and supporting documentation satisfactory to Manitoba Public Insurance acting reasonably, such compensation as the Vendor may be entitled to receive under this Agreement for Services satisfactorily completed up to the date of termination. Upon Manitoba Public Insurance's request, the Vendor will work in good faith to facilitate the orderly transition of the Services, in whole or in part, to Manitoba Public Insurance.

12.00 GENERAL TERMS

12.01 The terms and conditions contained in this Agreement that by their sense and context are intended to survive the performance of this Agreement by the parties shall so survive the completion and performance, suspension, or termination of this Agreement.

12.02 Except as herein provided, neither party may assign or transfer this Agreement or any of its rights or obligations under this Agreement without first obtaining written permission from the other party. This Agreement shall be binding upon the executors, administrators, heirs, successors, and any permitted assigns of the parties.

12.03 This Agreement contains the entire agreement between the parties with respect to the subject matter hereof. There are no undertakings, representations, or promises, either express or implied, other than those contained in this Agreement and none have been relied on.

12.04 No amendment or change to, or modification of, this Agreement shall be valid unless it is in writing and signed by both parties.

12.05 This Agreement shall be interpreted, performed, and enforced in accordance with the laws of Manitoba and the laws of Canada applicable therein. The parties hereby irrevocably and unconditionally submit to the exclusive jurisdiction of the courts of the Province of Manitoba and all courts competent to hear appeals therefrom.

12.06 Any failure or delay by either party to exercise or partially exercise any right hereunder shall not be deemed a waiver of any of the rights under this Agreement. The waiver by either party of a breach of any provision of this Agreement shall not operate as, or be construed as, a waiver of any subsequent breach thereof. The election of any one or more remedies by either party shall not constitute a waiver of that party's right to pursue other available remedies.

12.07 The Vendor agrees to perform any further acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement.

THIS PAGE IS INTENTIONALLY BLANK

SCHEDULE B

SERVICES TO BE PROVIDED BY THE VENDOR

THIS PAGE IS INTENTIONALLY BLANK

SERVICE REQUIREMENTS

1.01 AUDIT REVIEWS

The Vendor will perform internal audit reviews for Manitoba Public Insurance throughout the Term, based on the risk-based internal audit plan that was previously developed and approved by Manitoba Public Insurance. Any deviation by the Vendor from the audit plan in its performance of the reviews must be pre-approved in writing by Manitoba Public Insurance.

1.02 COMPLIANCE WITH STANDARDS

In performing the Services, the Vendor shall comply with, and shall ensure that its personnel dedicated to performing the Services comply with:

(a) Manitoba Public Insurance's internal auditing policy and any additional applicable policies that Manitoba Public Insurance provides to the Vendor over the course of the Term; and

(b) the professional standards and rules applicable to the Vendor's profession and industry with respect to performing audit reviews.

1.03 INFORMATION STORAGE IN CANADA

In performing the Services, the Vendor may from time to time collect, use, and store "personal information", as that term is defined under *The Freedom of Information and Protection of Privacy Act* (Manitoba), or "personal health information" as that term is defined under *The Personal Health Information Act* (Manitoba). The Vendor must only collect, handle, access, use and store such personal information or personal health information within Canada. For greater certainty, the Vendor is prohibited from collecting, handling, accessing, using, or storing such personal information or personal health information outside of Canada (be it in hard copy or in electronic format), without the prior written consent of Manitoba Public Insurance.

1.04 INFORMATION SECURITY MANAGEMENT PRACTICES

In performing the Services, when the Vendor or its Representatives collect, handle, access, use, or store personal information, personal health information, or Manitoba Public Insurance's business information (collectively, referred to as "**Confidential Information**"), then the Vendor's information security management practice must have:

(a) approved information security policies, standards, and guidelines that have been communicated to its Representatives;

(b) formal security and background screening process for all its Representatives that are providing the Services (including the requirement for its Representatives to sign confidentiality agreements). Notwithstanding the foregoing, the Parties may expressly waive the above background check requirements in the Statement of Work.

