MANITOBA PUBLIC INSURANCE

2024 GENERAL RATE APPLICATION

Round 2 Information Requests

September 6, 2023

Consumers' Association of Canada (Manitoba) (CAC)

MANITOBA PUBLIC INSURANCE

CAC (MPI) 2-1

Part and Chapter:	**Part XIV—2022 Annual Report - AR Appendix 3**	**Page No.:**	**Pdf p 6**
PUB Approved Issue No:	**Cost of operations and cost containment measures**		
Topic:	**MPI's mission and mandate focus**		
Sub Topic:			

Preamble to IR:

Part XIV – 2022 Annual Report – AR Appendix 3 pdf p 4 it states:

> *"Since my appointment as Chairperson in May 2023, I have directed management to focus on MPI's mission and mandate, while executing against three key business objectives:*
>
> - *Meeting financial obligations through a continual focus on fiscal prudence and responsible financial management. Controlling costs leads to lower insurance rates for all Manitobans.*
> - *Delivering Project Nova, our longterm initiative to replace outdated and unsupported legacy technology platforms. This will ensure our public insurance system is safe, reliable and secure for generations to come, while enabling the introduction of new online service options.*
> - *Improving service delivery and ensuring that continual improvements to how we serve our customers remains a priority. This includes enhanced online options as well as better frontline service availability and delivery to ensure people across the province have access to affordable products and services that meet their needs.*
> - *(…)*
>
> *Although there is work ahead to narrow MPI's attention on these priorities through tighter Board oversight and governance processes (…)"*

Question:

a) Please provide a narrative discussion contrasting the current corporate Board of Directors direction and focus to that of the previous Board.

b) Please provide an example of tighter Board oversight and governance processes.

c) Please provide a narrative discussion contrasting "focus on fiscal prudence and responsible financial management" and "Delivering Project Nova, our longterm initiative to replace outdated and unsupported legacy technology platforms" in light of Program Nova being anticipated to be implemented at a negative net present value of $189 million (Part V – Nova – Redacted Figure NOV – 11 NOVA Program Summary page 31).

Rationale for Question:

To better understand and assess the impact of the 'new' direction and focus of MPI on operations and specifically cost containment and contrasting this new direction of fiscal prudence with Program Nova estimated net benefit being a negative net present value in the range of $189 million for which rate payers eventually will have to pay.

RESPONSE:

a) and b)

The appointments of Ward Keith as Chairperson and John Mitchell as a Director of the Board of Directors (BoD) of Manitoba Public Insurance (MPI) will enhance its overall expertise. Having served MPI for more than 34 years (including as a member of the Executive), Mr. Keith understands the business and unique position of MPI. Additionally, Mr. Mitchell previously served as the President and CEO of Portage Mutual Insurance, where he was instrumental in updating their successful legacy IT project. Mr. Mitchell also brings to the BoD extensive experience in various departments and insurance industry fields including computer programming and corporate business strategies.

While the mission and mandate of MPI have not changed with these BoD changes, and while the three key objectives identified by Mr. Keith are not new, since his appointment, the focus of the BoD has narrowed, with greater priority and urgency placed on the fulfillment of the key objectives. The BoD also set the expectation that activities falling outside of (and competing for the same resources as) these key objectives, must be eliminated (preferred) or reduced, where possible.

Examples of actions taken by the BoD since May 2023 exemplifying its current direction include:

- dismissal of Eric Herbelin as President and Chief Executive Officer (CEO);
- requiring all MPI Officers to reside in Manitoba;
- holding meetings between the Chair, Executive and Senior Leadership Team (SLT) to reinforce the priorities and related BoD expectations;
- implementing tighter controls over Executive travel and related expenditures, including the requirement that CEO travel be approved by the BoD Chair;
- discontinuing IT projects unrelated to Project NOVA or deemed not critical (the result of which is projected to save $11.6 million in the current fiscal year);
- approving a reduction in operating expenditures in the current fiscal year to ensure adherence to the approved budget of $402M;
- halting development of the following proofs of concept related to MPI 2.0 and directing those recourses to the fulfillment of key objectives:
    - predictive analytics for insurance (objective of which was to lower physical damage claims severity by leveraging natural language processing);

  - artificial intelligence for claims forecasting;

- retaining MNP to provide governance and advisory services related to Project NOVA (with direct reporting relationship to the Technology Committee of the BoD);

- retaining Ernst & Young to conduct the organizational review directed by the Government of Manitoba, which review will include:

  - an examination of the organizational structure related to Project NOVA;

  - an assessment of the current scope of Project NOVA and comparison against its budget and timelines;

  - direct reporting to the BoD; and

- requiring the SLT to provide a thorough analysis of root causes related to the failure of MPI to achieve customer experience score targets in the last fiscal year, and a plan of action to address those deficiencies, with quarterly progress reporting to the BoD.

c) The statements "focus on fiscal prudence and responsible financial management" and "Delivering Project Nova, our longterm initiative to replace outdated and unsupported legacy technology platforms" need not be diametrically opposed.

Project NOVA is at its core a vitality project. MPI *must* replace its legacy technology platforms to continue to be able to provide services to Manitobans. In the 2023 GRA, MPI confirmed that it would have pursued the project even if its initial estimates had suggested that it would produce a negative net present value (NPV). Whether MPI delivers Project Nova in a fiscally prudent way cannot be resolved on the basis of whether it ultimately posts a positive NPV. Success lies in whether MPI delivered Project Nova at a cost that satisfies reasonable expectations (informed by customer experience and examining comparable experiences of other organizations).

To that end, the PUB received evidence in the 2023 GRA that the 2022 Re-Baseline budget for Project Nova (i.e., $224.1M plus a contingency of up to $65.8M) is consistent with industry experience:

> *"The McKinsey external assessment validated the reasonableness of the 2022 Re-baseline budget, given its scope and the size of MPI. McKinsey based its assessment on typical costs for insurance-only IT scope (e.g., web, CRM, core insurance) for insurers with a budget range of 15-20% of premiums (up to $2B). For NOVA, which includes DVA within its scope, that translates to a budget of $225-300M."*[1]

MPI also expects that the appointment of MNP as the Governance Vendor and the establishment of a direct reporting relationship between MNP and the BoD will ensure that it delivers Project NOVA in a fiscally prudent and responsible manner.

[1] 2023 GRA, Part 4, NOV, Project Nova Chapter, pg. 12, lines 1-5.

CAC (MPI) 2-2

Part and Chapter:	Part XIV 2022 Annual Report - AR Appendix 3	Page No.:	Pdf p 9
PUB Approved Issue No:	10. Cost of operations and cost containment measures		
Topic:	Emailing vital claim information		
Sub Topic:			

Preamble to IR:

Part XIV – 2022 Annual Report – AR Appendix 3 pdf p 9 it states:

> *"We have implemented a new system that allows us to email vital claim information to customers, rather than providing it over the phone. This provides a digital record of the information for claimants, and reduces call and wait times through our contact centre, improving both the customer and employee experience."*

Question:

a) Please describe the new claim information emailing system including the process for obtaining the correct email contact information from the claimant and MPI's practice for retaining the email contact information following conclusion of the claim.

b) Please provide, for clarification, an example of the type of information being emailed to a claimant.

c) Please provide statistics showing the impact on calls to the contact center since the implementation of the claim emailing system, if available.

Rationale for Question:

To review the new claim information emailing system and its impact on the contact center.

RESPONSE:

a) While capturing the first notice of loss, agents will obtain consent to send the customer an email containing their claim number, adjuster information, and other important information related to their physical damage claim. They advise them that their email address may also be used by their adjuster to contact them regarding their claim. If the customer provides consent, their email address will be added to the claims file in CARS and retained with the claim record. The agent then fills out a form which was built in Power Apps. They enter the claim number, adjuster contact information, MPI estimate appointment information (if applicable) and then they select the relevant scripts that would apply to that claim. Once all the required information is complete, the system sends out a templated email to the customer. Sending the information out via email saves the agent having to read lengthy pieces of information to the customer on the call. It benefits the customer by having the information in hand when needed.

b) Please refer to *Appendix 1 – Your Recent Claim Information Email*.

c) Impact statistics:

   i. In Quarter 1 of this fiscal year, we have seen an 86% improvement in calls that were able to get through to our queue versus the same period last year. Specifically, the average number of customers who heard our busy message in Q1 of 2022-23 was 11,406 whereas for Q1 of 2023-24 it was 1,619.

   ii. We have seen an improvement in our average speed of answer (wait time). In Q1 of 2022-23 our ASA was 158 seconds and for Q1 of 2023-24 it is 62 seconds which is an improvement of 61%.

iii. Our public service level is to have 70% of calls answered within 120 seconds, in Q1 of 2022-23 only 58% of calls were answered within 120 seconds. In Q1 of 2023-24 81% of our calls were answered within 120 seconds.

iv. In addition, with the introduction of the CARE app we have realized a full-time equivalent (FTE) avoidance of two (2) FTE in Q1 of 2023-24.

v. Similarly, we have observed a strong positive impact on customer experience survey. Customers have the option of providing feedback on the communication. Through this feedback, we track (1) the value of the information to ensure it is helpful and effective; (2) the understandability of the message to ensure all customers can easily process and act on the information provided; and (3) overall satisfaction with the communication.

Since launching the new system:

- 84% of customers rated the information as valuable.
- 84% of customers rated the information as easy to understand.
- 86% of customers were satisfied with the communication.

The percentages are based on the proportion of customers who provided a top-bar response on Likert scales for each component. Results are reviewed monthly to track success, determine if enhancements are needed, and capture best practices to consider in other areas of the business.

MANITOBA PUBLIC INSURANCE

Your recent claim information

Hello Test Customer,

This email contains important information such as contact information, your claim number, and details about the upcoming actions you may need to take.

Your claim information

- Claim number: **12345678**
- Assigned adjuster/adjusting team: **MPI Adjuster**
- Adjuster's phone number: **204-123-4567**
- Adjuster Email: testmpiadjuster@mpi.mb.ca

Upcoming appointments

Your adjuster appointment is on **8/31/2023 1:00 PM**

Additional information about your claim is below. It is for informational purposes only and it does not confirm coverage.

If you have questions about your claim, please contact your Adjuster directly at the phone number provided in this email.

Child Restraint Seats

- Please check for the expiry date and Transport Canada certification sticker on your child seat. If the seat's expiration date has passed, or the seat does not have a certification sticker, you will not be reimbursed.

- Replace your child seat with a comparable model at a similar price point, as Manitoba Public Insurance will not pay for upgrades. Ensure that the seat meets Canada's Motor Vehicle Safety Standards.

- You must purchase a replacement child seat within 30 days from today, the date of report, to qualify for reimbursement.

- To reduce the time you will spend when submitting the damaged seat, you can print and fill out the reimbursement application form ahead of time. Go to mpi.mb.ca and search for "car seat reimbursement," then look for the "Child Car Seat Reimbursement Form." If you cannot print it ahead of time, a service centre representative can print it for you during your visit.

- If you live in Winnipeg, once you purchase your replacement car seat, bring the receipt, the Child Car Seat Reimbursement Form, and the damaged seat to Building B at the Physical Damage Centre (1981 Plessis Road). You may also email the documents to your adjuster.

- If you live outside Winnipeg, once you purchase your replacement, bring the old seat, the receipt for the new one, and the Child Car Seat Reimbursement Form to your closest service centre.

- Be prepared to show the expiry date and certification sticker to an MPI representative at your drop off location.

- If your vehicle is not drivable and the old seat was left inside, you do not need to retrieve the old seat. We will check the expiry date, or confirm that it has a Transport Canada certification sticker.

- If your deductible applies on this claim and you have not repaired your vehicle, your deductible may be removed from your payment.

- If you have additional questions, please contact your adjuster.

Loss of Use – 1st Party

- Your policy shows "Loss of Use" which provides you coverage for substitute transportation.

- There is a 72-hour waiting period from the time you report your claim to Manitoba Public Insurance or the police for this coverage to take effect.
- Substitute transportation includes vehicles for hire, bus fares, and rental vehicles.
- It is your responsibility to take reasonable steps to keep your substitute transportation costs to a minimum.
- If you take a vehicle for hire or bus, you will need to provide receipts to recover these costs.
- The maximum amount you can claim is $42 per day plus tax (or $47.04 per day including taxes).
- This coverage ceases when your vehicle has been repaired, or when your loss of use reaches an overall maximum of $1,411.20 including tax, or when your adjusting team offers you a settlement on your vehicle, whichever is first.
- The global pandemic has caused supply chain delays for all industries, including the repair industry. To maximize the coverage available to you, we recommend you work with your repair shop to determine expected delays that might affect you and that you do your best to minimize the need for alternative transportation.
- For a period of time MPI will be extending the LOU limits for non-drivable vehicles to account for industry delays. This is subject to review and approval with a maximum of $2,822.40.

Rental Vehicle Insurance Product

- When you rent a vehicle in Manitoba, if the vehicle is damaged, you're responsible for the deductible and any extra costs incurred by the rental company (like daily rental while it's in the shop being repaired).
- To lower this deductible, you can purchase extra insurance through the rental company or Rental Vehicle Insurance from Manitoba Public Insurance through your Insurance Broker (Autopac agent) or Manitoba Public Insurance service centre.
- The Rental Vehicle Insurance policy must be in the same name as the person who rents the vehicle.
- Be aware that rental companies have their own limitations regarding age restrictions and credit card deposits.

- Costs related to gas, mileage, or extra insurance are not covered under your rental vehicle policy and cannot be reimbursed.

- Please be aware that MPI will not cover rental costs related to unreasonable delays caused by your repair shop. If you decide to rent a vehicle, advise your shop you have a rental vehicle and confirm the shop is able to repair your vehicle promptly.

Can You Recommend a Rental Agency?

- MPI cannot refer you to a particular company.

Further Questions

- Please see your Insurance Broker (Autopac agent) or Manitoba Public Insurance service centre about further details. They are your best source of information for Rental Vehicle Insurance.

Sincerely,

Manitoba Public Insurance

How easy was this email to understand? Was it helpful? We want your feedback! Please click on the link to participate in a survey to let us know your views on this email communication. Your input will help to improve future claims communications. The survey is voluntary and confidential.

CAC (MPI) 2-3

Part and Chapter:	Part XIV—2022 Annual Report - AR Appendix 3	Page No.:	Pdf p 14
PUB Approved Issue No:	11. Claims forecasting		
Topic:	Average cost per claim		
Sub Topic:			

Preamble to IR:

On pdf page 14, Part XIV – 2022 Annual Report AR Appendix 3 it shows a significant increase in the average cost per claim from 2021/22 to 2022/23 of $520 or 15.2% year over year (2021/22 of $3,415 to 2022/23 of $3,935). For the years 2018/19 through to 2021/22 the average cost per claim was relatively flat between $3,407 to $3,435).

Question:

a) Please provide a detailed analysis explaining the significant increase in the average cost per claim of $520 or 15.2% from 2021/22 to 2022/23.

b) Please provide a narrative discussion on how, if at all, the increase in the average cost per claim in a. above impacted the claims incurred forecasts for the rating years.

Rationale for Question:

To better understand the significant increase in the average cost per claim as reflected in the preamble and clarify the impact this recent increased average cost per claim has on the rating year claims forecasts, if any.

RESPONSE:

a) The Net Claims Incurred figures on page 14 of the 2022 Annual Report are given on a Corporate fiscal year basis, including all three lines of insurance, i.e., Basic, Extension, SRE. A breakdown of Net Claims Incurred by line of business is given in the figure below. The increases to vehicle repair costs and total loss settlement values due to rising ACV has affected all lines of business. There have also been financial impacts from CERP that began on April 1, 2021 (see *Part VI Claims Forecasting Chapter CF.2.3*). An increased deductible for Basic has reduced claims, but it has been partially offset by increased third party liability (TPL) limits and increased Maximum Insured Value (MIV). CERP changes have resulted in increased costs to Extension. In addition, there have been an increased amount of large losses in SRE.

Figure 1 Net Claims Incurred by Line of Business

Line No.	Line of Business	2021/22	2022/23	Difference %
1	***($000s)***			
2	**Basic**	$705,809	$801,692	13.58%
3	**Extension**	$74,808	$96,787	29.38%
4	**SRE**	$102,608	$140,818	37.24%
5	**Corporate**	$883,227	$1,039,297	17.67%

The number of claims on page 14 of the 2022 Annual Report represents the number of claims assigned to service centres and do not include SRE claims. For Basic ultimate losses by accident year see *Part VI Claims Forecasting Chapter Appendix 2*. The figure below shows ultimate claim severity for physical damage claims (Collision + Comprehensive) grew by 9.77% for accident year 2022.

Figure 2 Accident Year Ultimate Losses

Line No.		2021/22	2022/23	Difference %
2	**Ultimate Incurred Losses**			
3	**Comprehensive**	$86,233,111	$109,535,932	27.02%
4	**Collision**	$434,302,628	$435,151,341	0.20%
5	**Collision + Comprehensive**	$520,535,738	$544,687,273	4.64%
6	**Ultimate Claim Counts**			
7	**Comprehensive**	61,647	60,222	-2.31%
8	**Collision**	95,194	89,294	-6.20%
9	**Collision + Comprehensive**	156,841	149,516	-4.67%
10	**Ultimate Claim Severity**			
11	**Comprehensive**	$1,399	$1,819	30.03%
12	**Collision**	$4,562	$4,873	6.81%
13	**Collision + Comprehensive**	$3,319	$3,643	9.77%

b) The average cost per claim in the 2022 Annual Report is calculated by the following,

$$Average\ Cost\ per\ Claim = \frac{Net\ Claims\ Incurred}{Number\ of\ Claims}$$

The Net Claims Incurred line is affected by claims experience and also changes in financial assumptions such as interest rates. In order to assess impact of the increase in the average cost per claim on the claims forecasts used to derive rates, ultimate claims on an accident year basis should be used. This is indicated in *Part VII Rate Indication Chapter RI.2.1*,

> *MPI uses the ultimate claims incurred on accident year basis for the purpose of projecting the expected claims costs. Accident year claims is based on the year of loss, irrespective of the year of settlement of the claim or the rating year of the underlying policy. Since the rates thus determined are applicable through the rating year, the accident year claims need to be transformed into rating year claims.*

For accident year ultimate claims for Basic, see *Part VI Claims Forecasting Chapter Figure CF-119*. In the 2024 GRA, MPI forecasts a $0.7 million increase in ultimate claims for the 2024/25 rating year over the 2023 GRA.

In addition to *Part VI Claims Forecasting Chapter CF.10.2*, MPI has provided the following responses in regards to the underlying cost drivers of claims in recent years,

- *CAC (MPI) 1-59* – List of key data considered by MPI
- *CAC (MPI) 2-8* – Claims management control measures and their impact on the rating year
- *CAC (MPI) 2-16* – Internal Collision severity reports and industry reports
- *TC (MPI) 2-6* – Trends in ACV, parts and labour.

CAC (MPI) 2-4

Part and Chapter:	**Part XIV—2022 Annual Report - AR Appendix 3**	**Page No.:**	**Pdf p 16**
PUB Approved Issue No:	**8. Capital Management Plan**		
Topic:	**DVA Funding**		
Sub Topic:			

Preamble to IR:

RSR Appendix 3 from the 2023 GRA presented a letter from the Minister responsible for MPI to then-Board Chair directing MPI's Board of Directors to "not approve any further transfers to the DVA line of business for at least the next two years (2022/23 and 2023/24)" in order to "allow Government time to conduct the DVA review, evaluate the results and formulate a plan to properly fund the DVA program over the long term."

On pdf p 16 **Part XIV—2022 Annual Report-- AR Appendix 3** it states:

> *"DVA received an increase of $10.0 million in the funding provided by the Province of Manitoba."*

Pdf pages 71 and 72 Note 27 provide, for reference, the Line of Business financial statements.

Question:

a) Please provide a narrative description of the outcome of the "DVA Review" conducted by government referred to in RSR Appendix 3 of the 2023 GRA.

b) Please file the current (updated) DVA Funding Agreement between MPI and the Government if available, including the current total annual funding amount paid by the government.

c) Please confirm whether the "increase of $10.0 million in the funding provided by the Province of Manitoba" refers to an annual increase, a one-time provision of funds, or otherwise.

d) Please provide an analysis of the sufficiency of the current annual funding amount by the Government in meeting the total cost of operating the DVA line of business. In the event there is a shortfall, please provide a narrative discussion as to how this shortfall will be funded going forward.

Rationale for Question:

To clarify the current updated DVA funding arrangement with the Government and thus minimize the temptation of using Extension retained earnings to fund DVA funding shortfalls.

RESPONSE:

a) *DVA Review* – MPI is not privy to the work product or findings of the operational review of DVA by the Government of Manitoba, nor has the Government provided any guidance to the self-sufficiency of DVA, or when such guidance will be provided to MPI.

b) *DVA Funding Agreement* – MPI does not have an updated funding agreement. MPI has been advised by the Government of Manitoba that current funding for 2023/24 is $9.9M, these funds are retained by MPI from funds otherwise due to the Province. MPI has been advised by the Government of Manitoba to expect that 2023/24 will be the last year for enhanced DVA funding.

c) See part b) above. The $10M is a one-time amount. Each year is assessed independently 2023/24 is as stated on an ad hoc basis and is not expected to continue beyond 2023/24.

d) Please find attached as *Appendix 1*, a copy of the Master Agreement with the province for the funding of DVA operation. Please note that the Government of Manitoba subsequently adjusted the funding envelope identified in the initial agreement to its current value of $2.52 million monthly or approximately $30.3 million annually. In addition to this, DVA earns investment and service fee income throughout the year.

Please refer to *PUB (MPI) 2-22* for the breakdown of DVA expenses (Normal Operations and Improvement Initiatives).

The DVA line of business has retained earnings of approximately $74 million as at 2022/23. The IFRS 4 and IFRS 17 view is not materially different for DVA opening retained earnings. This will be used to cover deficits incurred in the normal course through to 2024/25. Also, see response to *CAC (MPI) 2-7*.

Master Agreement as of the 1st day of October, 2004.

BETWEEN:

HER MAJESTY THE QUEEN IN RIGHT OF THE GOVERNMENT OF MANITOBA,

As represented by the Minister of Transportation and Government Services

- and –

THE MANITOBA PUBLIC INSURANCE CORPORATION

Master Agreement as of the 1st day of October, 2004.

BETWEEN:

HER MAJESTY THE QUEEN IN RIGHT OF THE GOVERNMENT OF MANITOBA, As represented by the Minister of Transportation and Government Services

(called the "Government")

- and –

THE MANITOBA PUBLIC INSURANCE CORPORATION

(called "MPI")

WHEREAS the Government announced that certain authorities, powers and duties were to be transferred from the Division of Driver and Vehicle Licensing ("DDVL") of the Department of Transportation and Government Services to MPI;

AND WHEREAS the parties entered into an Agreement dated April 20, 2004, respecting the interim transfer and delegation of authorities, powers and duties and other matters of common interest until appropriate legislation could be enacted by the Legislature to legally effect the transfer (the "Interim Agreement"). The Interim Agreement requires that the parties use their best efforts to negotiate agreements that address various issues related to the transfer. A copy of the Interim Agreement is attached as Schedule A;

AND WHEREAS the parties and the Manitoba Government Employees Union ("MGEU") entered into an Employee Transition Agreement dated June 29, 2004 respecting the transfer of employees from DDVL to MPI. A copy of the Employee Transition Agreement is attached as Schedule B;

AND WHEREAS the Government has announced its intention to introduce legislation that, when enacted and in force, will among other things, enable the transfer from DDVL to MPI (the "Enabling Legislation");

AND WHEREAS until the Enabling Legislation is in force, the Registrar of Motor Vehicles has, with the approval of the Minister of Transportation and Government Services (the "Minister"), delegated those statutory authorities, duties and powers which can by law be delegated to officers and staff of MPI in a series of delegation letters dated April 20, 2004, June 11, 2004 and October 20, 2004 (the "Registrar's Delegations");

AND WHEREAS the parties are entering into this Master Agreement effective October 1, 2004, to address other outstanding issues relating to the interim transfer and delegation of authorities, powers and duties and to govern their ongoing relationship once the Enabling Legislation is in force and the transfer is legally effected;

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

1.00 TERM OF AGREEMENT

1.01 This Agreement comes into effect on the day first above written.

2.00 SERVICES

2.01 Pending enactment and coming into force of the Enabling Legislation and in consideration of the annual payments referred to in section 4.00, MPI assumes responsibility, to the extent permitted by law, for the driver licensing and vehicle registration services described in subsections 2.03 and 2.06(a) (the "Services") pursuant to the Registrar's Delegations and the Information Management Agreement referred to in subsection 10.02.

2.02 When the Enabling Legislation is in force and the transfer is legally effected, and in consideration of the annual payments referred to in section 4.00, MPI assumes responsibility for the Services.

2.03 In assuming responsibility for the Services, MPI acknowledges importance of the National Safety Code which describes uniform standards, processes and criteria for a broad array of traffic safety matters, including vehicle inspections, motor carriers, driver licensing and testing, medical standards and carrier and driver profiles. The Services are:

(a) Driver Licensing;
(b) Vehicle Registration;
(c) Driver Improvement and Control;
(d) Alcohol and Drug Program;
(e) Vehicle Dealers, Salespersons and Recyclers;
(f) Driver Training Schools and Instructors;
(g) Vehicle Standards and Inspection Programs;
(h) Provincial Photo Identification Card Program (upon proclamation);
(i) Medical Records;
(j) Driver Testing;
(k) Driver Records and Suspension;

(l) Research and Information Services;
(m) Maintaining registries; and
(n) Record keeping, reporting and information management relating to the Services described in clauses (a) to (n), including:
  (i) providing information, records and reports to the Government's Department of Transportation and Government Services (the "Department") as required, including without limitation:
    (A) Carrier file downloads;
    (B) Vehicle files downloads;
    (C) View access to driver and vehicle display and Autopac On-Line;
    (D) Commercial motor vehicle accident downloads to the carrier profile system;
    (E) Driver licence file downloads;
    (F) International Registration Plan file downloads of registrations;
    (G) Access to the Inter-Provincial Record Exchange dedicated line for Canadian Council of Motor Transport Administrators Carrier Data Exchange;
    (H) Access to the Interprovincial Record Exchange;
    (I) Periodic Mandatory Vehicle Inspection data relating to motor coaches and school buses;
    (J) Traffic Accident Reports and data files (respecting traffic accidents reportable under legislation such as *The Highway Traffic Act* and *The Off-Road Vehicles Act);* and
    (K) Compilation of specialized reports on reportable traffic accidents and related convictions under *The Highway Traffic Act, The Off-Road Vehicles Act* and the *Criminal Code,* for use by the Government for development and planning new initiatives, policies and programs; and
  (ii) complying on behalf of the Government with existing information sharing or disclosure agreements or arrangements and any such agreements or arrangements entered into by the Government while this Master Agreement is in effect.

2.04 Except for the Services described in subsections 2.03 and 2.06(a), the Government retains responsibility for all other driver licensing and vehicle registration matters including, without limitation:

(a) driver licensing standards and policy development, including establishment of driver medical standards and guidelines, driver examination and testing criteria;
(b) vehicle registration standards and policy development, including establishment of vehicle classes;
(c) standards for vehicles and inspections and policy development, including equipment requirements and safety standards, vehicle weights and dimensions on highways;
(d) establishment and waiver of any charges, taxes or other amounts for driver licensing and vehicle registration services;
(e) rules respecting control of traffic, including seatbelt and child restraint requirements and physically disabled persons parking permits; establishing standards of conduct for all users of Manitoba's highways, including drivers, pedestrians, cyclists and operators of horse-drawn vehicles;
(f) social policy initiatives to enhance sustainable transportation, including measures to implement Manitoba's climate change objectives related to reducing the on-road emissions from vehicles;
(g) social policy countermeasure initiatives, including impaired and disqualified driving, prostitution-related offences, domestic and family related offences, stalking legislation, etc.;
(h) statutory bodies, including the Licence Suspension Appeal Board, the Medical Review Committee, the Taxicab Board, the Highway Traffic Board and the Motor Transport Board; and
(i) motor carrier fitness, including regulation of public service, commercial and other vehicles.

The Government agrees to consult with MPI regarding changes to the retained responsibilities identified in this subsection which affect the delivery of Services described in subsection 2.03.

2.05 The parties may make recommendations to the Minister, either alone or jointly, concerning

(a) policy development regarding driver licensing and vehicle registration matters not specified in subsection 2.04; and
(b) legislative and regulatory amendments respecting driver licensing and vehicle registration.

2.06 MPI agrees that it will:

(a) assume responsibility for the delivery of any new initiatives related to the Services or to driver licensing and vehicle registration matters generally as directed by the Government. Any such initiatives will be Services for the purposes of this Master Agreement;

(b) not discontinue or substantially change any Services without the prior written consent of the Government; and

(c) implement changes to the Services required by the Government in a timely manner.

2.07 The Government agrees to negotiate with MPI any increase or decrease in costs that may result from any implementation of a new initiative or discontinuance of any Service hereto relating. Without limiting the generality of the foregoing, the parties will take into account the cost of operational and procedural changes necessitated by the implementation of new initiatives or the discontinuance of any Service or Services.

2.08 The Government agrees that all requests for the implementation of new Services, standards and other requirements shall be in accordance with MPI's established business practices and change protocols.

2.09 Subject to subsection 2.06, MPI will have full discretion over the manner in which the Services are managed on a day to day basis and will continue to identify opportunities for service improvement.

2.10 The parties acknowledge that the transfer of authorities, powers and duties from DDVL to MPI is intended to improve customer service, achieve cost efficiencies and amalgamate similar functions performed by the parties. The parties therefore agree that:

(a) they will review the operation of this Agreement at least once in each fiscal year, commencing as of April 1, 2006; and

(b) MPI shall provide the Department with such financial and operational reports respecting the Services as may be requested.

3.00 EMPLOYEE ISSUES

Pension Benefit Liabilities:

3.01 MPI shall be solely responsible for funding the employer's portion of the pension benefit liability for all DDVL personnel transferred to the employ of MPI in respect of service accrued on or after the following dates:

(a) for non-union employees, May 3, 2004;

(b) for union employees, October 4, 2004; and

(c) for all subsequent transfers, the effective date of the transfer.

3.02 The Government agrees that it shall continue to be responsible for the employer's share of pension benefits earned of the transferred employees in respect of service accrued prior to the dates set out in subsection 3.01.

Accrued Liabilities:

3.03 On or before June 30, 2005, the Government will pay MPI all accrued vacation, overtime, workers compensation and severance and retirement allowance benefits for the transferred employees, calculated as of the dates set out in subsection 3.01.

Sick Leave Benefits:

3.04 Effective as of the dates set out in subsection 3.01, MPI shall assume responsibility for earned sick leave benefits accumulated by the transferred employees. The Government agrees to provide MPI with all records of these sick leave benefits to the extent permitted by law.

4.00 FINANCIAL ISSUES

4.01 Subject to the following subsections, and in consideration of the Services performed by MPI pursuant to this Agreement and the Enabling Legislation, the Government shall pay to MPI, on an annual basis, the amount of twenty million and nine hundred and ninety-five thousand and two hundred dollars ($20,995,200.00).

4.02 The annual amount payable under subsection 4.01 shall be paid to MPI in equal monthly installments commencing on April 15, 2005 and continuing in perpetuity, subject to any adjustments referred to in this Section.

4.03 For the period from April 1, 2004 to March 31, 2005, the annual amount referred to in subsection 4.01 will be allocated between the Government and MPI. The Government has paid the costs of providing the Services for the period up to and including September 30, 2004. The balance of the annual amount will be paid to MPI in equal monthly installments commencing October 15, 2004 and ending March 15, 2005. The parties will complete reconciliation as at fiscal year end. The total payment by Government, on its own account and to MPI for the Services, will not exceed the annual amount set out in subsection 4.01.

4.04 The Government agrees that any operating efficiency created by MPI will be to the sole and exclusive benefit of MPI.

4.05 The Government is entitled to all charges, taxes and revenue respecting driver licensing, vehicle registration and related services under *The Highway Traffic*

Act, The Off-Road Vehicles Act, the Enabling Legislation and any other applicable legislation.

4.06 MPI shall collect:

(a) all charges, taxes and revenue referred to in subsection 4.05; and
(b) all charges, taxes and other amounts payable under the International Registration Plan

and remit all such amounts, except for Retail Sales Tax amounts on a daily basis net of refunds and overpayments. Retail Sales Tax amounts shall be remitted monthly in accordance with the retail sales tax project agreement described in Subsection 9.01 of this Agreement. By way of clarification the International Registration Plan is a plan that provides for the distribution of commercial vehicle registration charges among member jurisdictions based on distances traveled by a registrant within those jurisdictions. The Province of Manitoba is a member of the plan. The parties agree that any charges, taxes and other amounts collected by MPI in accordance with clause (b) that are payable to other jurisdictions under the International Registration Plan will be remitted directly to those jurisdictions by MPI.

4.07 MPI agrees to pay for all unamortized leasehold improvements booked for the DDVL location at 602 1st Street in Brandon, Manitoba as of October 1, 2004.

5.00 CONTRACTS

5.01 To the extent permitted by law, MPI has assumed all leases, memoranda of understanding and agreements between the Government and third parties with respect to the Services effective October 1, 2004.

5.02 The Government as Landlord and MPI as tenant entered into lease agreements effective October 1, 2004, respecting space used by DDVL and located in Provincial buildings in Portage la Prairie, Dauphin, The Pas and Thompson.

6.00 1075 PORTAGE AVENUE

6.01 MPI has purchased the building and land known as 1075 Portage Avenue in Winnipeg from the Government for one million, seven hundred thousand dollars ($1,700,000.00) effective October 1, 2004.

7.00 FURNITURE AND EQUIPMENT

7.01 The Government will transfer all DDVL furniture and equipment to MPI at no cost, effective October 1, 2004. MPI will be liable for and pay all applicable federal and provincial sales taxes, federal goods and services taxes and all other taxes, duties and other like charges properly payable in connection with the transfer.

8.00 SOFTWARE, COMPUTERS AND COMPUTER EQUIPMENT

8.01 The Government will transfer all DDVL computers and computer equipment and owned software required by MPI for the Services at a cost of seven hundred and five thousand, seven hundred and thirty six dollars and fifty three cents ($705,736.53).

8.02 Any DDVL licensed software required for the Services will be assigned to MPI if permitted by the license or agreed to by the licensor.

8.03 MPI will also be liable for and pay all applicable federal and provincial sales taxes, federal goods and services taxes and all other taxes, duties and other like charges properly payable in connection with the transfer.

9.00 RETAIL SALES TAX PROJECT

9.01 MPI, on behalf of Manitoba Finance - Taxation Division, as part of the Retail Sales Tax Project is making changes to its Autopac On-Line (AOL) system to process retail sales tax transactions. The Government agrees to pay to MPI a service fee of two hundred and two thousand, two hundred and eighteen dollars ($202,218.00) per year on an annual basis for five (5) years commencing on June 1, 2005 and ending with the final payment on June 1, 2009. A copy of the agreement respecting this project is attached to this Agreement as Schedule C. Notwithstanding Section 4.06 hereof, remittances in respect of Retail Sales Tax shall be made in accordance with Schedule C hereof.

10.00 PRIVACY AND INFORMATION MANAGEMENT AGREEMENT

10.01 While this Agreement is in effect, and at all times thereafter, the Government and MPI acknowledge the application of privacy legislation, in particular, *The Freedom* of *Information and Protection of Privacy Act* ("FIPPA") and *The Personal Health Information Act* ("PHIA").

10.02 The Government and MPI will enter into an Information Management Agreement respecting information and records relating to the Services (including the driver and vehicle information registries, medical reports and information MPI will manage on behalf of the Government until the Enabling Legislation is in place). The Information Management Agreement will include provisions protecting the privacy of the individuals the information and records are about. Once it is signed by the Government and MPI, a copy of the Information Management Agreement will be attached as Schedule D.

11.00 DISPUTE RESOLUTION

11.01 The parties shall use their best efforts to resolve any disputes that may arise as to their respective rights and obligations under this Agreement.

11.02 If a dispute arises, the matter shall be referred in the first instance to the General Counsel and Corporate Secretary in the case of MPI and the Assistant Deputy Minister of the Department of Transportation and Government Services in the case of the Government.

11.03 If the representatives referred to in subsection 11.02 are unable to resolve the dispute, within five (5) working days of either party notifying the other that the dispute cannot be resolved, each representative shall prepare and deliver a written report to the Chief Executive Officer in the case of MPI and to the Deputy Minister of the Department of Transportation and Government Services, who shall work together to resolve the dispute.

11.04 If the representatives referred to in subsection 11.03 are unable to resolve the dispute, within five (5) working days of either party notifying the other that the dispute cannot be resolved, each representative shall prepare and deliver a written report to the Minister of Transportation and Government Services and the Minister responsible for *The Manitoba Public Insurance Act* for resolution. The decision of the Ministers shall be final and binding on the parties.

12.00 SURVIVAL OF TERMS

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

13.00 NO ASSIGNMENT OF AGREEMENT

13.01 Neither party shall assign or transfer this Agreement or any of the rights or obligations under this Agreement.

14.00 TIME OF ESSENCE

14.01 Time shall be of the essence of this Agreement.

15.00 AMENDMENTS

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

16.00 SEVERABILITY

16.01 If any provision of this Agreement is for any reason invalid, that provision shall be considered separate and severable from this Agreement, and the other provisions of this Agreement shall remain in force and continue to be binding upon the parties as though the invalid provision had never been included in the Agreement.

17.00 APPLICABLE LAW

17.01 This Agreement shall be interpreted, performed and enforced in accordance with the laws of Manitoba.

17.02 In the event of any inconsistency between this Agreement and the Enabling Legislation, the Enabling Legislation shall prevail.

18.00 WAIVER

18.01 Any failure or delay by either party to exercise or partially exercise any right, power or privilege hereunder shall not be deemed a waiver of any of the rights, powers or privileges under this Agreement. The waiver by either party of a breach of any term, condition or provision of this Agreement shall not operate as, or be construed as, a waiver of any subsequent breach thereof.

19.00 AGREEMENT TO PERFORM NECESSARY ACTS

19.01 The parties agree to perform any further acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement.

20.00 HEADINGS

20.01 Paragraph headings used herein are for convenience only, and shall not be deemed to be part of this Agreement.

21.00 INTERPRETATION

21.01 In this Agreement, unless the context clearly otherwise requires:

(a) person includes individuals, firms or corporations; and

(b) the singular includes the plural and vice versa.

22.00 NOTICES

22.01 Any notice or other communication to the Government under this Agreement shall be in writing and shall be delivered, sent by registered mail, postage prepaid or sent by facsimile to:

Paul Rochon
Assistant Deputy Minister, Department of Transportation and Government Services 17th Floor, 215 Garry Street
Winnipeg, Manitoba R3C 3Z1
Fax no: 204-945-5115

22.02 Any notice or other communication to Manitoba Public Insurance under this Agreement shall be in writing and shall be delivered, sent by registered mail, postage prepaid or sent by facsimile to:

Kevin M. McCulloch
General Counsel and Corporate Secretary
Box 6300
9th Floor-234 Donald Street
Winnipeg, Manitoba R3C 4A4

Fax no: 942-1133

22.03 Any notice or communication sent by registered mail shall be deemed to have been received on the third business day following the date of mailing. If mail service is disrupted by labour controversy, notice shall be delivered personally.

Any notice or communication sent by facsimile shall be deemed to have been received on the first business day following the date of transmission.

This Agreement has been executed on behalf of The Manitoba Public Insurance Corporation and the Government (by their duly authorized representatives) on the date first above written.

MANITOBA PUBLIC INSURANCE CORPORATION	HER MAJESTY THE QUEEN IN RIGHT OF THE GOVERNMENT OF MANITOBA as represented by The Minister of Transportation and Government Services
Per: ______________	Per: ______________
Marilyn McLaren President and CEO	Honourable Ron Lemieux Minister of Transportation and Government Services
Per: ______________	
for Clarke Campbell Vice-President, responsible for Driver and Vehicle Licensing	

SCHEDULE "A"

INTERIM AGREEMENT

Schedule A to the Agreement between Her Majesty the Queen in Right of the Government of Manitoba, as represented by the Minister of Transportation and Government Services and the Manitoba Public Insurance Corporation, made as of the day of October, 2004

DRAFT

THIS AGREEMENT made the 20TH day of April, 2004

BETWEEN

HER MAJESTY THE QUEEN
IN RIGHT OF THE GOVERNMENT OF MANITOBA,
as represented by the Minister of
Transportation and Government Services

(called the "Government");

- and -

THE MANITOBA PUBLIC INSURANCE CORPORATION,

(called "Manitoba Public Insurance").

WHEREAS the Government has announced that certain authorities, powers and duties are ~~to~~ be transferred from the Division of Driver and Vehicle Licencing ("DD~~VL~~") to Manitoba Public Insurance;

AND WHEREAS the transfer is intended to take place in two phases; an Intermediate Phase to be followed by a Permanent Phase;

AND WHEREAS the Intermediate Phase is based on a general delegation of authority by the Registrar to an Official at Manitoba Public Insurance pursuant to Section 323(4) of the Highway Traffic Act, C.C.S.M. c H70 ("The Registrar's Delegation");

AND WHEREAS the Intermediate Phase is generally intended by the parties to be in effect until appropriate statutory amendments can be made by the Legislature to make the transfer permanent;

AND WHEREAS this Agreement is intended to govern matters of common interest to the Government and Manitoba Public Insurance during the Intermediate Phase;

NOW THEREFORE, in return for mutual good and valuable consideration passing between the parties, it is hereby agreed as follows:

1.00 TERM OF AGREEMENT

1.01 This Agreement comes into force as of the date when the Registrar's Delegation takes effect and shall continue in effect until terminated in accordance with clause 1.02.

1.02 This Agreement shall be terminated on the occurrence of any one of the following:

(a) The legislative amendments have been enacted and have come into force to make the transfer of the authorities, powers and duties from the Division of Driver and Vehicle Licencing to Manitoba Public Insurance permanent; or

(b) The Registrar's Delegation, with the written approval of the Minister, is revoked, rescinded or otherwise terminated; or

(c) By agreement of the parties.

1.03 Notwithstanding clause 1.02, the parties may extend this Agreement beyond an event described in sub clause 1.02(a) or 1.02(b).

2.00 TRANSFER OF RESPONSIBILITIES

2.01 Once the Registrar's delegation takes effect, Manitoba Public Insurance will ensure that the person identified by the Registrar as the delegate will exercise the full range of authorities, powers and duties that fall within the scope of the delegation.

2.02 Despite clause 2.01, it is recognized that some authorities, powers and duties will initially continue to be formally exercised by the Registrar during the Intermediate Phase. Nevertheless, Manitoba Public Insurance will immediately assume management and supervision of day-to-day administration of all matters that fall within the scope of the Registrar's Delegation.

2.03 As of the Effective Date, Manitoba Public Insurance shall, to the extent allowable by law, be responsible for management of the business and administrative operations of the Division of Driver and Vehicle Licencing.

3.00 TRANSFER OF NON-UNION EMPLOYEES

3.01 As of the Effective Date, Manitoba Public Insurance shall assume responsibility for all non-union positions within DDVL. To that end, Manitoba Public Insurance will make formal offers of employment to the non-union DDVL staff. Manitoba Public Insurance will make formal offers of employment to each of the incumbents in those positions with the exception of the position of Registrar of Motor Vehicles to permit those employees to retain their respective positions.

3.02 Transfer of unionized staff positions from DDVL to Manitoba Public Insurance will occur in accordance with provisions set out in the applicable collective agreement.

4.00 REPORTING RELATIONSHIPS

4.01 As of the Effective Date, non-unionized staff positions transferred in accordance with clause 3.01 of this Agreement will report to Manitoba Public Insurance management in accordance with Manitoba Public Insurance structure and direction.

4.02 The parties do not expect the Registrar to abdicate her (or his) responsibilities as the delegator of the Registrar's legislated authorities, powers and duties for the duration of the Intermediate Phase.

5.00 COLLATERAL MATTERS

5.01 The parties agree that they will use their best efforts to negotiate an agreement that addresses issues relating to the transfer of unionized employees, the sharing of employee benefit costs (including accrued vacation benefits, severance entitlement and pension liabilities), remuneration to be paid to Manitoba Public Insurance, the transfer of land and assets from DDVL to Manitoba Public Insurance, and such other matters as the parties may deem necessary or advisable. To that end the parties agree to enter into a Memorandum of Understanding addressing these issues.

6.00 DISCLOSURE OF INFORMATION

6.01 The parties acknowledge that are each bound by *The Freedom of Information and Protection of Privacy Act* ("FIPPA"), and *The*

Personal Health Information Act ("PHIA") and agree that any transfer of personal information shall be conducted in accordance with FIPPA and PHIA.

7.00 SURVIVAL OF TERMS

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

8.00 NO ASSIGNMENT OF AGREEMENT

8.01 Neither party shall assign or transfer this Agreement or any of the rights or obligations under this Agreement without first obtaining written permission from the other.

8.02 No assignment or transfer of this Agreement shall relieve either party of any obligations under this Agreement, except to the extent they are properly performed by such party's permitted assigns.

8.03 This Agreement shall be binding upon the executors, administrators, heirs, successors and any permitted assigns of the parties.

9.00 ENTIRE AGREEMENT

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

10.00 AMENDMENTS

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

11.00 SEVERABILITY

11.01 If any provision of this Agreement is for any reason invalid, that provision shall be considered separate and severable from this Agreement, and the other provisions of this Agreement shall remain in force and continue to be binding upon the parties as though the invalid provision had never been included in the Agreement.

12.00 APPLICABLE LAW

12.01 This Agreement shall be interpreted, performed and enforced in accordance with the laws of Manitoba.

13.00 FORCE MAJEURE

13.01 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. These events shall include, but not be limited to fire, flood, earthquake, accident, civil disturbances, acts of terrorism, war, rationing, embargoes, strikes or lockouts, delays in transportation, inability to secure necessary materials, parts or components, delay or failure of performance of any supplier, acts of God, or acts of government.

14.00 WAIVER

14.01 Any failure or delay by either party to exercise or partially exercise any right, power or privilege hereunder shall not be deemed a waiver of any of the rights, powers or privileges under this Agreement. The waiver by either party of a breach of any term, condition or provision of the Agreement shall not operate as, or be construed as, a waiver of any subsequent breach thereof.

15.00 AGREEMENT TO PERFORM NECESSARY ACTS

15.01 The Parties agree to perform any further acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of the Agreement.

16.00 HEADINGS

16.01 Paragraph headings used herein are for convenience only, and shall not be deemed to be part of the Agreement.

17.00 INTERPRETATION

17.01 In this Agreement, unless the context clearly otherwise requires:

(a) person includes individuals, firms or corporations;

(b) the singular includes the plural and vice versa;

(c) the male gender includes the female gender and vice versa, and each includes the neuter gender and the neuter gender includes both the male and female genders.

This Agreement has been executed on behalf of Manitoba Public Insurance and by the Government (by its duly authorized representatives) effective the date first above written.

HER MAJESTY THE QUEEN IN RIGHT OF THE GOVERNMENT OF MANITOBA as represented by the Minister of Transportation and Government Services

Per: R Lemieux
Hon. Ron Lemieux
Minister of Transportation and Government Services

MANITOBA PUBLIC INSURANCE CORPORATION

Per: Jack W. Zacharias
Jack W. Zacharias
President and Chief Executive Officer

Per: ____________________
Clarke Campbell
Vice President of Corporate Information Technology

SCHEDULE "B"

EMPLOYEE TRANISTION AGREEMENT

Schedule B to the Agreement between Her Majesty the Queen in Right of the Government of Manitoba, as represented by the Minister of Transportation and Government Services and the Manitoba Public Insurance Corporation, made as of the day of October, 2004.

DRAFT

Employee Transition Agreement
DDVL Employees to MPI
June 29, 2004

Attachment A
Agenda C
September 22, 2004

APPLICATION

1:01 The Employee Transition Agreement (ETA) applies to full-time and part-time employees of the Division of Driver Vehicle Licensing (DDVL), Manitoba Transportation and Government Services who are appointed to positions with Manitoba Public Insurance (MPI) the date of implementation.

1:02 The date of implementation will be the first day of the MPI pay period on or after October 1, 2004.

1:03 The employees covered by this ETA are listed in the attached Appendix "1". The ETA applies to those employees of DDVL who are on leave or secondment on the date of implementation and who subsequently return to work with MPI. The ETA will not apply to employees of DDVL who have retired, resigned or whose employment has been terminated prior to the date of implementation and who have not been reinstated as a result of the grievance/arbitration procedure.

1:04 The provisions respecting part-time permanent employees will be based on the applicable provisions contained in Memorandum of Agreement #1 of the MPI Collective Agreement 2002-2005.

1:05 Temporary (term) employees of DDVL, listed in the attached Appendix "2", may be offered in writing further work by MPI. With the exception of provisions 1:02 1:06, 1:07, 1:08, 4:01 to 4:09 inclusive, 4:10 (a), 4:10 (c) and 4:10 (d), 4:11, 4:12, 7:01, 13:01, 14:01, 14:02, 15:01, 15:02, 15:03, 15:04, 16:01, 16:02 provisions of this ETA do not apply to employees who are on term with DDVL on the date of implementation.