(c) an approved access management policy that ensures:

(i) access to Confidential Information is only granted to individuals where access is essential to their work, and that access activities are logged and can be provided to Manitoba Public Insurance to support security investigations;

(ii) access control procedures are in place to revoke access within a reasonable timeframe when its Representatives change roles or leave the Vendor's organization, and that such access is provisioned through unique user accounts that are traceable to an individual;

(iii) that passwords are managed and controlled in accordance with industry best practices and in a manner appropriate to the sensitivity of the information stored; and

(iv) there is a process to obtain written approval from Manitoba Public Insurance in cases where Confidential Information will be accessed from outside of Canada;

(d) a policy requiring its Representatives to be provided with security and privacy training before granting access to Confidential Information and subsequently on at least an annual basis. The policy must also require its Representatives to acknowledge the Vendor's code of conduct and ethics;

(e) established and formalized best practices in operating and managing its infrastructure and services that includes asset management, backup and restore processes and procedures, change management, configuration management, and release management processes;

(f) reasonable technical, physical and administrative security practices and measures in place to protect against internal and external threats, in ways that will not impact the confidentiality, integrity, and the availability of the Confidential Information. Such protections must be augmented with timely patching of systems, conducting vulnerability assessments and penetration testing on a regular basis, and timely remediation of identified vulnerabilities as per industry best practices;

(g) The Vendor will employ up-to-date strong encryption mechanisms to protect Confidential Information:

(i) at rest, when being stored by the Vendor;

(ii) in motion when transmitted over public networks; and

(iii) in any electronic media when leaving the Vendor's facilities.

(h) processes and technology that enable capturing security logs, and that prohibit its Representatives from erasing, modifying, or deactivating logs of their own activities. Such log files must be retained by the Vendor for a reasonable period of time, but in no event for less than a period of twelve (12) months;

(i) a physical and environmental security policy mandating continuous protection of the Vendor's premises and computing environments, and that access to these environments has reasonable controls to mitigate risks of unauthorized access to Confidential Information;

(j) any exchanges that include Confidential Information, shall be carried out using Manitoba Public Insurance's secure file transfer service or the parties' corporate email systems (i.e. no personal email systems);

(k) a process to notify Manitoba Public Insurance if open source products are used in the provision of the Services, identifying the licensing model and potential intellectual property impacts, if any; and

(l) a formal information security incident management practice under which it will notify Manitoba Public Insurance forthwith, through a single point of contact, of any security incident impacting Manitoba Public Insurance's Confidential Information or the Services provided by the Vendor.

THIS PAGE IS INTENTIONALLY BLANK

SCHEDULE C

MANITOBA PUBLIC INSURANCE CORPORATE VALUES AND SUSTAINABLE DEVELOPMENT PROCUREMENT GUIDELINES

THIS PAGE IS INTENTIONALLY BLANK

CORPORATE VALUES

Striving for Excellence

We provide exceptional coverage and service. We adapt to meet evolving customer and industry needs, focusing on continuous improvement.

Providing Value to Manitobans

We maintain affordable rates and ensure accessible coverage. As a public auto insurer, fiscal responsibility is at the forefront of everything we do.

Doing What's Right

We act with integrity and accountability. We strive to be open and transparent.

Investing in People

We empower our employees to provide excellent service. We work together with business, community and road safety partners to fulfil our mission.

SUSTAINABLE DEVELOPMENT PROCUREMENT GUIDELINES

The following sustainable development procurement guidelines apply to Manitoba Public Insurance and shall be considered in retaining a Vendor:

Protect Human Health and Well-Being

- Anticipate, prevent and mitigate significant adverse economic, environmental, human health and social effects of purchasing decisions.
- Where practicable, require the purchase of substitute or alternative goods, materials or services in place of goods or materials that contain, or services that use, toxic substances or are otherwise harmful to the environment or human health.
- Ensure that toxic substances are managed properly to protect the environment and human health.
- Ensure those goods, materials and services that may otherwise pose an elevated risk to human health, safety and the environment are managed properly.

Promote Environmentally Sustainable Economic Development

- Recognize economic, ecological and social interdependence among communities, provinces and nations that require the integration of economic, environmental, human health and social factors in purchasing decisions.
- Purchase decisions may assist in the development of local environmental industries and markets for environmentally preferable products and services.

Conserve Resources

- Evaluate and reduce the need to purchase goods, materials and services.
- Purchase goods, materials and services that use recycled products.
- Purchase goods and materials with structures that require less material to manufacture.
- Purchase goods and materials that require less packaging.
- Reuse, recycle and recover goods and materials.