1:06 Temporary (term) employees of DDVL who are appointed as term employees with the MPI and who commence employment with no break in their service will be eligible for the following:

a) Vacation accumulation based on their accumulated service with DDVL; and
b) Employees' sick leave balances with DDVL will be recognized by MPI effective the date of implementation.
c) Recognition of accumulated service with DDVL for the purposes of determining their service date with MPI.

1:07 For the purposes of conversion from term to permanent employee under Article 1:01:14 of the MPI agreement, employees will begin to accumulate service beginning on the date of implementation.

1:08 Accumulated service with DDVL will be applied towards the four months of continuous service in order to satisfy the terms of the MPI Collective Bargaining Agreement.

4:05 The Job Evaluation Committee shall have the authority to establish new classifications within existing pay ranges to accommodate DDVL classifications not currently in existence within MPI. In the event the Committee establishes a point rating for a classification that is beyond the maximum of the Inscope Pay Plan, the Committee shall refer this matter to MPI and the Union for discussion and resolution.

4:06 The Job Evaluation Committee shall determine the conclusion of the job evaluation review process. Immediately at the conclusion of the job evaluation process all employees will be notified in writing of the results of the job evaluation review for their respective positions.

4:07 Employees who disagree with the results of the job evaluation and the pay range assigned to their position will have the right to appeal the results and have the initial result reviewed by the Job Evaluation Committee as set out in 4.04 of this ETA. Employees shall have 10 working days from the date of receipt of written notification to appeal the decision to the Job Evaluation Committee. The results of this review shall be final and binding.

4:08 Effective the Slotting Date, all DDVL positions will be classified into the MPI classifications and pay plan. The Slotting Date shall be the first Monday following the date of the notification letters to employees regarding their position classifications.

4:09 If the Slotting Date is later than March 18, 2005, the GEMA negotiated general pay increase (Memorandum of Agreement #14) will be applied to the salary ranges of all transitioned DDVL employees.

4:10 On the Slotting Date, all DDVL employees will be slotted into the appropriate MPI classification and pay range. Employees will be slotted and paid at their same rate of pay in effect with DDVL as at the Slotting Date with the following exceptions:

(a) if the salary is under range, the salary will be increased to the first step in that range;

(b) if the salary is over range, the salary will receive over-range protection for a period of up to twenty-four (24) months in accordance with MPI practice. If the salary is still over range after twenty-four (24) months, the salary will be placed at the top of that range;

(c) if the salary is within $10.00 biweekly of the next highest pay point in the MPI pay range, the salary will be slotted to the next highest pay point;

(d) if a term employee's salary is over range, the salary will be placed at the maximum of the slotted range.

4:11 Employees will be provided with a calendar month anniversary date that is based on their current anniversary date as determined by DDVL.

4:12 Employees who are not slotted at the maximum pay rate for their MPI classification will be eligible for an increment on their increment date in accordance with the MPI collective agreement.

SICK LEAVE

5:01 An employee's sick leave balance with DDVL will be transferred to MPI on the date of implementation

5:02 On the date of implementation all employees will begin to accumulate sick leave credits in accordance with the MPI collective agreement.

8:03 If an employee on long term disability subsequently becomes an employee of MPI the existing practices of MPI with respect to their terms and conditions of employment will apply.

8:04 Employees of MPI who are away from work on long term disability do not accumulate vacation or sick leave credits.

OTHER BENEFIT PLANS

9:01 MPI will waive the six month waiting period and coverage will commence on the date of implementation for the following (employer paid) benefit plan where the employees have completed six months service with DDVL:

Dental Care

9:02 Employees of DDVL with less than 6 months service with DDVL will be required to serve the remaining portion of the six month waiting period prior to being covered for the above noted benefit plan.

9:03 MPI will provide coverage on the date of implementation for the following employer paid benefits:

Vision Care
Prescription Drug Plan
Ambulance, Hospital and Semi-Private
Extended Health Coverage
Emergency Travel Health
Health Spending Account

9:04 On the implementation date, MPI will offer the following optional employee paid benefits:

Optional Life Insurance
Optional Travel Health

9:05 The following compulsory (employee paid) benefit plans have no waiting periods and coverage will commence on the date of implementation :

Group Life Insurance
Accidental Death and Disablement.

PROBATION

10:01 Employees who have completed a probation period with DDVL will not be required to serve one as an MPI employee.

10:02 Employees who are on probation at the time of transfer will continue to be on probation up to the completion of the initial period of 120 working days. The probationary period may be extended by MPI for a further period of 60 working days. During the probationary period, an employee shall be entitled to all applicable rights and benefits of the MPI Agreement.

accordance with the provisions of the MPI collective agreement at the date of their retirement or death.

For example:

Employee A – (Age 56 at retirement)

DDVL Service - 14 years	Severance under GEMA	14 weeks
MPI Service – 5 years	Retirement Allowance	5 weeks
	Total	19 weeks

Employee B – (Age 60 at retirement)

DDVL Service – 29 years	Severance under GEMA	19 weeks
MPI Service – 5 years	Retirement Allowance	5 weeks
	Total	24 weeks

Employee C – (Age 60 at retirement)

DDVL Service – 8 years	Severance under GEMA	0 weeks
MPI Service – 4 years	Retirement Allowance	12 weeks
	Total	12 weeks

HOURS OF WORK

16:01 Effective the date of implementation DDVL employees who transfer to MPI will work hours as outlined in the MPI collective agreement. The days of work shall be Monday to Friday inclusive.

16:02 Notwithstanding the provisions of 16.01, the parties agree that where it is necessary to provide service to the public on Saturdays, sufficient staff may be maintained at one (1) work location for the purpose of providing such service.

On Behalf of the MGEU
Bill Comstock
Director of Negotiations

On Behalf of MPI
C.G. Rogers
Vice President, Human Resources

On Behalf of the Province of Manitoba
R.W. Stevenson
Director, Labour Relations

June 29 2004
Date

SCHEDULE "C"

RETAIL SALES TAX PROJECT AGREEMENT

Manitoba Public Insurance

Manitoba

AGREEMENT BETWEEN
MANITOBA FINANCE – TAXATION DIVISION
AND MANITOBA PUBLIC INSURANCE RE:

COSTS INCURRED FOR IMPLEMENTATION
AND ON-GOING MAINTENANCE OF RST
BUSINESS CASE ONE – CO-MINGLING OF RST
AND MPI FUNDS

June 9, 2004

RESPONSIBILITY

Manitoba Finance – Taxation Division (Taxation) will be responsible for:

- all normal duties and responsibilities of Taxation staff associated with processing and balancing the monthly remittances, reports and supporting documentation upon receipt from Manitoba Public Insurance.
- costs of operational or procedural changes to the Autopac On-Line (AOL) system that are requested by Taxation for their sole benefit, unless through prior negotiation agreement is reached between Taxation and MPI as to a method of sharing the costs of the individual items.

Manitoba Public Insurance (MPI) will be responsible for:

- payment of all normal administrative costs associated with the operation of the AOL system.
- all normal operating costs associated with the financing program for RST receivables.
- cost of all operational or procedural changes to AOL related to the vehicle insurance / registration system.
- cost of all changes to AOL performed to correct errors within the application, including errors within the Retail Sales Tax modules.
- cost of all computer forms, normal printing and stationery requirements, and postage associated with the Retail Sales Tax modules within AOL.

PROJECT REPAYMENT

As detailed in RST Business Case One – Co-mingling RST and MPI Funds, the cost to Manitoba Finance – Taxation Division for the work required will be $1,011,090.00. This amount will be financed by MPI, and will be re-paid according to the following schedule:

DATE	PAYMENT	BALANCE
Initial Project Cost		$1,011,090.00
June 1 2005 Payment	$ 202,218.00	$ 808,872.00
June 1 2006 Payment	$ 202,218.00	$ 606,654.00
June 1 2007 Payment	$ 202,218.00	$ 404,436.00
June 1 2008 Payment	$ 202,218.00	$ 202,218.00
June 1 2009 Payment	$ 202,218.00	0

Notes:

1. If MPI is able to complete the project for less than the stated amount, the project repayment schedule will be adjusted to reflect the real cost of the project.
2. If the project budget is exceeded, MPI is responsible to absorb the negative variance.

REMITTANCES FROM MPI TO TAXATION

As part of normal daily processing, MPI will pull from the Brokers' general accounts all money collected for retail sales tax. Any adjustments processed for RST will be netted against the money to be pulled from the account.

By the 20th day of every month, the money that has been collected for RST during the previous month will be transferred from MPI's general account to Taxation. Accompanying this remittance will be batch report(s) that provide details of all money collected and all adjustments performed during that month.

Any RST amounts that are financed through MPI will be remitted in full to Taxation. MPI is responsible for administering the financing program.

Also on a monthly basis, MPI will provide to Taxation a micro-film copy of all RST forms generated by AOL during that month, or access to an electronic retrieval system should such a system be in place by June 2005.

CHANGE PROTOCOL

All requests for changes / enhancements to Autopac On-Line must go through the Autopac Delivery Steering Committee (ADSC). This committee is comprised of representatives of all different divisions within MPI. With the integration of RST receivables into AOL, Manitoba Finance – Taxation Division will be asked to provide a representative to attend the monthly meetings of the ADSC.

There is a standard procedure that is followed every year to identify and prepare for major changes to AOL. In July, a letter will be sent to Manitoba Finance – Taxation Division, asking for the identification of any requirements for planned changes to AOL for the following year (March through February). These requirements are to be submitted to MPI by August 31st. By September 15th, a Statement of Work is prepared, finalized and submitted to MPI's business partner (EDS). EDS then prepares a response to the Statement of Work, in which they estimate the cost to perform each individual work item. Once this response has been received, the ADSC performs an analysis to determine which, if any, of the identified work items may have to be removed from the Statement of Work, due to budgetary restrictions.

Once all of the work items have been approved, a schedule is created that details the AOL releases and which work items are to be included in each release.

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ATTORNEY GENERAL
MINISTER OF JUSTICE

Room 104
Legislative Building
Winnipeg, Manitoba R3C 0V8
CANADA

March 30, 2022

Dr. Michael Sullivan
MPI Board Chair
14 Garrioch Park Drive
Portage la Prairie MB R1N 3R9
Email : MSullivan@mpi.mb.ca

Dear Dr. Michael Sullivan:

This letter acknowledges that MPI's Board of Directors approved the second, planned transfer of excess revenues from the Extension line of business to the Driver and Vehicle Administration (DVA) at its March 24, 2022 Board of Director's meeting. This transfer, previously announced at the Public Utilities Board in October 2021, completes MPI's commitment to cover the operating deficit of this program over the next two years and to pre-fund some of the DVA-related costs of Project Nova.

To address the issue of the historic deficit, we have initiated a full review of the DVA program and its funding model. This review will provide Government a better understanding of how both operating and Project Nova-related costs are allocated, identify potential cost savings and options for service enhancement, and provide options and recommendations for future funding. This review is scheduled to be completed during the coming fiscal year.

At this time, as the Minister responsible for MPI, I am advising that MPI's Board of Directors should not approve any further transfers to the DVA line of business for at least the next two years (2022/23 and 2023/24). This will allow Government time to conduct the DVA review, evaluate the results and formulate a plan to properly fund the DVA program over the long term.

Sincerely,

Kelvin Goertzen
Minister of Justice
Attorney General

c Dave Wright, Deputy Minister of Justice
Maria Campos, Assistant Deputy Minister of Justice

<u>CAC (MPI) 2-5</u>

Part and Chapter:	**Part XIV—2022 Annual Report - AR Appendix 3**	**Page No.:**	**Pdf p 15**
PUB Approved Issue No:	**17. Risk Assessment and Risk Management**		
Topic:	**Corporate Governance—Whistleblower inquiries**		
Sub Topic:			

Preamble to IR:

On pdf page 15, Part XIV—2022 Annual Report-- AR Appendix 3 it states:

> *"During the fiscal period April 1, 2022, to March 31, 2023, the Whistleblower Hotline received two inquiries."*

Question:

Please provide a narrative discussion on the issues raised and the resolution to the issues contained in the two Whistleblower Hotline inquiries.

Rationale for Question:

To clarify the corporate governance issues raised in the two Whistleblower Hotline inquiries.

RESPONSE:

Manitoba Public Insurance (MPI) maintains a confidential, anonymous and independent whistleblower reporting system for accounting, auditing and internal control matters and for reporting wrongdoings under *The Public Interest Disclosure (Whistleblower Protection) Act* (the "Act").

As noted in the 2022 Annual Report[1], during the fiscal period April 1, 2022 to March 31, 2023, the Whistleblower Hotline received two inquiries. MPI can provide the following additional information relating to these two inquiries, specifically that:

1. MPI received two inquiries (April 25, 2022 and May 2, 2022);
2. the inquiries relate to the same event;
3. the inquiries do not involve issues relating to corporate governance;
4. the designated officer acted on the inquiries by arranging for them to be investigated by an independent third party;
5. the independent third party investigation concluded that no ethical breaches or fraud occurred; and
6. the designated officer reported the inquiries and the results of the independent investigations to the Audit and Finance Committee of the Board of Directors on or about August 11, 2022.

MPI cannot identify the issues raised by these inquiries and their resolution.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

To comply with its statutory obligation under the Act to protect the identities of the parties to the inquiries, MPI is unable to disclose the issues raised by these inquiries and their resolution.

[1] 2022-annual-report.pdf (mpi.mb.ca), pg. 13.

CAC (MPI) 2-6

Part and Chapter:	**Part XIV—2022 Annual Report - AR Appendix 3**	**Page No.:**	**Pdf p 17**
PUB Approved Issue No:	**10. Cost of operation** **11. Claims forecasts**		
Topic:	**Claims reported decreased by 8.2% over the past 10 years**		
Sub Topic:			

Preamble to IR:

On pdf page 17, Part XIV—2022 Annual Report-- AR Appendix 3 it states:

> *"Claims incurred costs are affected by several factors such as weather, labour rates, inflation, supply issues, claim frequency, costs to repair vehicles, and price of used vehicles. Claims incurred costs are also significantly impacted by driving patterns, road safety programs and the decision made by people every day to drive safely. In 2022/23, there was modest growth in the number of Autopac claims made of 2.1 per cent.* ***Over the past 10 years, there has been a decrease in claims reported of 8.2 per cent."*** **Emphasis added.**

Question:

a) For greater clarity, please provide a table showing the 10-year claims reported history, by year, resulting in the decrease in claims reported of 8.2 per cent.

b) Please provide a narrative discussion highlighting the causes of this decrease in claims reported and, also discuss whether this downward trend in reported claims is forecasted and maintainable for future years.

Rationale for Question:

To clarify the downward trend/indication in reported claims and to understand whether this direction is maintainable for future years.

RESPONSE:

a) Please see figure 1 below:

Figure 1 10-year claims reported history

Line No.	Period	Fiscal year	# Reported Claims	# Inc./Dec	% Inc./Dec
1	**Mar 1/13 to Feb 28/14**	2013/14	287,741	-	-
2	**Mar 1/14 to Feb 28/15**	2014/15	273,244	(14,497)	-5.31%
3	**Mar 1/15 to Feb 28/16**	2015/16	297,957	24,713	8.29%
4	**Mar 1/16 to Feb 28/17**	2016/17	303,878	5,921	1.95%
5	**Mar 1/17 to Feb 28/18**	2017/18	299,518	(4,360)	-1.46%
6	**Mar 1/18 to Feb 28/19**	2018/19	297,920	(1,598)	-0.54%
7	**Apr 1/19 to Mar 31/20**	2019/20	287,944	(9,976)	-3.46%
8	**Apr 1/20 to Mar 31/21**	2020/21	228,956	(58,988)	-25.76%
9	**Apr 1/21 to Mar 31/22**	2021/22	258,659	29,703	11.48%
10	**Apr 1/22 to Mar 31/23**	2022/23	264,102	5,443	2.06%

b) Claims reported can be influenced by several factors including weather, road conditions and travel patterns. For example, from 2019 to 2021, MPI experienced a significant decrease in claims reported due to factors stemming from the COVID-19 Pandemic, including changing travel patterns (e.g., many people worked remotely during this period). Additionally, the increase in the adoption of and improvements to various vehicle technologies (e.g., accident-avoidance systems and automation) contributes to a portion of the decrease in the frequency of claims experienced over this period (however, with a corresponding increase in claims severity).

For the forecast years, MPI has selected a future frequency trend of -1.65% for Collision. For more information on the selected future frequency trend for Collision see *Part VI Claims Forecasting Chapter CF.10.1*.

CAC (MPI) 2-7

Part and Chapter:	**Part XIV 2022 Annual Report - AR Appendix 3** **Part X Rate Stabilization Reserve page 9**	**Page No.:**	**Pdf p 21 and 22**
PUB Approved Issue No:	**8. Capital Management Plan**		
Topic:	**Capitalization of the various lines of business**		
Sub Topic:			

Preamble to IR:

On pdf page 21 of Part XIV -2022 Annual Report – AR Appendix 3 it sets out the following:

> *"The Manitoba Public Insurance Corporation Act sets out the Corporation's capital targets expressed as a MCT percentage by line of business as follows:*
>
> - *Basic 100%*
> - *Extension 200%*
> - *SRE 300%"*

On pdf page 22 of Part XIV -2022 Annual Report – AR Appendix 3 it states:

> *"As at March 31, 2023, Basic's MCT was 111 per cent (March 31, 2022—95 per cent), Extension's MCT was 202 per cent (March 31, 2022—201 per cent), and SRE's MCT was 386 per cent (March 31, 2022—270 per cent)."*

On page 9 of Part X – Rate Stabilization Reserve it states:

> *"The proposed CMP requires MPI to transfer to the Basic RSR all capital in the Extension Reserve in excess of 200% MCT at each fiscal year end. Notwithstanding this requirement, the Board of Directors (BoD) of MPI may transfer such excess funds prior to fiscal year end to cover any subsequent or existing shortfalls to its other lines of business."*

Question:

MPI is clear on how the corporation proposes to fund Basic insurance capital shortfalls in the Capital Management Plan. Please provide a narrative discussion on MPI's policy to fund capital shortfalls in the Extension, SRE and DVA lines of business, should capital shortfalls be realized in these lines of business.

Rationale for Question:

To review MPI's policy or intent of funding capital shortfalls in lines of business other than Basic Insurance. Also assess the risk of Basic Insurance having to fund other lines of business in the event of capital shortfalls.

RESPONSE:

Extension & Special Risk Extension (SRE) - Funding Capital Shortfalls – There is no official policy for funding capital shortfalls for Extension and SRE. However, if capital shortfalls exist for the Extension or SRE lines of business, there are several actions that MPI can take to mitigate such shortfalls. From an operational standpoint, MPI may review its SRE underwriting guidelines to maintain or achieve a desired risk profile, increase rates to ensure rate adequacy, optimize its reinsurance structure to provide balance sheet protection and/or reduce net income volatility, rebalance the investment portfolios and/or liquidate assets to generate capital needed to fund any shortfalls, or some combination of these actions.

Driver & Vehicle Administration (DVA) - Funding Capital Shortfalls – There is no formal policy that the DVA line of business is required to maintain a minimal capital threshold. The existing capital available is expected to fund both operating and modernization initiatives of this line of business through the 2024 rate setting period. More specifically, for 2023/24, MPI has been authorized by the Government of Manitoba to withhold $9.9M of transfers otherwise due to it to assist with operating costs and modernization of the DVA line of business. MPI has been informed by the Government that this will not continue beyond 2023/24. Over the long term, the existing capital available cannot in and of itself sustain the DVA line of business as it is currently operating. Self-sufficiency would require changes to fees and/or services offered. Absent this, additional capital will be required. MPI has not been given direction from the Government concerning self-sufficiency of DVA over the long term, or when such guidance will be provided. MPI is aware that the Government is considering options, but MPI is not privy to those discussions.

CAC (MPI) 2-8

Part and Chapter:	Part XIV 2022 Annual Report - AR Appendix 3	Page No.:	Pdf p 22
PUB Approved Issue No:	10. Cost containment measures		
Topic:	Cost control measures – claims management		
Sub Topic:			

Preamble to IR:

On pdf page 22, Part XIV – 2022 Annual Report – AR Appendix 3 it states:

> *"Our cost control measures with respect to claims management include efforts on multiple fronts to ensure cost effective repairs, fraud prevention, salvage and subrogation recovery, and the sound management of PIPP claims.*
>
> *Each year, these initiatives contribute significantly to efficiencies in operations to help contain costs or generate revenue, as the case may be. Together, they contribute to keeping insurance premiums as low as possible for customers."*

Question:

a) Please provide a narrative discussion on each of the claims management control measures:

- Cost effective repairs
- Fraud prevention
- Salvage and subrogation recovery
- Sound management of PIPP claims

b) If possible, please quantify each control measure for fiscal year 2022/23 and the financial impact these measures had on the rating year forecasts.

Rationale for Question:

To better understand and assess MPI's claims management control measures.

RESPONSE:

a) and b)

Cost effective Repairs

MPI's cost control measures to ensure cost effective repairs cover the entire process from the initial estimate of damages to the final cost of repairs. Customers can obtain an estimate of the costs to repair their vehicles directly from MPI or from an eligible repair shop that is participating in MPI's direct repair (DR) program. Participating repair shops are required to sign a light vehicle accreditation agreement that not only stipulates tooling and training credentials but also sets out a schedule for maximum labour rates and other compensation and requires repair shops to use specific estimating software. Use of the estimating software provides industry standard labour times for common operations to ensure consistency in the repair costs while reducing administrative costs through streamlined communication, and flagging vehicle valuations to ensure the final cost of repair does not exceed allowed thresholds. MPI has also established a set of estimating standards which establishes consistency between MPI estimators and repair facilities in repair operation procedures.

Additionally, the performance of all light vehicle accredited repair shops is monitored through several key performance indicators (KPIs). These KPIs assess the quality of any requests for compensation from a repair shop in terms of cost-effective repair planning (ask/approve variance – AAV) and alternate parts selection (realized parts savings – RPS). In 2022/23, the use of alternate parts provided savings from new OE parts cost of 21.3% or $38,283,353 (4.2% of 2024/25 rating year projected ultimate total losses[1]).

[1] $910,835,001 as shown in *Part VI Claims Forecasting Chapter Figure CF-1*

For accredited repair shops, monitoring of cost-effective repairs and part selection is done using a risk-based approach with an audit process post payment. In the 2022 calendar year, MPI completed 16,515 audits of lower risk claims (26.9%) and recovered $807,417 (0.1% of 2024/25 rating year projected ultimate total losses). All claims deemed to carry a medium level of financial risk are reviewed by MPI staff prior to a shop beginning repairs and upon any request for additional compensation throughout the repair. For high-risk claims which are considered when repair costs may reach the maximum amount allowed, the repair shop, the insured, and Manitoba Public Insurance could enter into a contract price agreement. These agreements enable MPI to control the final repair costs before authorizing the repair of a vehicle.

In addition to the above, MPI has provided additional training and support to estimating staff on repair vs replace decisions for parts to help ensure cost-effective decisions are made while ensuring a proper repair. MPI collaborates with the repair industry to increase understanding of new cost-effective repair techniques such as plastic repairs and paintless dent repair for eligible claims as a cost-effective process which does not compromise on quality.

Fraud Prevention

MPI's Special Investigation Unit (SIU) has a primary role of reviewing and investigating both physical damage and bodily injury claims to ensure customers are receiving benefits they are entitled to under the MPIC Act. In addition, dedicated fire inspectors conduct comprehensive investigations into the cause of a fire. This ensures MPI is proactive in recovering our costs from a liable party, or a vehicle manufacturer in the case of a vehicle defect. The unit is highly effective in collecting and providing facts to make proper claims decisions. In the past fiscal year, SIU has investigated over 2200 claims, and through these investigations has contributed over $16 million (1.8% of 2024/25 rating year projected ultimate total losses) in claim cost savings.

Salvage and Subrogation Recovery

In September of 2020, MPI transitioned salvage sales to an on-line platform in partnership with IAA which opened competitive bidding to buyers from around the world. The value received from the salvage sale and a newly established buyer fee is credited back to the claim file to reduce overall claim costs. In 2021, to increase revenue MPI aligned with industry standards and began preparing and conditioning salvage vehicles including the use of better photos, 360-degree imaging and videos.

In addition, MPI implemented new technology that provides better vehicle tracking and effective salvage and towing management. MPI can track and monitor salvage and non-drivable vehicles, dispatch towing services, and sell salvage all from the same tool. This allows for timely movement and disposal of vehicles and reduces administrative effort.

The Subrogation Department manages the claim handling activity of files that require recovery of the losses incurred by our customers. Subrogation is the substitution of one party's rights for another. As such, subrogation activity through a variety of means including legal actions is used to maximize recovery of claim losses from negligent third parties. As a result of these various claim handling activities in Subrogation, in 2022 a $13.7 million (1.5% of 2024/25 rating year projected ultimate total losses) cash benefit has been generated for the corporation.

Sound Management of PIPP Claims

Between 2017 and 2019 the following changes were implemented to ensure case management focused on return to work of claimants, ultimately resulting in a reduction in disability duration over time. Prior to 2017 income replacement claims exceeding two years in duration were consistently above 10%. In 2021/22 this reduced to 6.62% (reflects claims reported in the 2019/20 loss year) and in the 2022/23 loss year this was 9.15%; this year was impacted by covid as it reflects results of claims reported in from April 2020 to March 2021. MPI anticipates a return to below 8% in future years. Due to the long tail nature of PIPP claims and the covid effects, it is too early to establish the financial impact.

- Centralization of intake to ensure the claim is assigned to the appropriate case manager early in the claim; resulting in increased consistency and more focus on the needs of the claimant and their return to work.
- Centralization of reserving, clerical work and permanent impairment administration, allowing case managers to focus on return to work.
- Multidisciplinary review, including medical professionals, leadership and case managers in the early stages of all off work claims to establish the most appropriate case management team.
- Established review points with leadership to ensure ongoing case management strategies on each claim align with the pro-active case management approach.

CAC (MPI) 2-10

Part and Chapter:	Part II Overview	Page No.:	CAC (MPI) 1-2 PUB (MPI) 1-47
PUB Approved Issue No:	10. Cost of operations and cost containment measures		
Topic:	Staffing		
Sub Topic:			

Preamble to IR:

PUB (MPI) 1-47 Figure 1 page 2 compares 2021/22 to 2022/23 actual staffing FTEs. Operations FTEs increased by 90.7 FTEs year over year and Actuarial Investments & Risk FTEs decreased by 23.7 FTEs.

PUB (MPI) 1-47 Figure 2 page 3 compares 2022/23 actual staffing to 2023/24 budget staffing FTEs. Operations FTEs increase a further 71.8 FTEs year over year. Information & Technology FTEs increase by 116.6 FTEs year over year. Actuarial Investments & Risk increased by 4.4 FTEs of which 4.3 FTEs represent 'management'. Finance and People & Culture increased by 7.9 and 8.2 FTEs respectively.

Question:

a) Please provide detailed explanations of the increases in Operations FTEs both in Figure 1 and 2 of PUB (MPI) 1-47.

b) For the Actuarial Investment & Risk area please provide an Organizational chart, a summary position description of each management position and a general description and duties of the Technical/Professional positions. In addition, please provide the 2023/24 budget for the Actuarial Investment & Risk area.

c) Please indicate, including by category and area/department (using the column headings from PUB (MPI) 1-47 Figures 1 and 2), the number of FTE positions filled by individuals working from working from out of Province.

d) Please provide an organizational chart for both Finance and People & Culture and provide detailed explanations for the 7.9 and 8.2 increase in FTEs respectively.

Rationale for Question:

To assess and understand the FTE increases and changes from year to year.

RESPONSE:

a) Detailed explanations of the increases in Operations FTEs both in Figure 1 and 2 of PUB (MPI) 1-47 are below:

Figure 1 FY2021/22 Staff Actual vs FY2022/23 Staff Actual

FY2021/22 Staff Actual: 1148.8

FY2022/23 Staff Actual: 1239.50

Variance: 90.7

The FTE changes between FY2021/22 and FY2022/23 is primarily due to organizational structure changes.

Key changes for the Operations Division in FY2022/23: Total 90 FTEs

- The Registrar team moved into the Operations Division, previously part of the Legal division which consisted of the following:
  - Road Safety – 5 FTEs
  - Agreements, Policy & Legislation – 7 FTEs
  - Loss Prevention Planning & Analysis – 3 FTEs
  - **Total FTE transferred utilizing existing positions from Legal Division to Operations Division: 15 FTEs**

- SRE Team moved into the Operations Division, previously part of the Product & Risk Management Division.
  - SRE Operations – 43 FTEs
  - SRE Large Accounts – 12 FTEs

- **Total FTE transferred utilizing existing positions from Product & Risk Management Division to Operations Division: 55 FTEs**

As a result of these organizational structure changes, a total of 70 FTEs which utilized existing positions from other Divisions within the organization were transferred under the Operations Division.
In addition, Driver Examiners and Adjusting positions were filled overbudget throughout the fiscal year to help mitigate higher than normal volumes in Driver Testing and claims, which equates to approximately 20 FTEs.

Figure 2 FY2023/24 Staffing Budget vs FY2022/23 Staffing Actual

FY2023/24 Staff Budget: 1311.3
FY2022/23 Staff Actual: 1239.50
Variance: 71.80

FY2022/23 Staff Budget: 1280.25
Unfilled Variance: 40.75

The FTE variance between FY2022/23 Actuals and FY2023/24 budget is also a result of organizational structure changes.

Key changes for the Operations Division in FY2023/24 Staff Budget: Total 31 FTEs

New roles created as a result of organizational changes to the Operations Division in November of 2022.

- **Operational Performance, Data & Quality (OPDQ)** Creation of a new directorate to support Operations Performance and data driven decision making. This change utilized existing positions and added 3 Operations Performance Lead positions.
  - OPDQ (049): 3 FTE added to the FY2023/24 Budget for Operations Performance Lead

- **OPDQ Subtotal: 3 FTEs**

- Driver & Vehicle Administration:
  - Driver Administration: Newly created role of Director, Driver Administration = 1 FTE
  - Vehicle & Fleets: Newly created role of Director, Vehicle Administration = 1 FTE
  - Driver Administration: Manager, Driver Testing Operations = 1 FTE
  - **DVA Subtotal: 3 FTEs**

- Physical Damage:
  - Newly created role of Sr Director, Physical Damage
  - Newly created role of Director, Claim Policy & Management
  - Newly created role of Manager, Claims Policy, Standards & Authority Delegations
  - **PDC Subtotal: 3 FTEs**

- Injury Claims Management:
  - PIPP Financial and Operational Support: Newly created role of Injury Claims Coordinator
  - **ICM Subtotal: 1 FTEs**

- Additional resources added to FY2023/24 Staff budget to right sized and strengthen core operations in the area of driver testing and contact centre operations
  - Sr Driver Examiner = 12 FTEs
  - Driver Examiner = 1 FTE
  - Customer Care Agent 2 = 2 FTE
  - **Subtotal: 15 FTEs**
- Additional resources added to FY2023/24 staffing budget to achieve operational readiness for NOVA
  - NOVA SME Support = 6 FTEs
  - **Subtotal: 6 FTEs**

b) Please refer to Attachment A for the Actuarial, Investments & Risk Organizational Chart and Position Descriptions.

The 23/24 budget for the AIR division is $5,358,945.

c) Please see table below for the number of FTE positions filled by individuals working from out of Province:

2023/2024 Out of Province FTE

Line No.	Category	Actuarial Investments & Risk	Legal & Compliance	Customer	Finance	People & Culture	Information & Technology	Executive	Operations	Digital & Transformation	Total
1	Management	3					4				7
2	Supervisory										0
3	Technical/Professional					1	2		1		4
4	Clerical										0
5	Student/Intern										0
6	Total	3	0	0	0	1	6	0	1	0	11

2022/2023 Out of Province FTE

Line No.	Category	Actuarial Investments & Risk	Legal & Compliance	Customer	Finance	People & Culture	Information & Technology	Executive	Operations	Digital & Transformation	Total
1	Management	3					5	1			9
2	Supervisory										0
3	Technical/Professional					1	3		1		5
4	Clerical										0
5	Student/Intern										0
6	Total	3	0	0	0	1	8	1	1	0	14

2021/2022 Out of Province FTE

Line No.	Category	Actuarial Investments & Risk	Legal & Compliance	Customer	Finance	People & Culture	Information & Technology	Executive	Operations	Digital & Transformation	Total
1	Management	1					2	1			4
2	Supervisory										0
3	Technical/Professional						1				1
4	Clerical										0
5	Student/Intern										0
6	Total	1	0	0	0	0	3	1	0	0	5

d) Please refer to Attachment B for the Finance Organaizational Chart and Attachment C for the People & Culture Organizational Chart. Detailed explanations for the 7.9 (Finance) and 8.2 (People & Culture) increase in FTEs follows:

Finance explanation:

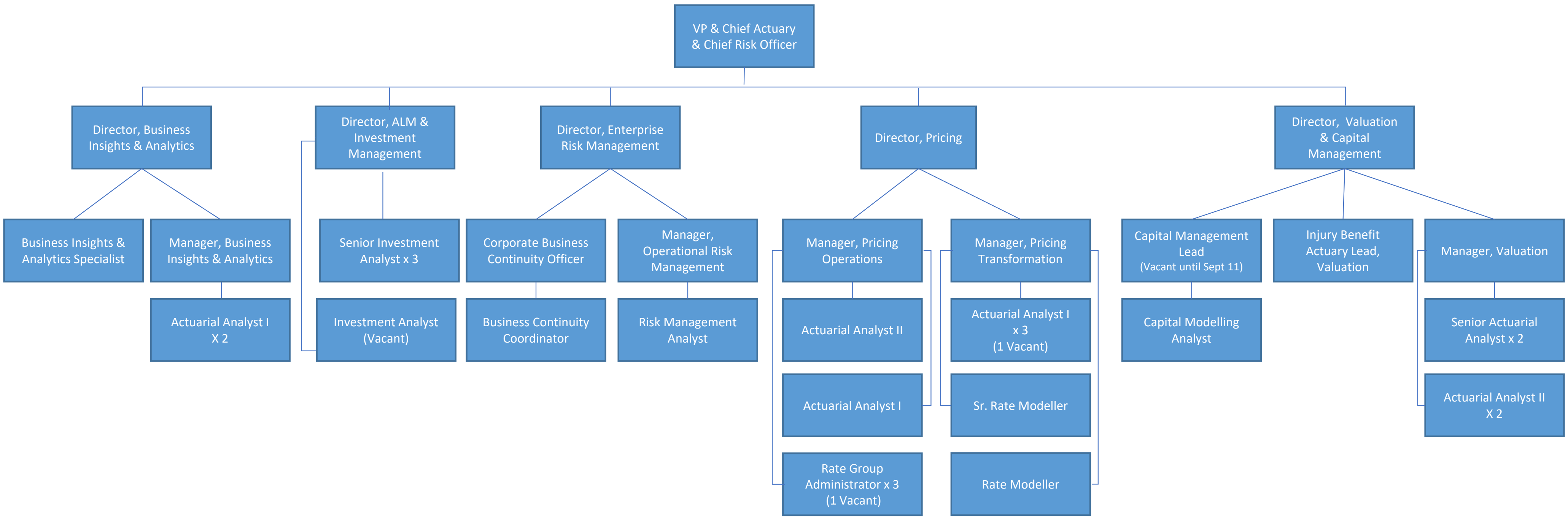
Finance – Transfers in – 3 FTEs – Capital Management was under the AIR division for 2022/23 but budgeted to be under Finance within FP&A for 2023/24. This transfer did take place during 2023/24.

Finance – Vacancy – 4.9 FTEs – Represent the net change of FTEs within the department. Budgeting is based on a full staffing compliment assumption, whereas actuals reflect the running average which is net of vacancy experienced.

People & Culture explanation:

The FTE increase within the P&C division is the result of organizational structure changes made to support the delivery of planned work, the transformation of the P&C division, and the delivery of the corporate strategic initiatives. The additional leadership (3) and technical/professional (9) FTE was intended to increase capacity and capabilities within the division and ensure the division has the proper workforce composition to meet operational demands. While 3 leadership and 9 technical/professional FTE were added, the number of student/intern FTE decreased by 3.8 resulting in an overall FTE increase of 8.2 within the P&C division.

AIR Division Org Chart 2023



CAC2_010 Question b)

Actuarial, Investments & Risk Position Descriptions

VP & Chief Actuary & Chief Risk Officer

As a member of the executive team, the VP, CAO & CRO provides strategic leadership to the pricing, valuation, capital management, reinsurance, investment, asset liability, management, and enterprise risk management functions. The VP, CAO & CRO, guides the development and implementation of a long-term strategy to ensure the successful execution of corporate strategic initiatives. The VP, CAO & CRO establishes a high-performance divisional organization with dedicated, skilled, engaged and customer-focused team members, efficient service delivery, and effective governance and risk practices.

Director, Pricing

Reporting directly to the Vice President, Chief Actuary & Risk Officer, the Director, Pricing is accountable for the qualitative and quantitative analysis of the Corporation's rates and rate structure. The Director works closely with the Customer Value Proposition and Digital and Transformation teams on new products and model development as well as implementation of rates.

Director, Business Insights & Analytics

Reporting directly to the Vice President, Chief Actuary & Risk Officer, the Director, Business Insights & Analytics leads a team to support the transformation to a data driven decision making entity. The Director uses analytical skills, technical abilities, and critical thinking to analyze data, look for trends and provide insights to decision makers. The Director is responsible for forecasting claims, premium and exposure for all lines of business.

Director, Valuation & Capital Management

Reporting directly to the Vice President, Chief Actuary & Risk Officer, the Director, Valuation & Capital Management is accountable for the Corporation's insurance liability valuation, injury claim reserving, case reserve monitoring, capital management, financial condition testing, supporting the ALM function and reinsurance management & analytics.

Director, Enterprise Risk Management

Reporting to the Vice President, Chief Actuary & Risk Officer, the Director, Enterprise Risk Management is responsible to lead the design, development, implementation and maintenance of enterprise and operational risk management frameworks and developing enterprise risk management strategies. The role is also responsible for planning, establishing policies and procedures, and analysis for risk management processes, in order to support the attainment of the Corporation's goals, objectives and strategy.

Through the Business Continuity Management Program, the Director, is responsible for the Corporate Business Continuity Program ensuring that plans are maintained in case of a loss of technology, business partner, facility, or personnel.

Director, Asset-Liability Management & Investment Management

Reporting to the Vice President, Chief Actuary & Risk Officer, the Director, Asset-Liability Management & Investment Management is responsible for monitoring investment performance, researching investment related policies and processes and reporting investment performance to the Investment Committee of the Board of Directors. The department oversees management of the investment portfolio through a series of external fund managers based on the approved Investment Policy Statement. The Director is also responsible for the design, implementation, oversight, monitoring and reporting of the corporation's Asset-Liability Management (ALM) strategy. The department is a resource to the Investment Committee Working Group and the Deputy Minister of Finance.

Senior Investment Analyst

Reporting to the Director, Asset-Liability Management & Investment Management, the Senior Investment Analyst is responsible for leading, supporting, and conducting independent investment research and analysis related to the Corporation's investment portfolio to provide recommendations and input into the structure and management of the investment portfolio. Responsibilities include, primary and secondary data collection and research, support for monitoring and reporting functions, analysis of overall investment types and asset classes, assessment of overall performance of portfolio and external fund managers, and analysis of performance attribution, risk, compliance, statistics, and metrics. The Senior Analyst assists with the design, implementation, oversight, monitoring and reporting of the corporation's Asset-Liability Management (ALM) strategy.

The Senior Investment Analyst provides guidance and mentors Investment Analysts.

Investment Analyst

Reporting to the Director, Asset-Liability Management & Investment Management the Investment Analyst undertakes moderately difficult investment analysis and studies related to the Corporation's investments. The position analyzes new asset classes and investment managers for consideration to be included in the corporation's investment portfolio, calculates, and reviews the performance of current investment managers and their compliance with the corporation's Investment Policy Statement. The Investment Analyst gathers relevant historical data from various sources and conducts statistical, risk and data analysis to support investment recommendations and conclusions. The analyst completes monthly reporting of performance and risk on all aspects of the investment portfolio and measurement against defined benchmarks.

Manager, Pricing Operations

Reporting to the Director, Pricing, the Manager, Pricing Operations performs the Corporation's pricing function, including determining actuarially sound rates for each line of business, pricing new products and coverages, and maintaining actuarial pricing models. The Manager is also responsible for leading the Rate Group Administration team, who is responsible for updating and maintaining the rate group system.

Manager, Pricing Transformation

Reporting to the Director, Pricing, the Manager, Pricing Transformation leads the transformation of Corporation’s pricing function by adopting modern actuarial pricing techniques, including implementation of Generalized Linear Modelling using specialized actuarial tool. The transformation also extends to other analyses performed such as portfolio monitoring, premium dislocation, premium trend analysis. The rate modeling team reports into this position, who are responsible for dislocation analysis. The Manager is expected to bring innovation and automation into the pricing department’s regular activities over time, setting out a roadmap of the transformation journey, and providing operational leadership to the actuarial staff.

Actuarial Analyst I/ Actuarial Analyst II / Senior Actuarial Analyst

Conducts analyses on rate setting, reserving, claims and revenue forecasting, stochastic modelling and other actuarial analyses depending on divisional needs.

The Senior Actuarial Analyst is expected to take full ownership of certain tasks and deliverables, communicate results to senior management and mentor actuarial analysts and students. Promotion to Actuarial Analyst II and Senior Actuarial Analyst is based on the number of exams passed, experience and performance.

Capital Management Lead

Reporting to the Director, Valuation & Capital Management, the Capital Management Lead performs all aspects of the Corporation’s Capital Management function including annual Financial Condition Testing (FCT), sensitivity and scenario analysis on the forecasted Minimum Capital Test (MCT), and assisting Enterprise Risk Management (ERM) with Own Risk Solvency Assessment (ORSA).

Injury Benefit Actuary Lead

Reporting to Director, Valuation and Capital Management, the Injury Benefit Actuary is responsible for monitoring PIPP reserve adequacy, evaluation of statutory PIPP changes, maintaining and updating the PIPP reserving calculators, performing experience studies, and assisting with the valuation.

Manager, Valuation

Reporting to the Director, Valuation & Capital Management, the Manager, Valuation performs all aspects of the Corporation’s actuarial valuation of the policy liabilities including implementation of IFRS 17 and supporting the ALM function.

Manager, Business Insights & Analytics

Reporting to the Director, Business Insights & Analytics, the Manager of Business Insights & Analytics will support the transformation to a data driven decision making entity. The Manager uses analytical skills, technical abilities, and critical thinking to analyze data, look for trends and provide insights to decision makers. The Manager is responsible for forecasting claims, premiums and exposures for all lines of business.

Business Insights & Analytics Specialist

Reporting to the Director, Business Insights & Analytics, the Business Insights & Analytics Specialist will support the transformation to a data driven decision making entity. The Specialist is responsible for forecasting claims, premiums and exposures The Specialist uses analytical skills, technical abilities, and critical thinking to analyze data, look for trends and provide insights to decision makers. This position is responsible for frequent monitoring and reporting.

Corporate Business Continuity Officer

Reporting to the Director, Enterprise Risk Management (ERM) the Corporate Business Continuity Officer is responsible for the development, implementation, operation, maintenance and continuous improvement of the business continuity and disaster recovery plans for critical business processes and/or functions. The role is responsible for the review, communication, and Implementation of business resiliency and recovery to ensure minimal impact in the case of an outage or disruption.

Manager, Operational Risk Management

Reporting to the Director, Enterprise Risk Management the Manager, Operational Risk Management is responsible for planning, design, development, implementation, and maintenance of the operational risk management framework in support of the Corporation's goals and objectives. The Manager, Operational Risk Management is the Corporation's resource and expert in all issues related to operational risk management.

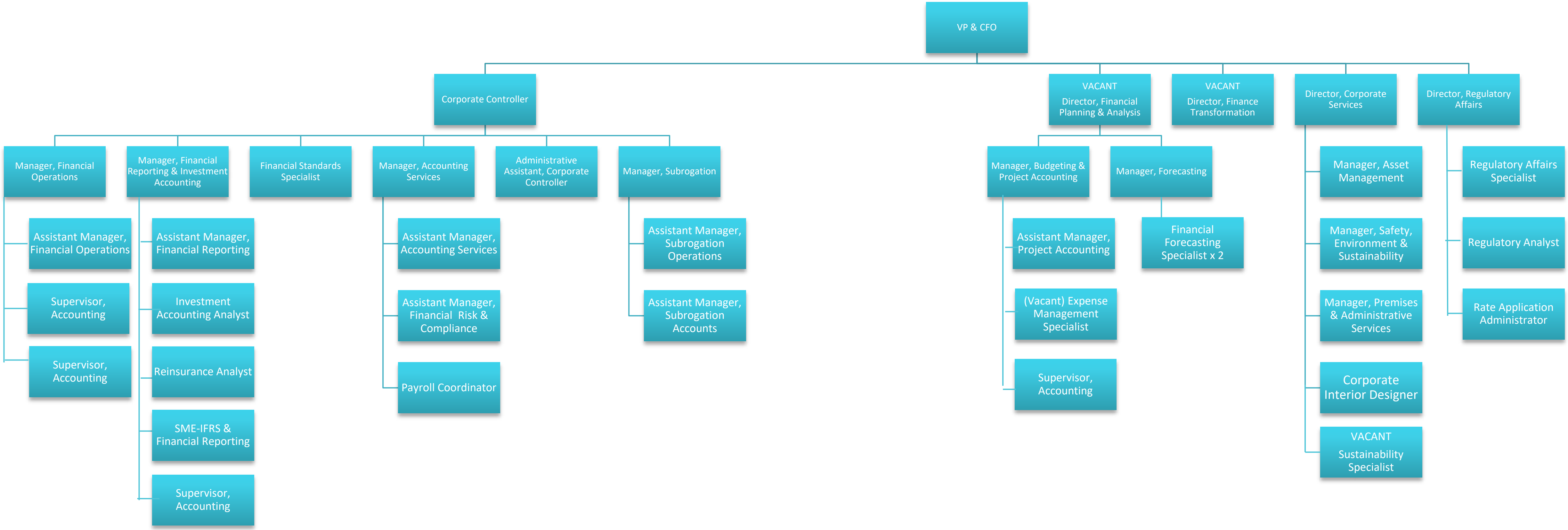
Capital Modelling Analyst

Reporting to the Capital Management Lead, the Capital Modelling Analyst, is responsible for reviewing, analyzing, and determining the optimal level and types of reinsurance solutions required as well as setting policies and procedures to align and aid in the attainment of MPI's strategic plan. The analyst is responsible for leading the annual reinsurance renewal, liaison with the external reinsurance broker, monitoring insurance exposures and providing required information to the reinsurance brokers and reinsurers.