Conserve Energy

- Purchase goods, materials and services where the consumption of energy (electricity and fossil fuels) during production, transportation, usage and delivery is minimized.
- Purchase goods, materials and services where renewable forms of energy are substituted during production, transportation, usage and delivery for non-renewable forms of energy.
- Purchase goods, materials and services that have or use a structure that facilitates energy efficiency and resource conservation.

Promote pollution prevention, waste reduction and diversion

- Purchase goods and materials that are easy to recycle.
- Purchase goods and materials with structures that facilitate disassembly for processing, recycling and waste management.
- Purchase goods and materials packed with recycled products or materials that are recyclable.
- Purchase goods and materials with a manufacturing process that avoids the creation of waste and pollutants at source.
- Purchase goods and materials that are used or remanufactured.
- Purchase goods, materials and services that are suitable alternatives or substitutes.
- Purchase services that minimize adverse environmental impacts.
- Purchase goods and materials that have greater durability and longer life-span.
- Use goods and materials in a manner that minimizes adverse environmental impacts.

Evaluate value, performance and need

- Purchase environmentally preferable goods, materials and services that perform adequately and are available at a reasonable price, with careful consideration of full-costing.
- Purchase goods, materials and services that comply with recognized environmental standards.
- Evaluate and reduce the need to purchase goods, materials and services.
- Evaluate the appropriate scale and utilization of a good, material or service.
- Evaluate market factors for goods, materials and services, such as specifications, quality, delivery date and price.

THIS PAGE IS INTENTIONALLY BLANK

SCHEDULE D

MANITOBA PUBLIC INSURANCE
GST/HST TAX-EXEMPT CERTIFICATE

THIS PAGE IS INTENTIONALLY BLANK

Manitoba Public Insurance Société d'assurance publique du Manitoba

TO: ALL MANITOBA PUBLIC INSURANCE SUPPLIERS

The following Tax-Exempt Certificate will appear on all our purchase orders, work orders, agreements and contracts:

PLEASE NOTE:
GOVERNMENT OF MANITOBA
GST/HST Registration Number:
R122001191

It is hereby certified that the goods and/or services described herein are being purchased with Crown funds on behalf of the Government of Manitoba and are exempt from the Goods and Services Tax and Harmonized Sales Tax.

Suppliers are not to include GST/HST in quoted prices or invoices

As indicated on the Certificate, suppliers are not to include GST/HST for goods and services provided to the Corporation. This will facilitate processing of your invoices and prompt payment.

Please note that the GST/HST Registration number on the certificate is Manitoba Public Insurance's registration number.

The use of the Tax-Exempt Certificate does not affect your right to claim input tax credits on your purchases relating directly to your sales to Manitoba Public Insurance.

P.O. Box 6300 Winnipeg MB R3C 4A4 Telephone: (204) 985-7000 Facsimile: (204) 943-9851 www.mpi.mb.ca
C.P. 6300 Winnipeg (MB) R3C 4A4 Téléphone : (204) 985-7000 Télécopieur : (204) 943-9851 www.mpi.mb.ca

(03/02)