Current Structure Finance Division

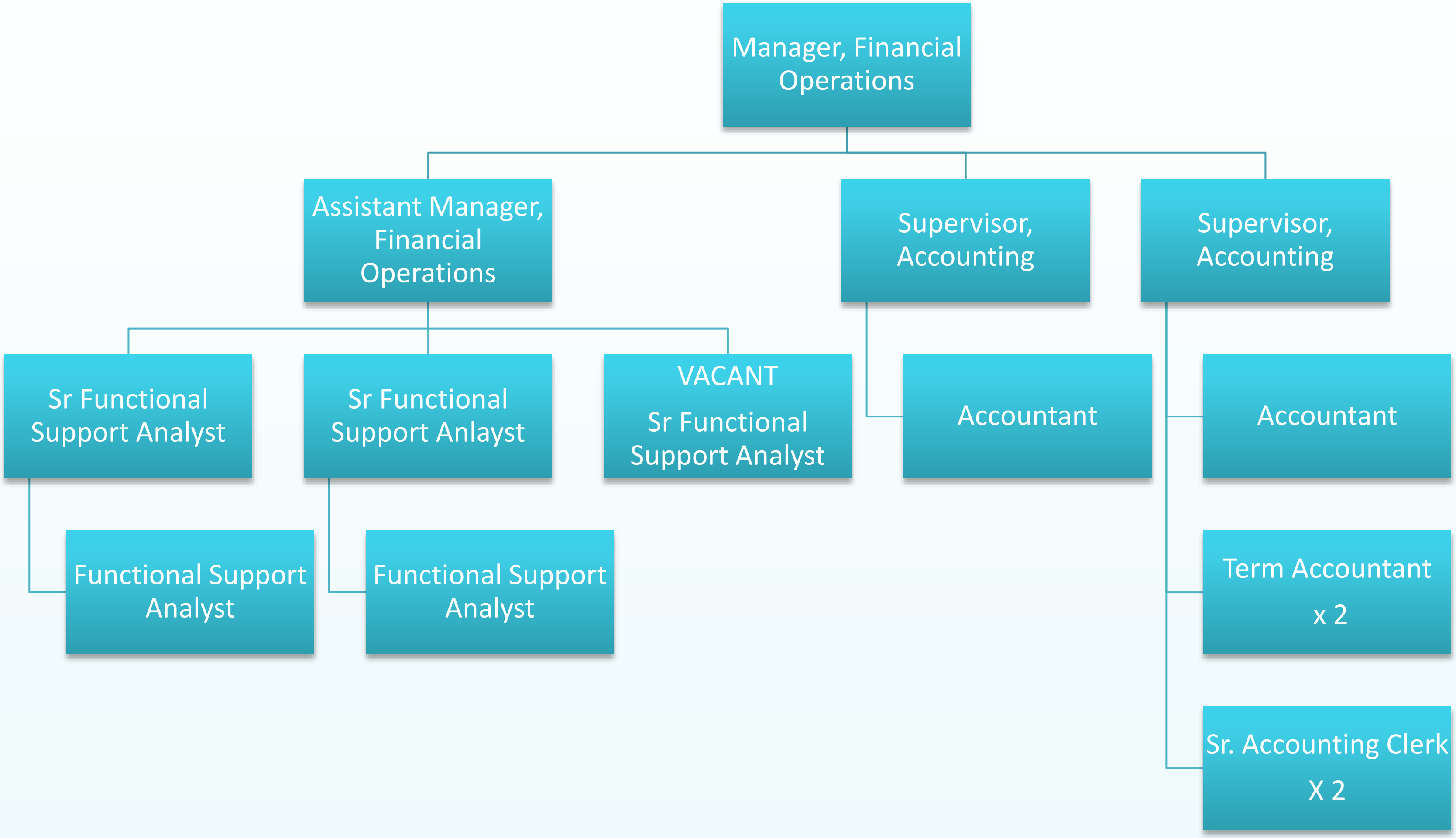
Total Finance Division FTE Count: 160

including sub-levels not on this page



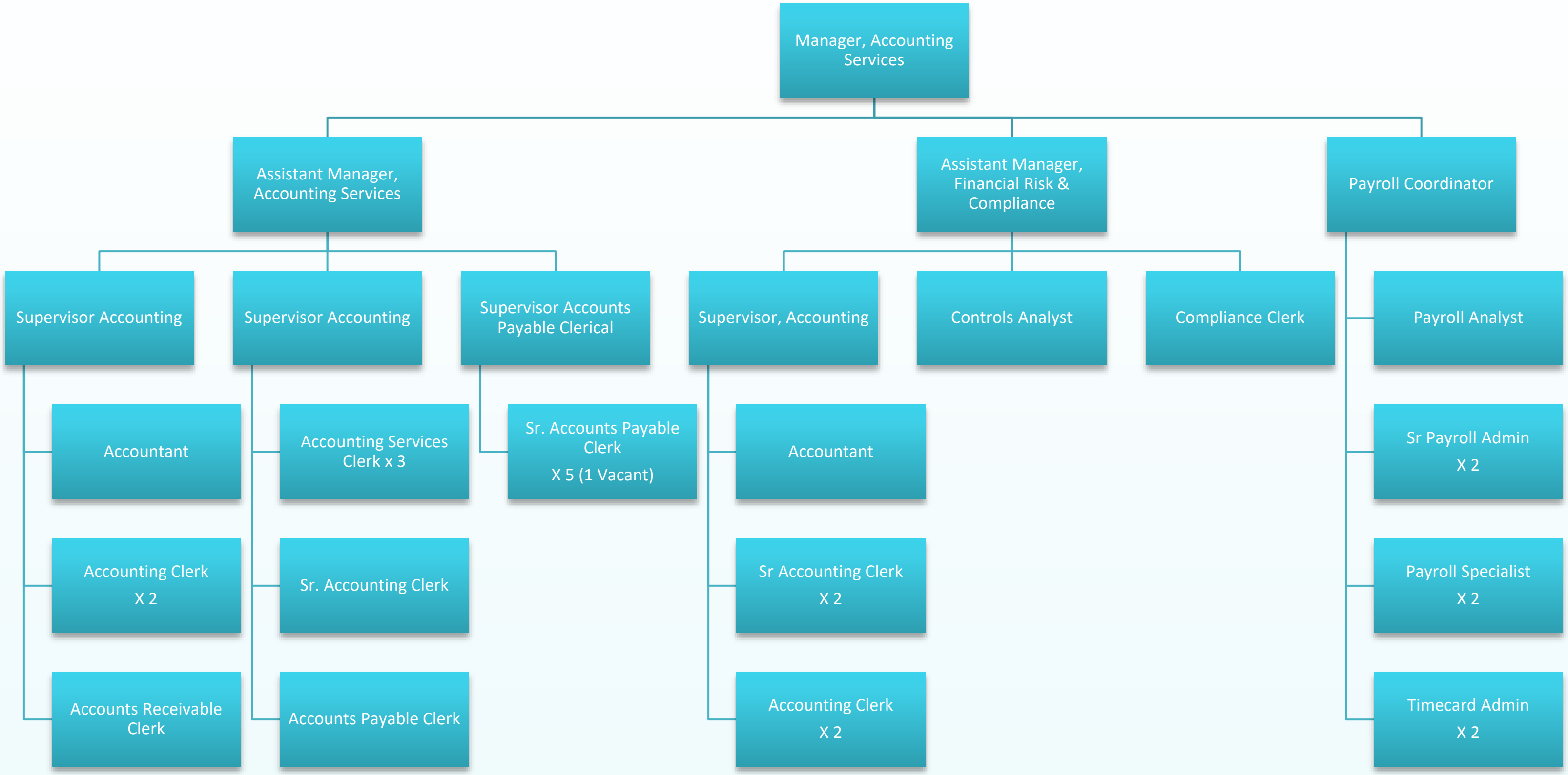
Current Structure Financial Operations

Total FTE: 15



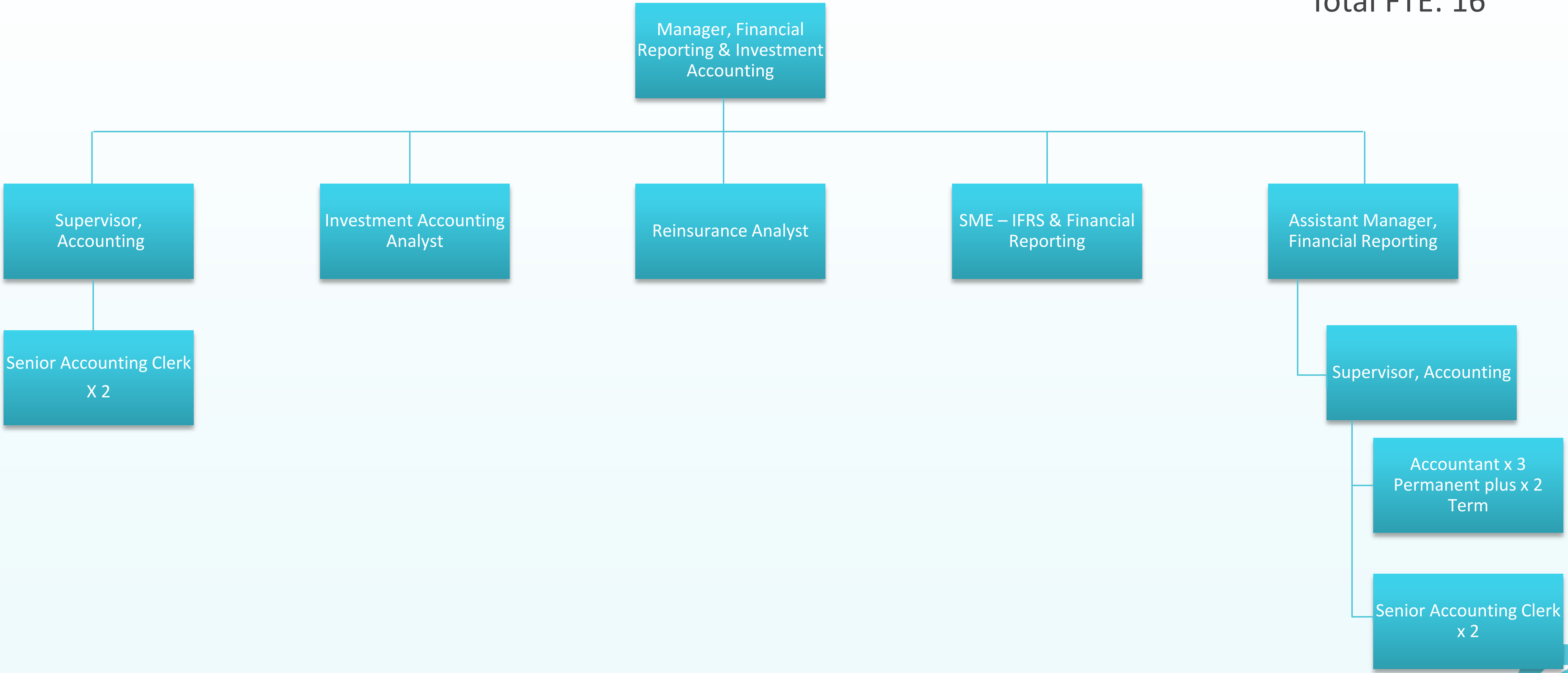
Current Structure Accounting Services

Total FTE: 36



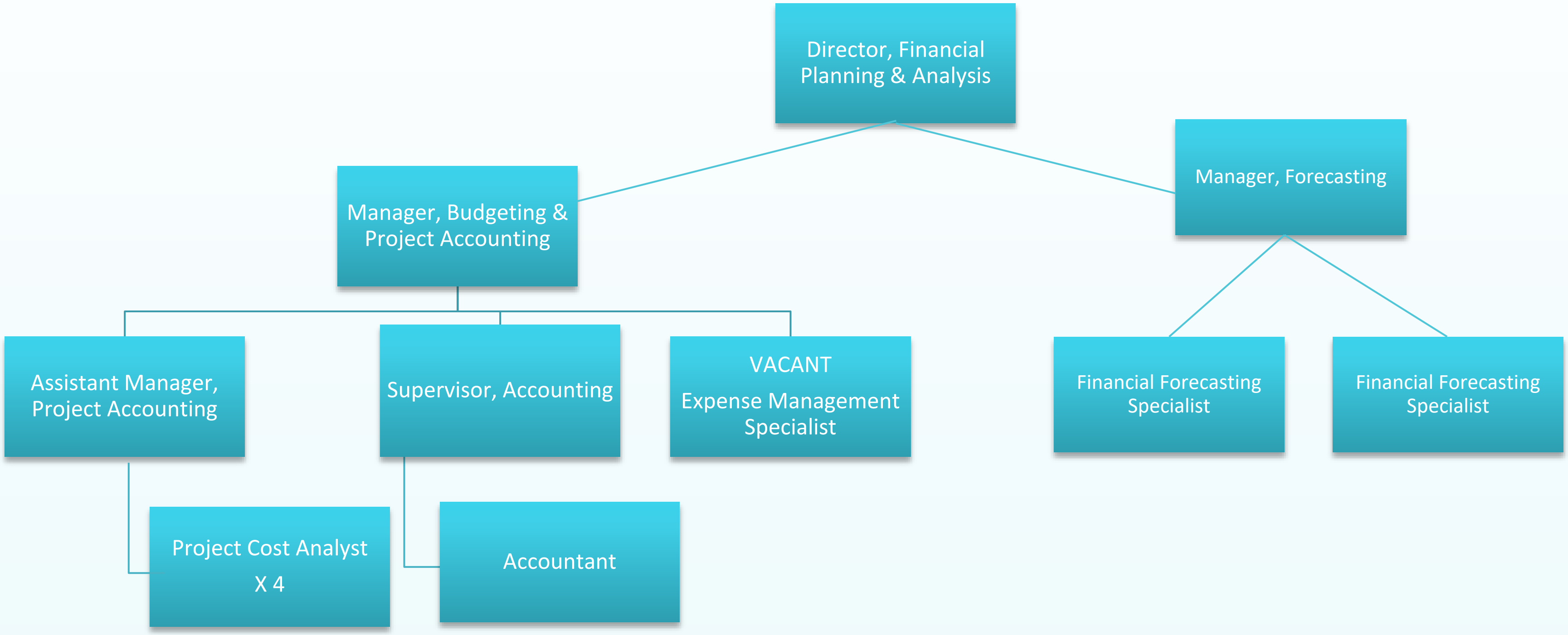
Current Structure
Financial Reporting & Investment Accounting

Total FTE: 16



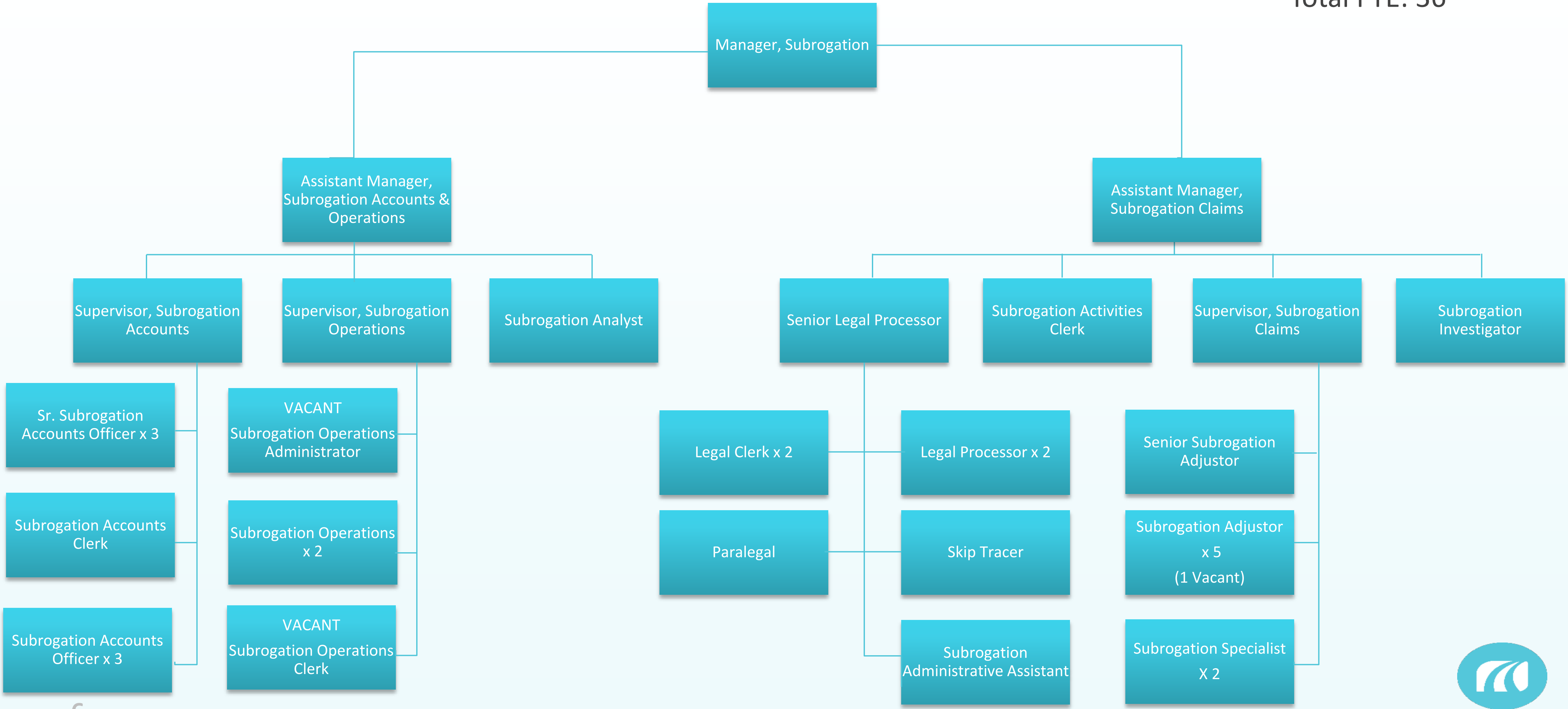
Current Structure
Budgeting & Project Accounting and Forecasting

Total FTE: 13



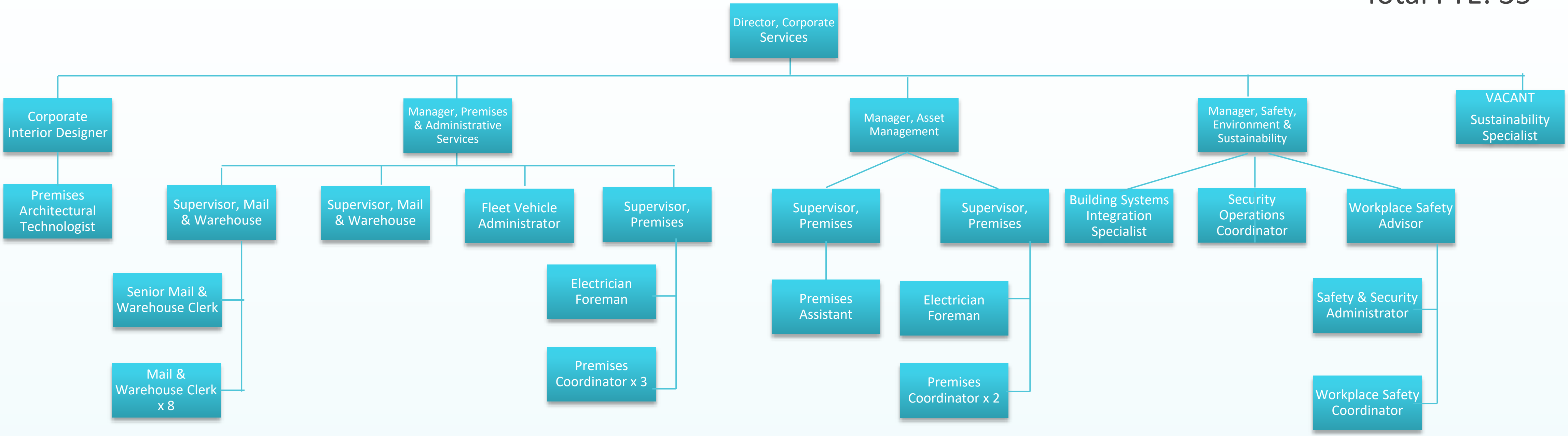
Current Structure - Subrogation

Total FTE: 36

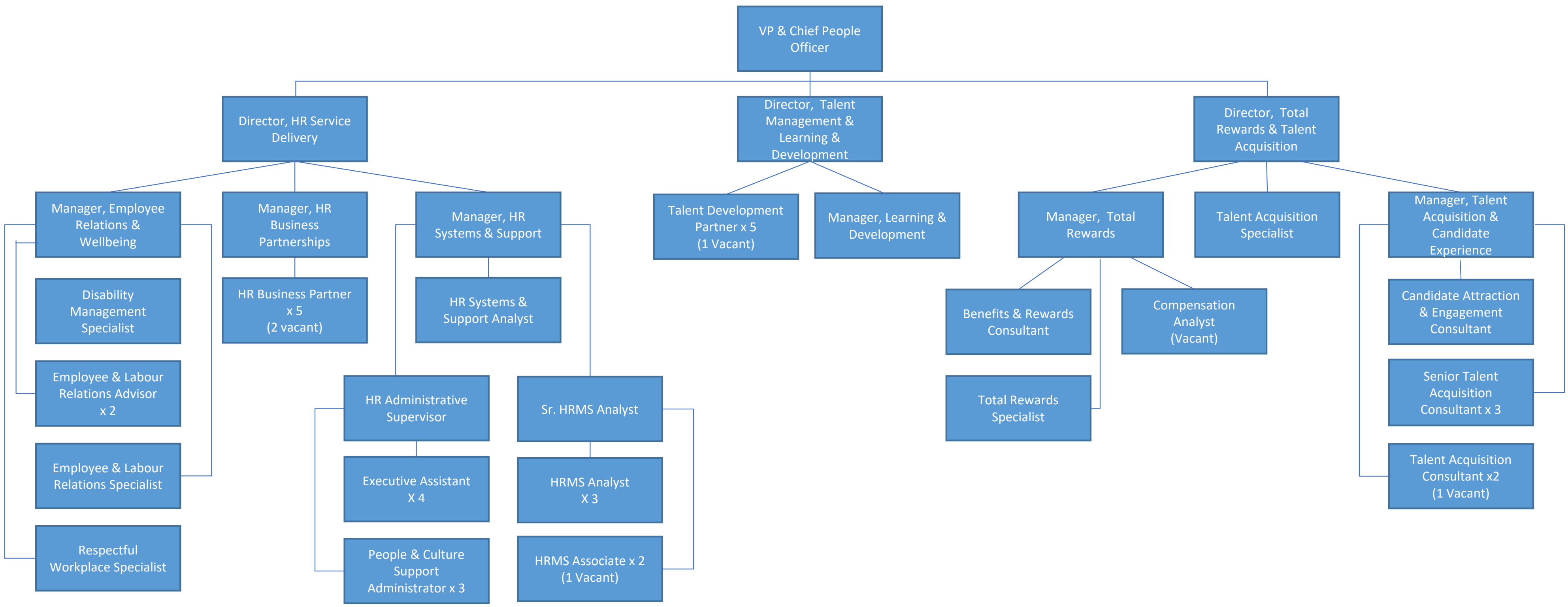


Current Structure
Corporate Services

Total FTE: 35



People & Culture Division Org Chart 2023



CAC (MPI) 2-13

Part and Chapter:	**Part IX Expenses**	**Page No.:**	**CAC (MPI) 1-11**
PUB Approved Issue No:	**10. Cost of Operations**		
Topic:	**Government directed organizational review**		
Sub Topic:			

Preamble to IR:

On page 2 of CAC (MPI) 1-11 it states:

> *"Final approval to proceed with contract negotiations was received from the Minister on June 23, 2023. The award was posted on MERX June 30, 2023 and negotiations with Ernst & Young are currently in progress.*
>
> *b) See response to a) above. The service contract with Ernst & Young is not yet complete but should be available in time for disclosure through Round 2 information requests."*

Question:

a) Please file a copy of the service agreement and the related Statement of Work engaging Ernst & Young to perform the organizational review.

b) Please describe the public consultation and stakeholder engagement to be conducted by Ernst & Young in conducting the organizational review.

Rationale for Question:

To review the status of the organizational review directed by government.

RESPONSE:

a) A draft agreement has been completed and sent to the Government of Manitoba to review to ensure it meets the expectations of the Order in Council, MPI has not received a response and as of August 25, 2023, but will share the final agreement once it is fully executed.

b) The Organizational Review as does not contemplate public consultation or external stakeholders, Ernst & Young's consultation is focused on better understanding of MPI's strategic priorities, challenges, drivers for change; organization structure and size; roles and responsibilities; in-flight and planned initiatives and projects; expenditure management processes; financial forecasting and reporting processes; any recent process or cost optimization initiatives; view on current maturity and opportunities related to organization design, expenditure management, and forecasting and reporting.

CAC (MPI) 2-14

Part and Chapter:	**Part IX - Expenses**	**Page No.:**	**CAC (MPI) 1-17 Attachment A page 9**
PUB Approved Issue No:	**10. Cost of Operations**		
Topic:	**Employee Future Benefits**		
Sub Topic:			

Preamble to IR:

On Page 9 of Attachment A, Appendix I Membership Data (Membership Reconciliation) indicates that the Terminations in the plan are equal to the Participants as at 31-Mar-2022.

Question:

Please clarify and provide reasons for the number of 'Terminations' being the same as the 'Participants" as at 31-Mar-2022.

Rationale for Question:

To clarify the Membership Data for the in-scope Post-Retirement Health Benefits plan.

RESPONSE:

Please refer to Attachment A for revised In-scope post retirement benefits valuation.

Ellement
Pensions | Benefits | Investments

Manitoba Public Insurance

Liabilities for Post-Retirement Health Benefits for In-Scope Employees

IAS 19
Actuarial Valuation Report
as at March 31, 2023

May 2023

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NOTICE TO READER – This Report is Privileged and Confidential

The primary purpose of this engagement is to prepare a report that provides the financial disclosure information based on our understanding of the International Financial Reporting Standards, and the Canadian Institute of Actuaries Standards of Practice in effect at the date of this report. The list of intended purposes of this report is noted in the Terms of Engagement discussed in Section 2.

Additionally, the intended recipients are noted in the Terms of Engagement and no party other than the parties noted shall rely upon the information presented herein. The recipient shall neither reproduce the report nor parts thereof unless reproduction is necessary for its evaluation and approved by Ellement Consulting Group (Ellement). The recipient agrees to protect the confidentiality of the information contained in this report and shall take all the necessary and reasonable measures to prevent the unauthorized use, disclosure, or distribution of the report or parts thereof. The recipient agrees not to use, amend, adapt, convert, translate, or exploit the contents of this document without written consent from Ellement, nor allow Ellement's competitors or unintended recipients to have access to its contents.

An actuarial valuation report is a snapshot of a plan's estimated financial condition and health at a particular point in time; it does not predict the plan's future financial condition or its ability to pay benefits indefinitely. The actual financial condition and contribution adequacy will be more favourable, or less favourable, depending on actual experience, when the next formal actuarial valuation report is prepared. Further, the financial condition and health may change due to a change in assumptions, a change in the provisions in the plan text, or a change in governing legislation.

Over time, a plan's actual cost will depend on several factors, including but not limited to:

- the level of the benefits the plan provides;
- the number of individuals paid benefits, the age at which their benefit is settled, and the length of time benefits are paid in retirement;
- the amount of expenses incurred for operating and investing; and
- the amount earned on any invested assets.

These amounts and other variables are uncertain and impossible to predict with precision at any particular point in time.

Due to the nature of our engagement, the actuarial assumptions, as described in Appendix III (Summary of Actuarial Accounting Assumptions), have been selected to develop results for a single scenario from the range of possibilities for each valuation basis. Actual experience will differ from the results based on the assumptions from the single scenario illustrated herein. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Differences between actual experience and the selected assumptions may prove to be significant or material. As such, frequent monitoring and periodic valuations are recommended. In any case, the actuary will review the selected assumptions at the next actuarial valuation date and may make adjustments for a number of factors including changes in regulatory requirements, plan experience, and changes in expectations about the future.

Given the intended purpose of the engagement and the uncertainty in the financial condition and health of the plan into the future described above, decisions about benefit reductions or enhancements, benefit security and sustainability, investment policy, funding policy, and benefit policy should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely based on an actuarial valuation report or reports focused on a particular point in time.

TABLE OF CONTENTS

APPENDICES

I. ACTUARIES' OPINION

We have been engaged by the management of Manitoba Public Insurance (M.P.I.) to value the benefit obligations for Post-Retirement Health Benefits for In-Scope Employees as at March 31, 2023 (Measurement Date). The Post-Retirement Health Benefits for In-Scope Employees Actuarial Valuation Report (Report) has been prepared to provide an estimate of the defined benefit obligation as at March 31, 2023, which will be incorporated into the entity's financial statements under the International Financial Reporting Standards (IFRS).

The guidance for the calculation of the obligations and the preparation of this Report are the Practice-Specific Standards for Post-Employment Benefit Plans (Section 6000) of the Canadian Institute of Actuaries (CIA) and the IFRS – International Accounting Standards 19 (IAS 19) Post-Employment Benefits. The calculations have been made in accordance with our understanding of these standards and applicable laws and regulations.

The defined benefit obligation is based on the assumptions and methods outlined in Appendix III. The discount rate utilized to determine the results was developed and provided by M.P.I. using Fiera Capital's CIA Method Discount Rate Curve as at March 31, 2023. The assumptions used in this Report are considered to be managements best estimate assumptions selected for accounting purposes. The assumptions will continue to be monitored and updated as appropriate.

In our opinion:

- The membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation;
- The assumptions and methods are appropriate for the purpose of the valuation;
- The calculations have been made in accordance with my understanding of the requirements of the International Financial Reporting Standards – IAS 19 Post-Employment Benefits; and
- This Report has been prepared, and our opinions given, in accordance with accepted actuarial practice in Canada.

Nevertheless, emerging experience differing from the assumptions will result in gains or losses that will be revealed in subsequent actuarial valuations, and we recommend that the next report be prepared no later than March 31, 2024.

Respectfully submitted,

ELLEMENT CONSULTING GROUP

Dennis Ellement

K. Meilleur

Dennis Ellement, FSA, FCIA
Winnipeg, Manitoba
May 19, 2023

Kyle Meilleur, FSA, FCIA

2. TERMS OF ENGAGEMENT

We are pleased to present the results of the actuarial valuation as of March 31, 2023 (Plan), for the Manitoba Public Insurance (M.P.I.). Further to the Notice to Reader found at the beginning of the report, we note the following terms of engagement and other important information.

Purpose

Ellement has been engaged by the management of M.P.I. to perform an actuarial valuation of the Plan as of March 31, 2023 for accounting purposes, in accordance with the International Financial Reporting Standards and applicable Standards of Practice developed by the Canadian Institute of Actuaries. The previous valuation, as of March 31, 2022, was also performed by Ellement.

Specifically, the purpose of this Report is to:

- Indicate the liabilities (Defined Benefit Obligation) which M.P.I. has as at March 31, 2023, as a result of the provision of Post-Retirement Health Benefits to in-scope employees; and
- Provide the change in Defined Benefit Obligation for the period beginning April 1, 2022 and ending March 31, 2023.

The results of this Report may not be appropriate for any other purpose, other than the purposes listed above.

These liabilities are an estimate of the present value of the future payments which M.P.I. is expected to pay to provide Post-Retirement Health Benefits to in-scope employees after their retirement. The Post-Retirement Health Benefits include eligible health benefits.

A summary of the Post Retirement Health Benefits is provided in Appendix II.

The liabilities have been computed on an accounting basis. This basis contemplates the continued existence of the Post-Retirement Health Benefits and the funding arrangements for the benefits.

The analysis and recommendations presented in this Report is not intended to be a legal opinion and Ellement is not a law firm. If you require a legal opinion on the material reviewed in this Report, we recommend securing the advice of legal counsel.

Intended Recipients and Users

The intended recipients and users of this Report include the following:

- Manitoba Public Insurance.

Subsequent Events

Emerging experience differing from the assumptions after March 31, 2023, will result in gains or losses, which will be revealed in subsequent valuations.

Further, any impacts to the demographics of the Plan's membership, including increased retirement rates, morbidity, and mortality, will be monitored. As with other experience, the financial impact of this event, as it applies to the Plan, will be reflected in future actuarial valuation reports.

We are not aware of any other matters or subsequent events occurring since the completion of this Report which would materially affect the financial position of the Plan as at March 31, 2023.

3. VALUATION RESULTS

The following table shows the benefit liabilities which M.P.I. has as at March 31, 2023 with comparable results as at March 31, 2022. This information is utilized in the preparation of the accounting disclosure information.

The benefit liabilities and current service cost has been determined based on the membership data (Appendix I), benefit plan provisions (Appendix II), and the methodology and assumptions (Appendix III). Experience differing from the assumptions will result in gains or losses which will be revealed in the future.

	31-Mar-2022	31-Mar-2023
Benefit Liabilities		
- Current Employees	$ 2,899,000	$ 2,061,600
- Retired Employees	2,589,200	2,368,800
Total Liabilities	**$ 5,488,200**	**$ 4,430,400**

	Cost Per Member	Fiscal 2023	Cost Per Member	Fiscal 2024
Benefit Current Service Cost				
Total Current Service Cost	$ 159	$ 217,500	$ 78	$ 106,200

Key Assumptions		
Discount Rate - End of Period	4.01%	4.90%
Increase in Post-Retirement Benefit Rates	vary by year / 2.00%	vary by year / 2.00%
Benefit Per Year (Family / Single)	$350 / $350	$350 / $350

The economic assumptions have been chosen by management of M.P.I. The specific choices are made after a review with internal staff and the actuary. The existing economic assumptions were confirmed to us on January 24, 2023, and subsequently on April 10, 2023, by management after management's review of the assumptions.

4. ACCOUNTING DISCLOSURE INFORMATION

The accounting disclosure information has been prepared with reference to IFRS International Accounting Standards 19 – Post Employment Benefits as at March 31, 2023, with comparative results as at March 31, 2022. The disclosure information provides the Change in Defined Benefit Obligation only. We have not been engaged to provide the Change in Fair Value of Plan Assets or the Defined Benefit Cost.

	April 1, 2021 to March 31, 2022	April 1, 2022 to March 31, 2023
Change in Defined Benefit Obligation		
Defined Benefit Obligation - Beginning of Period	5,926,000	5,488,200
Current Service Cost	288,500	217,500
Interest Expense	199,300	220,000
Benefit Payments	(207,200)	(223,300)
Defined Benefit Obligation - Projected	6,206,600	5,702,400
Remeasurements		
Change due to Demographic Assumptions	-	-
Change due to Financial Assumptions	(626,100)	(1,094,800)
Change due to Experience	(92,300)	(177,200)
Defined Benefit Obligation - End of Period	**5,488,200**	**4,430,400**

For this valuation, the liabilities were $177,200 less than projected prior to reflecting changes in actuarial accounting assumptions.

The change due to financial assumptions includes changes to the health cost inflation assumption, and the discount rate. Specifically, the increase in the discount rate from 4.01% to 4.90% decreased the liabilities by $1.1 million.

5. SENSITIVITY / MATURITY ANALYSIS

The impact on obligations due to changes in the actuarial assumptions depends largely upon the number of years over which benefits will be paid and the exact pattern of the expected benefits cash flow.

The demographics of the group covered by a valuation basis have an impact on the resulting change in obligation for a given change in an actuarial assumption.

Different parts of the actuarial valuation are affected differently by a change in a specific actuarial valuation assumption. One of the more significant assumptions is the assumed discount rate.

There are rules of thumb to estimate the effect upon obligations due to a change in the assumed discount rate. These rules of thumb can be expressed mathematically by introducing the concept of duration where:

% change in obligation = - duration x % change in assumed rate

The approximation is usually quite good for small changes in the assumed discount rate. We will test a negative 0.50% change – the "Estimated Duration" shown below is the effect of a 0.50% decrease in the assumed discount rate.

The following table summarizes the application of the above formula to the plan data as at March 31, 2023.

Benefit Obligation Sensitivity	4.90% Discount Rate	4.40% Discount Rate	% Change in Liability	Estimated Duration
Total Liabilities	$ 4,430,400	$ 4,786,300	8.0%	16.1

Benefit Obligation Current Service Cost Sensitivity	4.90% Discount Rate	4.40% Discount Rate	% Change in Liability	Estimated Duration
Total Current Service Cost	$ 106,200	$ 121,100	14.0%	28.1

The following table shows the estimated future benefits as at March 31, 2023 and March 31, 2022:

	Less than 1 year	Between 1 - 2 years	Between 2 - 5 years	Over 5 years	Total
31-Mar-2023	$ 155,000	$ 166,000	$ 566,000	$ 10,289,700	$ 11,176,700
31-Mar-2022	142,300	157,600	564,500	9,972,000	10,836,400

APPENDIX I

MEMBERSHIP DATA

Liabilities and membership information are calculated for March 31, 2023 based on December 31, 2022 data.

The data used in the calculations includes the benefits, currently in payment or which is expected to be in payment, that M.P.I. is responsible for.

Information on each in-scope employee covered by the Post-Retirement Health Benefits was obtained from M.P.I. The data was checked for missing information, illogical information and reconciled with the prior valuation data. A few minor changes to the data resulted from the checks made.

Membership Reconciliation

A reconciliation of the number of member records used in the calculations is shown below.

	EMPLOYEES			PENSIONERS & SURVIVORS		
	Males	Females	Total	Males	Females	Total
Participants as at 31-Mar-2022	647	974	1,621	245	347	592
New employees	69	88	157	-	-	-
Retirements	(15)	(32)	(47)	15	32	47
Terminations	(33)	(63)	(96)	-	-	-
Deaths	-	-	-	-	(1)	(1)
Adjustments	-	-	-	-	-	-
Participants as at 31-Mar-2023	668	967	1,635	260	378	638

APPENDIX II

SUMMARY OF PLAN PROVISION

An annual post-retirement health benefits spending account is available, in the amount of $200, for eligible in-scope employees who retired after September 27, 2008.

Effective January 1, 2015, all eligible in-scope retirees who retired after September 27, 2008 had their post-retirement health benefits spending account increased from $200 to $350.

M.P.I. share of Premiums

It has been anticipated that M.P.I. will continue to pay 100% of the premiums (benefits) required to finance the Post-Retirement Health Benefits for in-scope employees.

APPENDIX III

SUMMARY OF ACTURAIL ACCOUNTING ASSUMPTIONS

	31-Mar-2023	31-Mar-2022
1. Annual Discount Rate:	4.90%	4.01%
2. Post-Retirement Benefit Rates (as at valuation date):		
- increase in post-retirement benefit rates	4.10% for 0.75 year, 2.40% for 1.00 year, 2.00% thereafter	3.00% for 0.75 year, 2.20% for 1.00 year, 2.10% for 1.00 year, 2.00% thereafter
- family rate (benefit) per year	$350	same
- single rate (benefit) per year	$350	same
3. Marital Status at Retirement:	same as at Valuation Date	same
4. Annual Rates of Death:	CPM 2014 Public Mortality Projected using Scale B	same
5. Annual Rates of Termination of Service:	(see TABLE)	same
6. Annual Rates of Disability:	(see TABLE)	same
7. Annual Rates of Retirement:	(see TABLE)	same
8. Portion of Health Spending Account Expected to be Utilized:	65%	same

The demographic assumptions used in this Report have been adopted from the Manitoba Public Insurance Pension Benefit Obligations Actuarial Valuation Report as at March 31, 2023.

Actuarial Cost Method

Actuarial cost methods are used to recognize and benefits over the working lifetimes of employees who will ultimately receive a benefit from the Plan. Different actuarial cost methods use different approaches to assign the costs of future benefits, in all cases the premiums plus investment income should equal or exceed the benefit at retirement plus any associated expenses.

The projected benefit method prorated on service has been used to determine the accrued liabilities and the current service cost applicable to each year after the Measurement Date. For each in-scope employee, the present value of the expected post-retirement premiums (benefits) was determined. The proportion of this amount held as the accrued liability is equal to the ratio of the completed service as at the Measurement Date divided by the total service expected to be completed at the date of retirement.

For each retired in-scope employee, the present value of the expected post-retirement premiums (benefits) was determined. This full amount is held as the accrued liability.

Annual Discount Rate

The assumed accounting discount rate is based on the Canadian Institute of Actuaries Educational Note & Fiera Capital guidelines that tracks the bond economic environment independently for actuaries (Fiera Capital's CIA Method Accounting Discount Rate Curve as at March 31, 2023).

The discount rate developed based on this methodology is equal to 4.90% for this Report, provided by M.P.I.

Mortality Assumption

The Canadian Institute of Actuaries published a report in February 2014 named "Canadian Pensioners' Mortality Report." The report discusses Canadian specific mortality for registered pension plans and develops/reviews separate tables based on employment sector. The final report presents base table experience for public sector, private sector, and combined experience for public sector and private sector.

This Report uses the 2014 Canadian Pensioner Public Sector Mortality Table projected with CPM improvement Scale B. Pre-retirement mortality has been used when calculating the liabilities.

Pension Size Adjustment

The Canadian Pensioners Mortality Report includes a section on pension size adjustment factors. Based on these factors and the guidance in the report, a single adjustment factor has been calculated for each gender. The adjustment factor for males and females is equal to 1.039 and 1.001 respectively (previously 1.043 and 1.003 respectively).

Termination Rates

This Report reflects termination rates based on age and gender. The termination rates are in accordance with the following schedule:

Age	Male	Female
20	10.00%	12.00%
25	10.00%	9.00%
30	5.00%	7.00%
35	5.00%	5.00%
40	5.00%	5.00%
45	4.00%	4.00%
50	4.00%	4.00%
55	0.00%	0.00%

Disability Rates

This Report reflects disability rates based on age and gender. The disability rates are in accordance with the following schedule:

Age	Male	Female
35	0.01%	0.01%
40	0.04%	0.06%
45	0.09%	0.13%
50	0.23%	0.30%
55	0.66%	0.76%

Retirement Age Assumption

For this Report, retirement rates are based on age and gender and are in accordance with the following schedule:

Age	Male	Female
55	14.00%	16.00%
56	8.00%	9.00%
57	9.00%	9.00%
58	8.00%	8.00%
59	8.00%	8.00%
60	15.00%	16.00%
61	12.00%	11.00%
62	12.00%	11.00%
63	11.00%	15.00%
64	13.00%	14.00%
65	100.00%	100.00%

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Led by a team of experienced professionals from our offices in Vancouver, Edmonton, Winnipeg, and Toronto, who provide valuable insight, stewardship, and customized solutions to our valued client partners.

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CAC (MPI) 2-16

Part and Chapter:	**Part VI Claims Incurred**	**Page No.:**	**CAC (MPI) 1-59, page 2**
PUB Approved Issue No:	**11. Claims forecasting**		
Topic:	**Claims forecasting data**		
Sub Topic:			

Preamble to IR:

Per page 2 of the response to CAC (MPI) 1-59 MPI accessed various data to assist in forecasting claims incurred.

- "MPI Repair and Total Loss severity by component (labour, parts, materials,
- taxes, ACV, salvage),
- Vehicle repair industry trends provided by MPI's claims service provider"

Question:

Please provide a copy of the reports relating to:

- "MPI Repair and Total Loss severity by component (labour, parts, materials,
- taxes, ACV, salvage),
- Vehicle repair industry trends provided by MPI's claims service provider"

Rationale for Question:

To assess data used in claims incurred forecasting.

RESPONSE:

MPI includes data containing individual components of repairs and total loss claims in assisting the selection of future loss cost trend for Basic Collision coverage, found in *Part VI Claims Forecasting Chapter Figure CF-61* and *Figure CF-64*.

MPI has attached the internal report supporting year 2022 numbers in *Part VI Claims Forecasting Chapter Figure CF-61* as *Attachment A – Collision Severity Report* and the industry report from one of MPI's claims service providers, Mitchell, as *Attachment B – MPI AIR Presentation March 2023*.

Collision Severity Report: Rolling 12 Month Estimate & Settlement Detail

Repaired Claims

Current 12 Months: Repairs from April 2022 through March 2023
Prior 12 Months: Repairs from April 2021 through March 2022

	Prior 12 Months	Current 12 Months	Difference
Claim Count	58,610	73,896	26.1%
Gross Repair Severity	$4,063	$4,464	9.9%
Avg. Parts	$1,733	$1,947	12.4%
Avg. Labour	$1,490	$1,556	4.4%
Avg. Materials	$399	$463	16.1%
Avg. Taxes	$428	$471	10.1%

	Prior 12 Months	Current 12 Months	Difference
Avg. Parts	$1,733	$1,947	12.4%
Avg. Part Count	7.5	8.1	7.5%
Avg. Part Cost	$230	$240	4.5%
Total Parts Count	441,970	599,310	35.6%
Total Parts Amount	$101.6M	$143.9M	41.7%

	Prior 12 Months	Current 12 Months	Difference
Avg. Labour	$1,490	$1,556	4.4%
Avg. Labour Hours	19.8	19.9	0.3%
Avg. Labour Hour Cost	$75	$78	4.1%
Total Labour Hours	1.2M	1.5M	26.5%
Total Labour Amount	$87.3M	$115.0M	31.7%

	Prior 12 Months	Current 12 Months	Difference
Avg. Materials	$399	$463	16.1%
Total Materials Amount	$23.4M	$34.2M	46.4%
Avg. Taxes	$428	$471	10.1%
Total Taxes Amount	$25.1M	$34.8M	38.8%

Total Loss Claims

Current 12 Months: Settlements from April 2022 through March 2023
Prior 12 Months: Settlements from April 2021 through March 2022

	Prior 12 Months	Current 12 Months	Difference
Claim Count (All Settled Claims)	19,250	17,784	-7.6%
Claim Count (Settled & Salvaged Claims)	18,309	15,324	*
Settlement Severity (Settled & Salvaged Claims)	$7,484	$9,739	30.1%
Avg. ACV (Settled & Salvaged Claims)	$10,074	$12,183	20.9%
Avg. Salvage (Settled & Salvaged Claims)	($2,590)	($2,444)	-5.7%

Repaired Claim Count: Number of claims where the repair has been completed by a light vehicle accredited shop.
Gross Repair Severity: Average total repair cost (pre-deductible) of repairs completed by a light vehicle accredited shop.
Avg. Parts: The average cost of parts per repair.
Avg. Labour: The average cost of labour per repair.
Avg. Materials: The average cost of shop materials per repair.
Avg. Taxes: The average cost of taxes per repair.

Settled Claim Count: Number of total loss claims (with Basic incurred > $0) where a settlement has been reached.
Settled & Salvaged Claim Count: Number of settled claims where the vehicle has been salvaged.
Settlement Severity: The average difference between ACV and salvage amount for claims that have been settled and salvaged.
Avg. ACV: The average pre-claim actual cash value of vehicles.
Avg. Salvage: The average proceeds from the sale of vehicles at salvage.

* Salvaged claims are undercounted for recent months due to the lag time between settlement and salvage. The year-over-year difference is misleading and not displayed.

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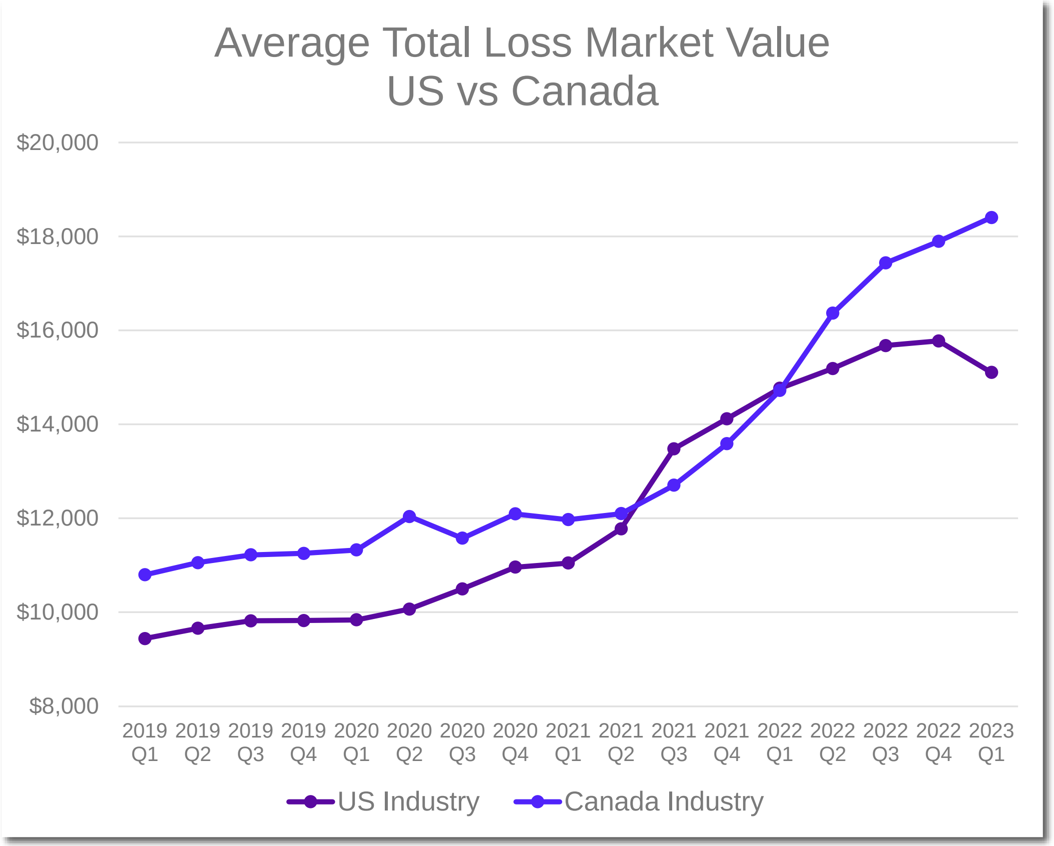
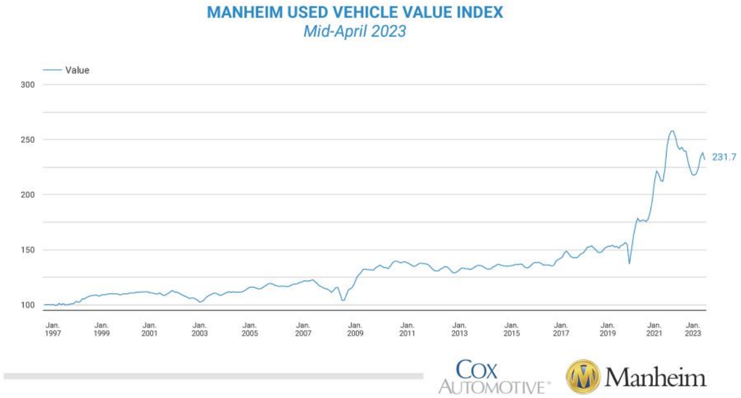
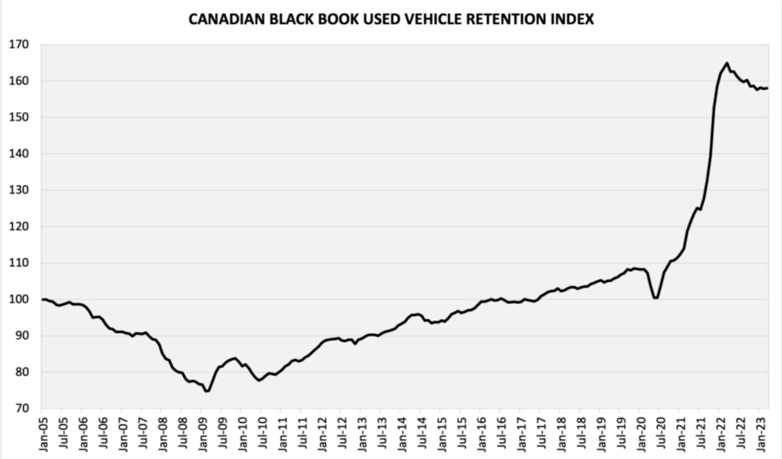
Auto Claims and Collision Industry Trends