THIS PAGE IS INTENTIONALLY BLANK

Special Services - Other - Total Corporate

Line No.	Special Services - Other Category	2018/19A	2019/20A
1	***(C$000s, except where noted)***		
2	Aird & Berlis LLP	20	-
3	Allco Electrical Ltd	-	17
4	Altus Group	42	22
5	Automotive Trades Association	50	-
6	Bloomberg Finance LP	35	44
7	City of Winnipeg (Fire)	5	29
8	Clearwater Strategic	9	-
9	Colliers International	13	-
10	Deloitte LLP	36	9
11	Deloitte Management	-	91
12	Deloitte & Touche LLP	-	27
13	Ellement Consutling Group	98	84
14	ESIT Canada	887	421
15	Flextrack	-	184
16	FTSE TMX Global Debt	16	6
17	Gartner Canada	588	342
18	Global Knowledge Network	11	39
19	Global Manager Research	10	11
20	Handcraft Creative	-	17
21	IBAM Sponsorship	250	-
22	IBM Canada Ltd	78	46
23	Infor	-	14
24	Integent	-	49
25	IRP Inc	19	20
26	Janet Schmidt & Associates	-	55
27	KPMG LLP	-	93
28	LM Architectural Group	16	17
29	Manitoba Motor Dealer Association	50	-
30	Mercer Ltd	-	49
31	Meyers Norris Penny LLP	47	70
32	MLT Alkins LLP	25	16
33	Multi-Material Stewardship	-	10
34	People First HR Services	-	15
35	Perceptyx Canada Inc	-	17
36	Powerland Computers	-	51
37	Pricewaterhouse Coopers	-	102
38	Open Text Corp	6	15
39	Receiver General	-	17
40	Select IT Management	-	58
41	State Street Global	29	29
42	Statpro Canada	18	22
43	Swirsky, Dr Neil	28	31
44	Taylor McCaffrey LLP	-	64
45	Vital Statistics Agency	14	10
46	Ward Group	89	-
47	Other	34	62
48	**Total Special Services - Other**	**2,523**	**2,275**

CAC (MPI) 2-22

Part and Chapter:	**PUB (MPI) 1-84**	**Page No.:**	**2**
PUB Approved Issue No:	**10. Current IT Strategic Plan and IT Expenses and Projects, including Project Nova and other**		
Topic:	**Project Nova**		
Sub Topic:			

Preamble to IR:

In the response to PUB (MPI) 1-84, background and reasons are provided to why Project Nova is progressing at a slower pace than originally planned. Its further states on page 2:

> *"With these early stage realizations, MPI took steps to mitigate against future delivery-oriented risks and delays, the first step being the appointments of the Chief Transformation Officer and Program Director in September 2019. This action put in place the foundational Project Nova delivery leadership team and provided a more definitive plan and oversight for the remaining aspects of the planning phase as well as a refined approach to establishing requirements and future state vision by applying Lean tools. This was used for current state mapping and will be used for future state mapping as well, with a focus on customer value add to improve customer service delivery experiences."*

Question:

a) Please provide a narrative discussion on the 'Lean tools' being used to mitigate future delays in implementing Project Nova technologies.

b) Please provide a narrative discussion and description of 'customer value add' and 'customer service delivery experiences' as they relate to Project Nova vs. the current system.

Rationale for Question:

To better understand Project Nova delay mitigation strategies.

RESPONSE:

a) Reference to the use of '*Lean tools'* in *PUB (MPI) 1-84* pertains to the use of a Green belt certified MPI staff to inventory core MPI processes and perform high-level and detailed value stream mapping exercises. MPI front line leadership and staff members documented existing processes in order to identify activities valuable to the customer, 'waste' (i.e. non-value added activities) and opportunities to reduce waste, improve processes and process durations and ultimately enhance the customer service experience.

   MPI front line staff will use the same LEAN approach to establish future state processes and optimize the customer service experience. MPI aims to establish all future state processes before engaging the system integrators in the discovery phase. This will provide a reference for use when meeting with system integrators to determine the best way to achieve these targets without the use of software customizations. Completing this work prior to the discovery phase will reduce the likelihood of delays in the discovery and/or development phases of Project NOVA. MPI will seek to avoid the pitfalls associated with trying to 'figure it out on the fly' and delay that might otherwise result by requiring system integrators to wait for MPI to make informed critical decisions in order to advance the development of associated software products.

b) Reviewing existing processes and customer service delivery experiences using the principles and practices of LEAN will help MPI determine which are of value to customers. As it transforms its business processes/transactions via Project Nova, MPI will enhance its customer service delivery abilities by optimizing processes and experiences that customers value or consider important and by eliminating those that are unnecessary and of no value. Non-value added processes/experiences include waiting, multiple levels of approval, unnecessary paperwork/filings and staff/department hand-offs.

While reviewing existing processes/experiences, LEAN Green Belt certified MPI staff identified numerous opportunities to reduce waste and developed efficient and effective processes, which adhere to the applicable legislative/regulatory requirements for use in a post-Nova environment.

CAC (MPI) 2-23

Part and Chapter:	Part IV—Value Management	Page No.:	7
PUB Approved Issue No:	10. Project Nova		
Topic:	One-time Costs reconciliations and allocations amongst lines of business		
Sub Topic:			

Preamble to IR:

Part IV – Value Management page 7 states:

> *"The one-time insurance lines capital expenditures are estimated at $70.2 million. The one-time capital expenditures under The Driver and Vehicles Act are estimated at $36.6 million. Both estimates include integration costs. The total program budget, including a 25% program contingency, is $106.8M."*

2021 GRA Part V – Expenses Appendix 18, Figure EXP 18-1 line 41 Nova - Basic Deferred development costs sum to $57,991,000.

2020 GRA Part V – Expenses Appendix 18, Figure EXP App 18-1 line 43 –Legacy System Modernization – Basic Deferred development costs sum to $82,843,000.

Question:

a) Please reconcile and explain the differences between the three numbers: $106.8 million compared to $82,843,000 compared to $57,991,000.

b) Please provide the cost allocation and methodology for the Project Nova one-time costs amongst the various lines of business by fiscal year.

Rationale for Question:

To clarify the various one-time costs amounts for Project Nova reported in the GRA and the cost allocation methodology applied to the Project Nova costs.

RESPONSE:

a) The total Nova program budget of $106,800k consists of deferred development costs and implementation expenses, whereas *Expenses Appendix 18* consists only of the portion of the deferred development costs allocated to Basic. Appendix 18 from 2020 GRA differs from the 2021 GRA version as a result of a change in the allocation of the total Project Nova budget that is based on the information available at the time MPI filed the 2021 GRA.

Figure 1 Nova Costs Breakdown

Line No.	Nova	2019/20B	2020/21F	2021/22F	2022/23F	2023/24F	2024/25F	Total
1	*(C$000s, except where noted)*							
2	**2021 GRA Appendix 18 - Deferred Development Costs**	-	13,346	27,225	10,482	6,265	673	**57,991**
3	**2020 GRA Appendix 18 - Deferred Development Costs**	8,010	26,673	26,673	13,777	7,710	-	**82,843**
4	**Total Program Budget - Total Corporate Deferred**							
5	**Development Costs & Imlementation Expenses**	3,390	25,000	47,332	17,200	11,200	2,678	**106,800**
6	Note: 2019/20 under 2020 GRA Appendix refers to 2019/20 Budget and 2019/20 under Total Program Budget refers to 2019/20 Actuals.							

b) MPI uses the total Project Nova budget to allocate costs by lines of business. MPI allocates 100% of Driver and Vehicle Administration (DVA) specific costs to DVA. It also allocates 100% of Insurance specific costs to Insurance, allocates those costs further using the current allocation methodology (which allocates Insurance and Non-Insurance based costs through Weighted Customer Contact Centre Call Ratio WCCCCR), allocates them further again by lines of business, based on Claims Incurred and allocates them a final time by Claims & Operating, based on full-time equivalent percentage. Please refer to *Expenses Appendix 13, Cost Allocation Methodology* for further details.

CAC (MPI) 2-24

Part and Chapter:	**Part I - Overview**	**Page No.:**	**5**
PUB Approved Issue No:	**7**		
Topic:	**RSR Level**		
Sub Topic:			

Preamble to IR:

In the 2020 GRA MPI proposed a significant change in the determination of the Rate Stabilization Reserve (RSR) level that would adequately shield MPI from the risks inherent in their business model. The PUB approved the use of the Capital Management Plan, which uses the MCT ratio as a guide to both transfer moneys from Extension to Basic and determine the adequacy of the Corporation's reserve level, in the 2021 GRA.

Question:

a) Please give the actual RSR target level that would result if the Financial Condition Testing (formerly Dynamic Capital Adequacy Test) with a 1-in-40 year adverse scenario was used as the benchmark (range midpoint) vs the actual RSR target level that results using a 100% MCT result as the benchmark.

b) Please provide commentary on the results given in response to a) indicating why using the 100% MCT result as the RSR benchmark is preferable to the use of the FCT result with a 1-in-40 year adverse scenario result, from the Corporation's and the Manitoba public's perspective.

Rationale for Question:

To understand the Corporation's preference of the use of the CMP with MCT as a guiding principle versus the use of scenario testing with the FCT.

RESPONSE:

a) and b)

The Financial Condition Test (FCT) results for various adverse scenarios including 1 in 40 probability levels will be provided in the FCT section which will be submitted with the rate update.