Ryan Mandell, Director, Claims Performance

Used Vehicle Values Fluctuating but Likely to Decline







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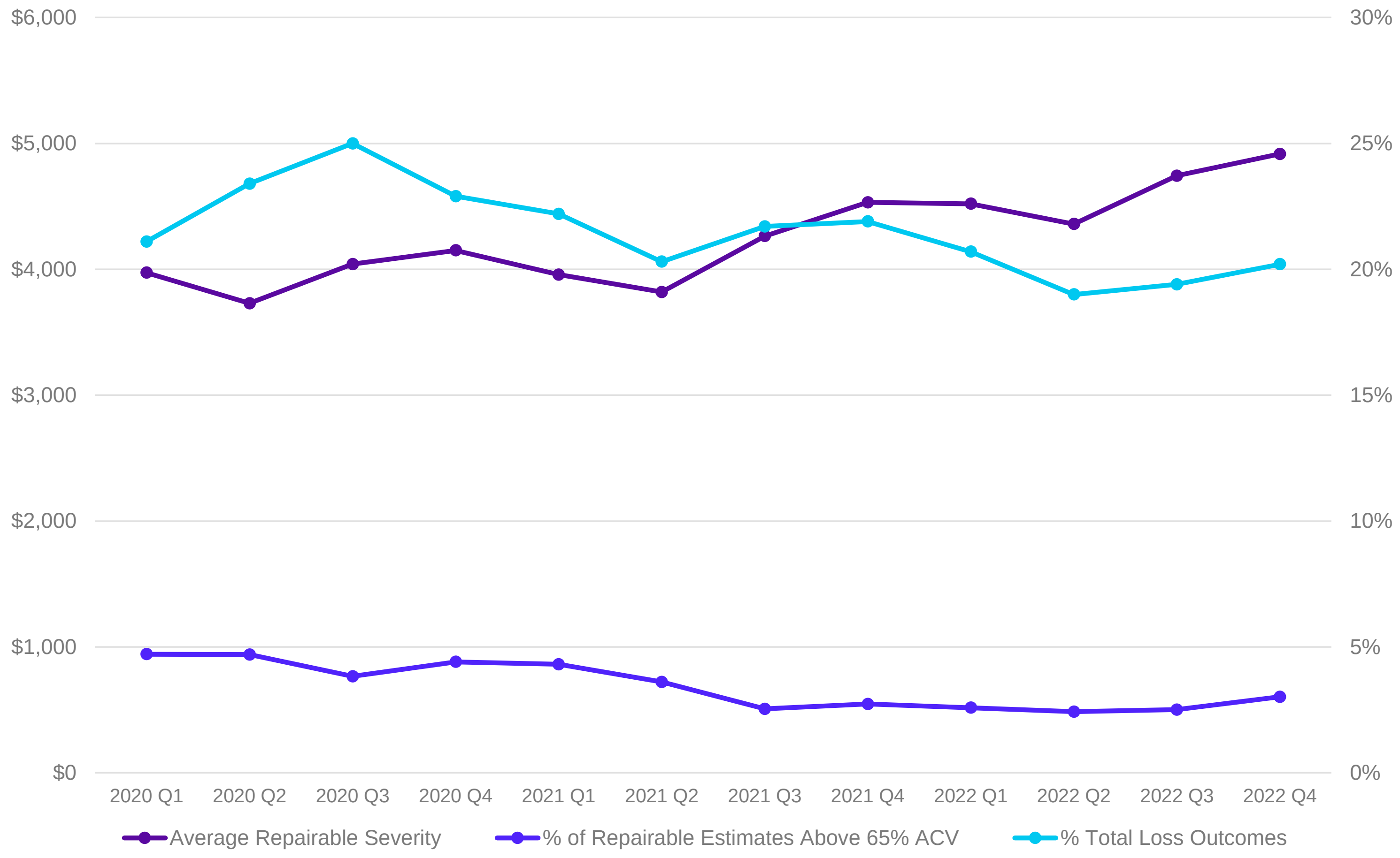
Repairable Severity Continues to Climb

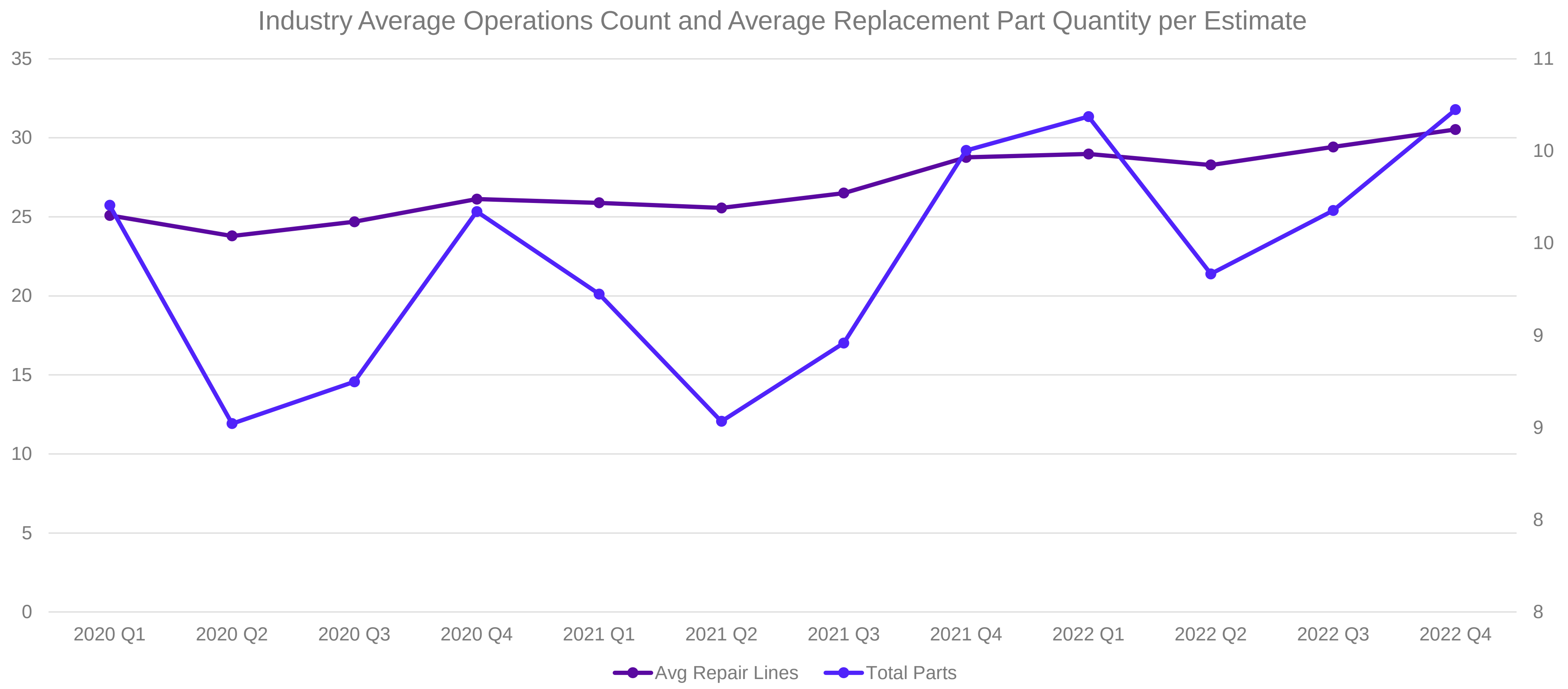
Higher ACVs mean fewer vehicles are being deemed total losses

Fewer repairable vehicles are reaching borderline total loss thresholds

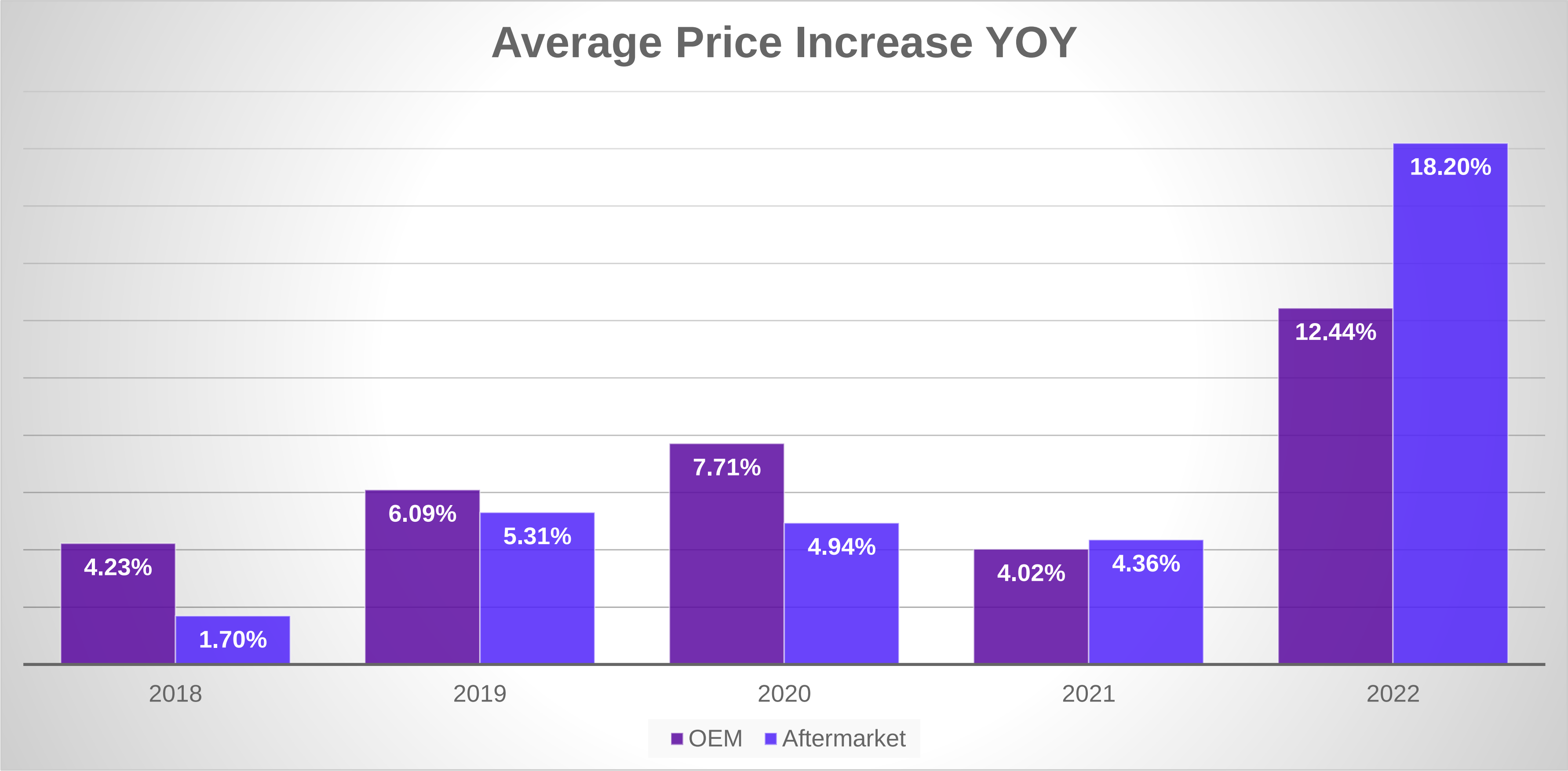
Increasing complexity continues to play a role as the car parc shifts toward newer vehicles with more advanced technology & construction



More Repair Lines and More Replacement Parts



Average Parts Prices Increased Dramatically in 2022



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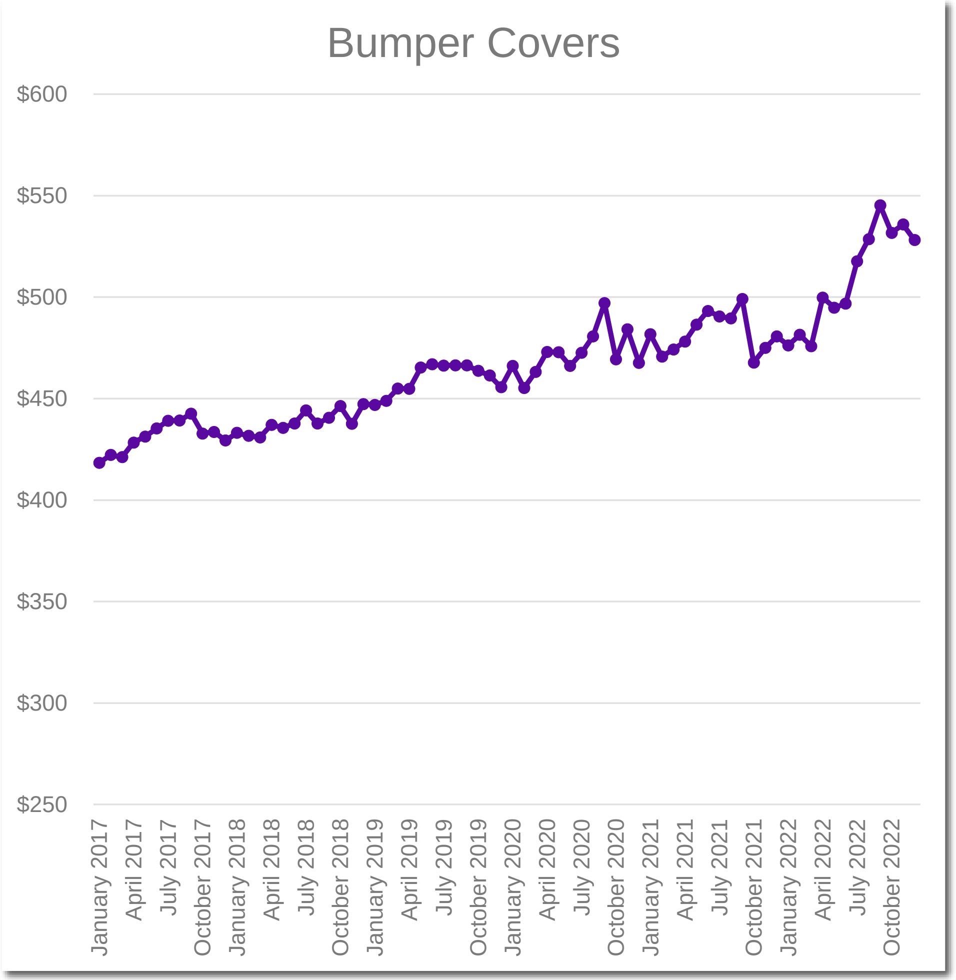
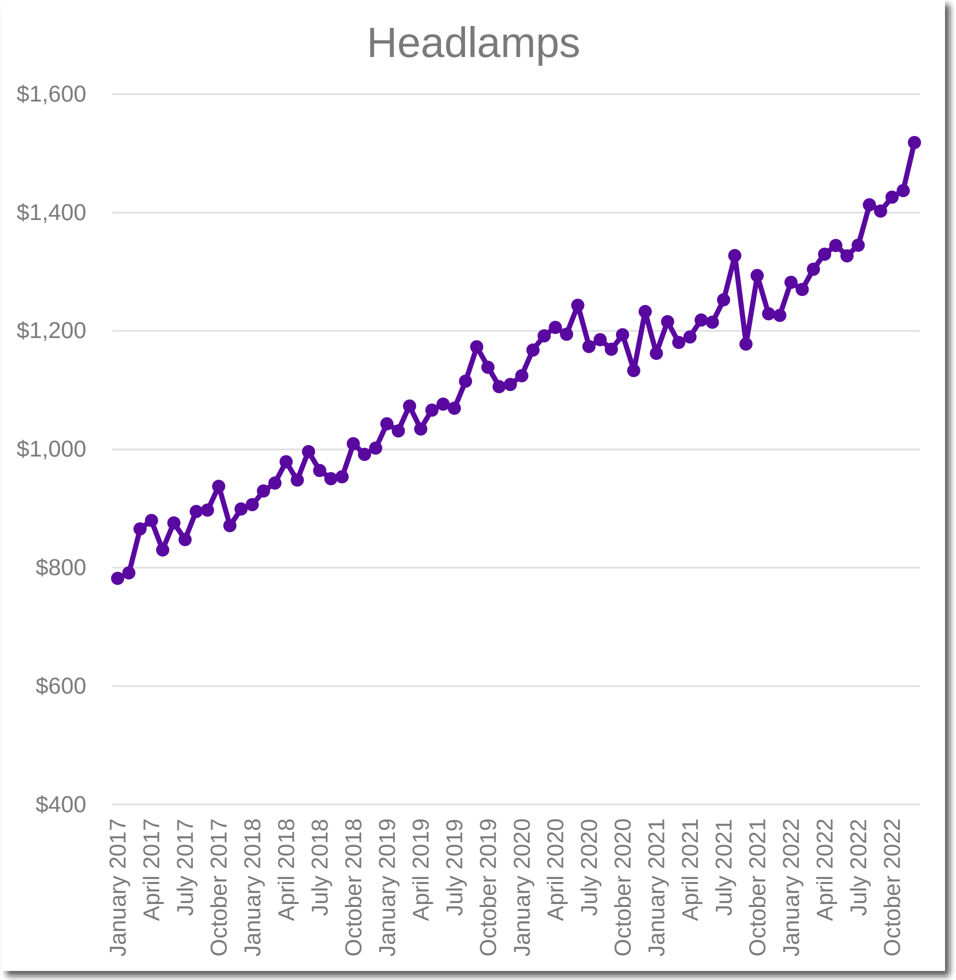
Complexity and Inflation Combine to Drive Prices Higher





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Thank You

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CAC (MPI) 2-17

Part and Chapter:	PART VI: Claims Forecasting & Loss Trend Analysis CF – Claims Forecasting	Page No.:	CAC (MPI) 1-69
PUB Approved Issue No:	11. Claims forecasting		
Topic:	Theft claims incurred are rising significantly year over year		
Sub Topic:			

Preamble to IR:

Per Figure 1 page 2 of CAC (MPI) 1-69:

Accident Year	Incurred ($000)	% increase
2020	15,634	
2021	24,182	55%
2022	29,402	22%

Question:

Please provide a narrative discussion on MPI’s strategy to intervene to mitigate the increasing costs of thefts on claims incurred.

Rationale for Question:

To assess MPIs strategy to mitigate the cost of thefts to rate payers.

RESPONSE:

While the number of total thefts were down slightly in 2022 (i.e., 4,982 in 2022 versus 5,335 in 2021), MPI experienced an increase in the costs incurred. This increase is consistent with rising vehicle values and parts costs across Canada. In Manitoba, used vehicle values increased significantly in 2021 and 2022, due to a variety of factors, including supply chain and production issues that were consistent across Canada and the United States. Increases in Actual Cash Value paid by MPI between 2021 and 2022 are consistent with increases in the Canadian industry. The cost of parts increased 30% in 2022, also consistent with increases across Canada. Vehicles are more complex, which also has an impact on the rising costs of parts. Modern vehicles are built with more parts and the materials chosen by the manufacturers lead to decreasing repairability of those parts typically damaged during a collision. Supply chain issues continued into 2022. This resulted in less parts from all categories (new, aftermarket, and recycled) being available in the market, with a corresponding increase in part prices due to continued demand.

MPI has numerous claims management control measures in place to address the rising cost of repairs, as noted in the response to Information Request *CAC (MPI) 2-8*.

MPI also works closely with law enforcement agencies in Manitoba and collaborates with the Winnipeg Police Stolen Auto Unit to investigate claims and identify trends.

CAC (MPI) 2-18

Part and Chapter:	Part II Overview	Page No.:	PUB (MPI) 1-14, page 5
PUB Approved Issue No:	5. Financial forecast		
Topic:	IFRS 14 Exposure Draft		
Sub Topic:			

Preamble to IR:

In response to PUB (MPI) 1-14(e) MPI stated:

> *"Current assessments indicate MPI is not precluded from the proposals provided in the current version of the exposure draft. MPI intends to remain compliant with IFRS and will adopt the Regulatory Assets and Regulatory Liabilities standard that may result from this exposure draft, if it is issued. MPI will assess its arrangements against the definitions of regulatory assets and regulatory liabilities that are provided in the standard that is eventually issued.*
>
> *MPI sought an opinion from PWC on this matter, which has been declined due to conflict.* ***There is another request for an external opinion underway that MPI expects to file in 2024 GRA."*** **Emphasis added.**

Question:

Please file a copy of the external opinion relating to the IFRS 14 Exposure Draft applicability to MPI when available.

Rationale for Question:

To review the external opinion on the applicability of IFRS 14 Exposure Draft to MPI.

RESPONSE:

Please refer to *PUB 2-12, Attachment A*.

CAC (MPI) 2-19

Part and Chapter:	**Part IX Expenses Fig. EXP-13, 14 Fig. EXP App 8-1, Fig. EXP App 12-1**	**Page No.:**	**PUB (MPI) 1-50(b), page 3**
PUB Approved Issue No:	**10. Cost of operations and cost containment measures**		
Topic:	**Compensation**		
Sub Topic:			

Preamble to IR:

Per Figure 3, page 3 line 8 2023/24FB shows a total salary increase of $16,781,000. The 2023/24FB line is missing on Figure 2.

Question:

a) Please provide a detailed analysis of the total salary increase of $16.8 million for 2023/24FB highlighting specific explanations for the 'Change due to Salary FTE and other Changes' of $11.4 million.

b) Please update Figure 2 to include 2023/24FB, if a correction is required.

Rationale for Question:

To review the significant increase in compensation expenses during the 2023/24FB fiscal year.

RESPONSE:

a) Please refer to *Figure 1*:

Figure 1 Total salary increase breakdown

Line No.		2022/23A vs 2023/24FB
1	Total salary Increase	16,781
2	Change due to Economic Increase	2,860
3	Change due step in scale	2,503
4	Total Change due to salary rate change	**5,363**
5	Salary - Vacancy Provision	919
6	Salaries - Northern Allowance	9
7	Salaries - Standby	44
8	Salaries - Shift	27
9	Salaries - Standby, Allowance	120
10	Change due to FTE	10,299
11	Change due to FTE & other changes	**11,418**
12	Total change	**16,781**

b) No correction required.

CAC (MPI) 2-20

Part and Chapter:	**Part VI Claims Forecasting and Loss Trend Analysis**	**Page No.:**	**PUB (MPI) 1-65 pages 4 and 5**
PUB Approved Issue No:	**11. Claims forecasting, including but not limited to PIPP and changes or enhancements to claims forecasting design**		
Topic:	**Claims trending**		
Sub Topic:			

Preamble to IR:

On pages 4 and 5 of PUB (MPI) 1-65 it states:

> *"b) MPI notes the effect of operational changes remains uncertain due to the long tail nature of Personal Injury Protection Plan (PIPP) claims and the time it takes for new patterns and trends to emerge and stabilize because of these operational changes. COVID-19 also prolonged the realization of the expected effect from the operational changes initiated in 2017."*

Question:

Please describe, for greater clarity, the operational changes initiated in 2017.

Rationale for Question:

To review operational changes made in 2017 improving the claims forecasting process.

RESPONSE:

The operational changes are outlined in PUB (MPI) 2-8.

- Centralization of intake to ensure the claim is assigned to the appropriate case manager early in the claim; resulting in increased consistency and more focus on the needs of the claimant and their return to work.

- Centralization of reserving, clerical work and permanent impairment administration, allowing case managers to focus on return to work.
- Multidisciplinary review, including medical professionals, leadership and case managers in the early stages of all off work claims to establish the most appropriate case management team.
- Established review points with leadership to ensure ongoing case management strategies on each claim align with the pro-active case management approach.

All of the changes identified above allow for more timely collection of medical information, increased consistency with case management practices and claims reserving.

CAC (MPI) 2-21

Part and Chapter:	Part V Nova	Page No.:	PUB (MPI) 1-98, page 3
PUB Approved Issue No:	20. Project Nova		
Topic:	Project Nova Update		
Sub Topic:			

Preamble to IR:

On page 3, PUB (MPI) 1-98 the response states:

> *"d) The start of Release 3 Discovery has been delayed until January 2024. This gives the new operational resources time to support the new systems freeing up the operational subject matter experts for the discovery and implementation of Release 3."*

Question:

Please explain the reasons for delaying Release 3 Discovery activities until January 2024 in light of pre-discovery having been completed. Please explain the impact of delaying Release 3 discovery on Program Nova schedule and budget.

Rationale for Question:

To understand the reasons for delaying Release 3 discovery since pre-discovery has just been completed.

RESPONSE:

Please refer to PUB (MPI) 2-59.

CAC (MPI) 2-22

Part and Chapter:	**Part V Nov Appendix 9 Figure NOV App 1 Project Nova IT Summit May 11-2023**	**Page No.:**	**PUB (MPI) 1-106 and 1-107**
PUB Approved Issue No:	**20. Project Nova**		
Topic:	**Program Nova deferred vs period expenses**		
Sub Topic:			

Preamble to IR:

In response to PUB (MPI) 1-106 (a) Figure 1 MPI provided the Program Nova deferred and period expenses by year from 2018/19A to 2027/28F. The Nova-Deferred total is $162,555,000 and Nova-Expense total is $70,567,000 for a grand total of $233,122,000.

In response to PUB (MPI) 1-107 (a) Figure 1 the ‘One-time Modernization Costs as at March 31, 2023, before contingency, is $233.1 million.

Question:

a) For greater clarity, please confirm that the grand total estimated Nova costs of $233.1 million contained in PUB (MPI) 1-106 (a) Figure 1 representing Nova – deferred and period expenses represent the One-time Modernization Costs, before contingency, reported in PUB (MPI) 1-107 (a) Figure 1 of $233.1 million. If this cannot be confirmed, please explain the difference.

b) Please confirm that the total One-time Modernization Costs will be deferred when incurred. If this cannot be confirmed, please provide an analysis, with particulars, of the amounts deferred and the amounts expensed when incurred.

c) PUB (MPI) 1-107 (a) Figure 1 line 6 'Ongoing Cost' column Increase/(Decrease) indicates an amount of $43.2 million. Subtracting column (d) – (c) indicates an amount of -$1.8 million. Please explain the difference.

Rationale for Question:

To clarify Program Nova costs deferral and expenses processes and details.

RESPONSE:

a) The One Time Modernization Costs estimates as at March 2023 (as shared in PUB (MPI) 1-106 and PUB (MPI) 1-107) are $233.1M. These forecasted costs represent full use of the $224.1M budget, plus a potential draw down on the contingency in the amount of $9M.

b) Please refer to PUB (MPI) 2-45 (b). Appendix 1 contains a breakdown of the Nova incurred costs, split by Deferred and Expense.

c) The original submission for PUB (MPI) 1-107 part (a) has been corrected and re-submitted as *MPI Exhibit #28*. The $43.2M figure had a formula error (i.e., column c was subtracting column b). The value has been updated to -$1.8M.

CAC (MPI) 2-23

Part and Chapter:	**Part VII RC Appendix 3**	**Page No.:**	**Page 88 of 135**
PUB Approved Issue No:	**2. Large loss loading based on Order 4/23, Directive 2**		
Topic:	**Serious Loss Loading**		
Sub Topic:			

Preamble to IR:

We are unable to replicate the "Serious Loss Loading per Directive 11.3" presented in Table 9 of Part VII - RC Appendix 3. We assume these values represent the "alternative serious losses based on collision claim counts."

Question:

Please provide the underlying calculations for these values.

Rationale for Question:

To evaluate MPIs compliance with the PUB Directive related to large loss loadings.

RESPONSE:

"Serious Loss Loading per Directive 11.3" represents the alternative serious losses calculated based on collision claim counts. MPI followed the methodology per PUB 1-8 of 2023 GRA as follows:

1. *Summing the serious losses over the last ten years for each vehicle type and calculating the ten-year average;*
2. *Summing the collision claims over the last five years for each vehicle type and calculating the five-year average;*

3. *Calculating a serious loss loading per collision claim for each vehicle type by dividing the ten-year average serious losses for each vehicle type by the five-year average collision claim count for each vehicle type;*
4. *Calculating the serious loss loading for each use and territory and year by multiplying the number of collision claims for each use and territory and year by the serious loss loading per collision claim for each vehicle type; and*
5. *The actual serious losses were to be removed and the loading calculated in d) was to be added.*

Please refer to *Appendix 1 – Serious Loss Load based on Collision Claim Counts* for the underlying calculations attached to the ebook.

CAC (MPI) 2-24

Part and Chapter:	Part VII RC Appendix 6	Page No.:	Page 2 of 9
PUB Approved Issue No:	13. Driver Safety Rating (DSR)		
Topic:	Driver Safety Rating		
Sub Topic:			

Preamble to IR:

MPI indicates that "For the 2024 GRA, MPI simulated the past data and allocated the drivers to +20 DSR levels based on their actual driving history. MPI used the simulated data for five years, comprising accident years 2016 to 2020, for +20 DSR levels. … The simulated allocation of DSR +1 to +20 therefore utilized the actual driving history from 2011 onwards" (emphasis added)

Question:

We are unclear as to the meaning of "simulated the past data." Would it be more appropriate to describe this process as "generating synthetic data using a simulation model fit to past data."

Please describe the process to "simulate data" and the development of the simulated allocation.

Rationale for Question:

To understand the basis of the information used for the DSR model.

RESPONSE:

The Driver Safety Rating (DSR) analysis contains DSR levels 1 – 15 only. MPI used the actual driving experience of each DSR level to allocate them into DSR 1 – 20, as if 20

DSR levels were in place. This data is referred to as the “simulated data”. For example, for all the policies that were in DSR +15 in 2011, if these policies were also in DSR +15 in 2012, then MPI revised their DSR level from DSR +15 to DSR +16. MPI repeated this to achieve five complete years of experience to DSR +20.

CAC (MPI) 2-25

Part and Chapter:	**Part VII RC Appendix 6**	**Page No.:**	**Page 3 of 9**
PUB Approved Issue No:	**13. Driver Safety Rating (DSR)**		
Topic:	**Driver Safety Rating**		
Sub Topic:			

Preamble to IR:

MPI states: "MPI organized the reported losses and earned units by territory, insurance use, rate group and simulated registered owner DSR level to facilitate the process of minimum bias procedure and determine the DSR level relativities."

Question:

Please provide the data referenced. Include the fitted relativities with the data.

Rationale for Question:

To evaluate the goodness of fit of the minimum bias procedure.

RESPONSE

Please refer to *Appendix 1 – Fitted DSR Level Relativities*.

Appendix 1
Fitted DSR Level Relativities

Figure App 1-1 Territory Units and Losses

Line No.	Territory	Incurred Losses	Earned Units
1	1	$1,567,716,237	2,008,820
2	2	$962,376,946	1,474,098
3	3	$32,869,056	43,481
4	4	$45,363,528	71,487
5	5	$154,147,079	174,728

Appendix 1
Fitted DSR Level Relativities

Figure App 1-2 Insurance Use Units and Losses

Line No.	Use	Incurred Losses	Earned Units
1	All Purpose Passenger Vehicle	$1,852,801,210	2,208,114
2	All Purpose Truck 4540 kg or less		
3	Farm Passenger Vehicle	$12,589,247	28,410
4	Pleasure Passenger Vehicle	$836,019,602	1,395,319
5	Pleasure Truck		
6	Passenger Vehicle-for-Hire (Passenger Vehicle)	$3,869,782	2,048
7	Passenger Vehicle-for-Hire (Truck 4,499 kg or less GVW)		
8	Collector Passenger Vehicle	$1,694,842	20,336
9	Collector Truck 4540 kg or less		
10	Farming All Purpose Truck 4540 kg or less	$54,684,144	116,885
11	Fishing All Purpose Truck 4540 kg or less	$814,020	1,501

Appendix 1
Fitted DSR Level Relativities

Figure App 1-3 Rate Group Units and Losses

Line No.	Rate Group	Incurred Losses	Earned Units
1	0	$1,638,606	26,363
2	1	$8,509,862	56,425
3	2	$2,470,269	17,364
4	3	$1,035,098	8,845
5	4	$2,633,996	12,510
6	5	$2,246,272	13,608
7	6	$1,922,671	13,590
8	7	$3,508,482	17,500
9	8	$6,752,810	19,241
10	9	$5,981,868	21,530
11	10	$6,829,934	22,598
12	11	$9,715,138	27,352
13	12	$7,894,336	28,449
14	13	$8,104,135	31,445
15	14	$23,284,575	37,610
16	15	$21,440,872	42,137
17	16	$21,527,032	49,529
18	17	$19,588,635	51,173
19	18	$21,387,260	52,599
20	19	$25,814,670	53,321
21	20	$28,054,653	57,452
22	21	$32,384,349	60,740
23	22	$43,683,957	70,338
24	23	$38,978,857	73,548
25	24	$52,157,635	84,378
26	25	$52,774,535	82,581
27	26	$71,401,856	97,382
28	27	$73,419,387	112,747
29	28	$89,146,362	128,738
30	29	$110,755,924	161,485
31	30	$155,209,199	212,932
32	31	$192,692,580	247,644
33	32	$241,912,708	294,185
34	33	$257,141,098	300,282
35	34	$255,419,468	306,837
36	35	$396,739,529	407,170
37	36	$217,302,405	216,383
38	37	$130,338,291	129,169
39	38	$73,465,123	76,559
40	39	$29,882,309	31,635
41	40	$17,326,103	17,241

Appendix 1
Fitted DSR Level Relativities

Figure App 1-4 Vehicle Type Units and Losses

Line No.	Vehicle Type	Incurred Losses	Earned Units
1	Passenger Vehicle	$2,193,635,310	2,896,153
2	Light Truck	$568,837,537	876,461

Appendix 1
Fitted DSR Level Relativities

Figure App 1-5 Fitted Relativities by DSR Level

Line No.						
1	**DSR**	**Incurred Losses**	**Earned Units**	**Balanced Relativity**	**Fiited Relativity**	**Balanced Fitted Relativity**
2	20	$109,080,075	383,229	0.4656	0.3771	0.3815
3	19	$59,217,352	143,369	0.5896	0.4471	0.4522
4	18	$90,010,664	194,508	0.6460	0.5171	0.5230
5	17	$141,880,142	272,787	0.7178	0.5871	0.5938
6	16	$206,063,706	364,319	0.7752	0.6571	0.6646
7	15	$156,606,230	269,935	0.7895	0.7271	0.7354
8	14	$110,607,219	170,687	0.8984	0.7971	0.8062
9	13	$118,316,886	187,599	0.8737	0.8671	0.8770
10	12	$106,985,559	151,703	0.9676	0.9371	0.9478
11	11	$106,916,792	170,824	0.8572	1.0071	1.0186
12	10	$146,938,531	182,934	1.0992	1.0771	1.0894
13	9	$95,846,405	118,686	1.0889	1.1471	1.1602
14	8	$91,879,017	121,905	1.0117	1.2171	1.2310
15	7	$90,078,987	113,176	1.0657	1.2871	1.3018
16	6	$92,194,520	103,201	1.1889	1.3571	1.3726
17	5	$102,081,079	105,857	1.2839	1.4271	1.4434
18	4	$93,828,524	100,845	1.2353	1.4971	1.5142
19	3	$103,460,534	96,862	1.4128	1.5670	1.5850
20	2	$119,144,712	99,205	1.5894	1.6370	1.6558
21	1	$112,634,385	98,455	1.5145	1.7070	1.7266
22	0	$137,635,595	98,924	1.8444	1.7770	1.7974
23	-1	$53,900,043	38,298	1.8821	1.8470	1.8681
24	-2	$48,855,613	31,371	2.0727	1.9170	1.9389
25	-3	$38,366,337	22,737	2.2500	1.9870	2.0097
26	-4	$45,658,688	28,944	2.1058	2.0570	2.0805
27	-5	$29,193,504	18,852	2.0611	2.1270	2.1513
28	-6	$21,014,129	13,857	2.0330	2.1970	2.2221
29	-7	$20,933,494	13,216	2.1224	2.2670	2.2929
30	-8	$16,717,303	9,278	2.4461	2.3370	2.3637
31	-9	$17,860,221	7,874	3.0538	2.4070	2.4345
32	-10	$13,635,345	7,326	2.5046	2.4770	2.5053
33	-11	$8,790,059	4,644	2.5723	2.5470	2.5761
34	-12	$8,987,784	4,942	2.4693	2.6170	2.6469
35	-13	$10,268,511	5,554	2.5659	2.6870	2.7177
36	-14	$4,475,689	2,553	2.3726	2.7570	2.7885
37	-15	$4,933,879	2,393	2.8260	2.8270	2.8593
38	-16	$3,869,480	1,947	2.7213	2.8969	2.9301
39	-17	$3,976,306	1,489	3.6258	2.9669	3.0009
40	-18	$2,642,331	1,237	2.9520	3.0369	3.0717
41	-19	$2,082,387	1,011	2.8842	3.1069	3.1425
42	-20	$14,904,828	6,082	3.4220	3.1769	3.2133

CAC (MPI) 2-26

Part and Chapter:	**Part VII RC Appendix 6**	**Page No.:**	**Page 3 of 9**
PUB Approved Issue No:	**13. Driver Safety Rating (DSR)**		
Topic:	**Driver Safety Rating**		
Sub Topic:			

Preamble to IR:

MPI indicates that it fitted curves to the DSR level relativities using regression analysis.

Question:

a) Please confirm that the regression model assumes that DSR level is a continuous numeric variable, rather than a (discrete) ordered categorical variable.

b) Please confirm that this approach assumes that there is a constant absolute (rather than percentage) difference for each change in DSR level.

c) Provide the raw data and fitted models underlying Figure RC App 6-1.

d) Provide a workbook reference for Figure RC App 6-2 through Figure RC App 6-4.

Rationale for Question:

To evaluate the reasonableness of assumptions underlying the DSR model.

RESPONSE:

a) The regression model used to produce *Part VII Risk Classification RC Appendix 6 Figure App 6-1* assumes that DSR level is a (discrete) ordered categorical variable. As such, DSR levels -20 to +20 can also be translated to categories 1 to 41, respectively.

b) MPI confirms that there is a constant absolute difference for each change in DSR level, rather than percentage.

c) Please refer *CAC 2-25 Appendix 1 – Fitted DSR Level Relativities*.

d) Please refer to *Appendix 1 – DSR Level Relativities Discounts and Surcharges*.

Appendix 1
DSR Level Relativities Discounts and Surchages

Figure App 1-1 DSR Relativities

Line No.	DSR	Fitted Relativity	Loss Cost	Fixed Expenses	Variable Expenses	Total Premium	Overall Relativity
1	**20**	0.3815	$411.22	$150.10	$44.20	$605.53	0.4571
2	**19**	0.4522	$487.54	$150.10	$50.21	$687.86	0.5192
3	**18**	0.5230	$563.86	$150.10	$56.22	$770.19	0.5813
4	**17**	0.5938	$640.18	$150.10	$62.23	$852.52	0.6435
5	**16**	0.6646	$716.50	$150.10	$68.24	$934.85	0.7056
6	**15**	0.7354	$792.82	$150.10	$74.25	$1,017.18	0.7678
7	**14**	0.8062	$869.14	$150.10	$80.26	$1,099.51	0.8299
8	**13**	0.8770	$945.46	$150.10	$86.27	$1,181.84	0.8920
9	**12**	0.9478	$1,021.78	$150.10	$92.28	$1,264.17	0.9542
10	**11**	1.0186	$1,098.10	$150.10	$98.29	$1,346.50	1.0163
11	**10**	1.0894	$1,174.42	$150.10	$104.30	$1,428.83	1.0785
12	**9**	1.1602	$1,250.74	$150.10	$110.31	$1,511.16	1.1406
13	**8**	1.2310	$1,327.06	$150.10	$116.32	$1,593.49	1.2028
14	**7**	1.3018	$1,403.38	$150.10	$122.33	$1,675.82	1.2649
15	**6**	1.3726	$1,479.70	$150.10	$128.34	$1,758.15	1.3270
16	**5**	1.4434	$1,556.02	$150.10	$134.35	$1,840.48	1.3892
17	**4**	1.5142	$1,632.34	$150.10	$140.36	$1,922.81	1.4513
18	**3**	1.5850	$1,708.66	$150.10	$146.37	$2,005.14	1.5135
19	**2**	1.6558	$1,784.98	$150.10	$152.39	$2,087.47	1.5756
20	**1**	1.7266	$1,861.30	$150.10	$158.40	$2,169.80	1.6378
21	**0**	1.7974	$1,937.62	$150.10	$164.41	$2,252.13	1.6999
22	**-1**	1.8681	$2,013.94	$150.10	$170.42	$2,334.46	1.7620
23	**-2**	1.9389	$2,090.26	$150.10	$176.43	$2,416.79	1.8242
24	**-3**	2.0097	$2,166.58	$150.10	$182.44	$2,499.12	1.8863
25	**-4**	2.0805	$2,242.90	$150.10	$188.45	$2,581.45	1.9485
26	**-5**	2.1513	$2,319.22	$150.10	$194.46	$2,663.78	2.0106
27	**-6**	2.2221	$2,395.54	$150.10	$200.47	$2,746.11	2.0728
28	**-7**	2.2929	$2,471.86	$150.10	$206.48	$2,828.44	2.1349
29	**-8**	2.3637	$2,548.18	$150.10	$212.49	$2,910.77	2.1970
30	**-9**	2.4345	$2,624.50	$150.10	$218.50	$2,993.10	2.2592
31	**-10**	2.5053	$2,700.82	$150.10	$224.51	$3,075.43	2.3213
32	**-11**	2.5761	$2,777.13	$150.10	$230.52	$3,157.76	2.3835
33	**-12**	2.6469	$2,853.45	$150.10	$236.53	$3,240.09	2.4456
34	**-13**	2.7177	$2,929.77	$150.10	$242.54	$3,322.42	2.5078
35	**-14**	2.7885	$3,006.09	$150.10	$248.55	$3,404.75	2.5699
36	**-15**	2.8593	$3,082.41	$150.10	$254.56	$3,487.07	2.6320
37	**-16**	2.9301	$3,158.73	$150.10	$260.57	$3,569.40	2.6942
38	**-17**	3.0009	$3,235.05	$150.10	$266.58	$3,651.73	2.7563
39	**-18**	3.0717	$3,311.37	$150.10	$272.59	$3,734.06	2.8185
40	**-19**	3.1425	$3,387.69	$150.10	$278.60	$3,816.39	2.8806
41	**-20**	3.2133	$3,464.01	$150.10	$284.61	$3,898.72	2.9427
42	**All DSR Levels***		**$1,078.04**	**$150.10**	**$96.71**	**$1,324.86**	

Appendix 1
DSR Level Relativities Discounts and Surchages

DSR Relativities (cont'd)

Line No.	DSR	Fitted Relativity	Loss Cost	Fixed Expenses	Variable Expenses	Total Premium	Overall Relativity

Line No.

43 *2023 GRA, Order No. 4/23 January 6, 2023*
44 Amounts for Private Passenger
45 Amounts for 'Colli, Comp, PD and BI' and 'PIPP' include claims costs and expenses
46 Amount for 'Other Loss Cost and Exp' includes the following:
47 Fixed expenses - operating expenses, regulatory/appeal, road safety, commission flat fees,
48 fleet rebates, anti-theft discount, reinsurance
49 Variable expenses - premium taxes and commissions on driver premiums

Appendix 1
DSR Level Relativities Discounts and Surchages

Figure App 1-2 DSR Discounts and Surcharges

Line No.	DSR	Overall Relativity	Calculated Discount (a)	Current Discount	Variance	Calculated Surcharge (b)	Current Surcharge
1	**20**	0.4571	73.1%	--	--		
2	**19**	0.5192	69.5%	--	--		
3	**18**	0.5813	65.8%	--	--		
4	**17**	0.6435	62.1%	40.0%	22.1%		
5	**16**	0.7056	58.5%	40.0%	18.5%		
6	**15**	0.7678	54.8%	40.0%	14.8%		
7	**14**	0.8299	51.2%	34.0%	17.2%		
8	**13**	0.8920	47.5%	33.0%	14.5%		
9	**12**	0.9542	43.9%	32.0%	11.9%		
10	**11**	1.0163	40.2%	31.0%	9.2%		
11	**10**	1.0785	36.6%	29.0%	7.6%		
12	**9**	1.1406	32.9%	27.0%	5.9%		
13	**8**	1.2028	29.2%	26.0%	3.2%		
14	**7**	1.2649	25.6%	26.0%	-0.4%		
15	**6**	1.3270	21.9%	21.0%	0.9%		
16	**5**	1.3892	18.3%	16.0%	2.3%		
17	**4**	1.4513	14.6%	16.0%	-1.4%		
18	**3**	1.5135	11.0%	11.0%	0.0%		
19	**2**	1.5756	7.3%	10.0%	-2.7%		
20	**1**	1.6378	3.7%	5.0%	-1.3%		
21	**0**	1.6999	0.0%	0.0%	0.0%		
22	**-1**	1.7620				$102.37	$200.00
23	**-2**	1.8242				$159.73	$200.00
24	**-3**	1.8863				$217.10	$300.00
25	**-4**	1.9485				$274.47	$400.00
26	**-5**	2.0106				$331.84	$450.00
27	**-6**	2.0728				$389.20	$500.00
28	**-7**	2.1349				$446.57	$650.00
29	**-8**	2.1970				$503.94	$800.00
30	**-9**	2.2592				$561.30	$900.00
31	**-10**	2.3213				$618.67	$1,000.00
32	**-11**	2.3835				$676.04	$1,200.00
33	**-12**	2.4456				$733.41	$1,400.00
34	**-13**	2.5078				$790.77	$1,600.00
35	**-14**	2.5699				$848.14	$1,800.00
36	**-15**	2.6320				$905.51	$2,000.00
37	**-16**	2.6942				$962.87	$2,200.00
38	**-17**	2.7563				$1,020.24	$2,400.00
39	**-18**	2.8185				$1,077.61	$2,600.00
40	**-19**	2.8806				$1,134.98	$2,800.00
41	**-20**	2.9427				$1,192.34	$3,000.00
42	**Average Undiscounted Premium (c)**					**$1,569.27**	

Notes:
(a) 1 - Overall Relativity for the respective DSR level / Overall Relativity for DSR level 0
(b) [(Overall Relativity for the respective DSR level / Overall Relativity for DSR level 0)-1]
* Average Undiscounted Premium + $45
(c) From the Rate Model; reflects the average for merit eligible passenger vehicles and light trucks based on 2023/24 approved rates

Appendix 1
DSR Level Relativities Discounts and Surchages

Figure App 1-3 DSR Applied-for Discounts

Line No.	DSR	Overall Relativity	Rounded Discount (a)	Current Discount	Proposed Discount (b) and (c)
1	**18**	0.5813	66.0%	NA	48.0%
2	**17**	0.6435	62.0%	40.0%	45.0%
3	**16**	0.7056	58.0%	40.0%	44.0%
4	**15**	0.7678	55.0%	40.0%	43.0%
5	**14**	0.8299	51.0%	34.0%	38.0%
6	**13**	0.8920	48.0%	33.0%	36.0%
7	**12**	0.9542	44.0%	32.0%	35.0%
8	**11**	1.0163	40.0%	31.0%	33.0%
9	**10**	1.0785	37.0%	29.0%	31.0%
10	**9**	1.1406	33.0%	27.0%	28.0%
11	**8**	1.2028	29.0%	26.0%	26.0%
12	**7**	1.2649	26.0%	26.0%	26.0%
13	**6**	1.3270	22.0%	21.0%	21.0%
14	**5**	1.3892	18.0%	16.0%	16.0%
15	**4**	1.4513	15.0%	16.0%	16.0%
16	**3**	1.5135	11.0%	11.0%	11.0%
17	**2**	1.5756	7.0%	10.0%	10.0%
18	**1**	1.6378	4.0%	5.0%	5.0%
19	**0**	1.6999	0.0%	0.0%	0.0%

Notes:

(a) Round (1 - Overall Relativity for the respective DSR level / Overall Relativity for DSR level 0)

(b) DSR 18: [Rounded Discount for DSR level +18 / Rounded Discount for DSR level -+17]
*Proposed Discount for DSR Level +17

(c) DSR Level 0 to +17: Current Discount for respective DSR level increased 1/4 of the way to Rounded Discount, per *2023 Order No. 4/23 January 6, 2023*

CAC (MPI) 2-27

Part and Chapter:	PART VII Rate Indications	Page No.:	Page 14 of 28
PUB Approved Issue No:	1. Projected claims, expenses, and vehicle counts, based on accepted actuarial practice in Canada		
Topic:	Change in Operating Expense Provision		
Sub Topic:			

Preamble to IR:

In RI-10 a break-even analysis is presented. The operating expense provision per vehicle is $53.65. In the prior GRA, a comparable break-even analysis is presented in RM-13. In this case, the operating expense provision per vehicle is $76.17.

Question:

Explain the basis for the changes in assumptions resulting in the change in the operating expense provision from $76.17 in the prior GRA to $53.65 in the current 2024 GRA.

Rationale for Question:

To have a complete understanding of the assumptions underlying the calculation of this provision; specifically, to understand amendments or exclusions in this GRA, and the basis for those changes.

RESPONSE:

The decrease in operating expense is primarily due to removal of initiative expenses for rate-setting purposes.

Per PUB Order, the expense forecast for rate-setting purposes in the 2024/25 rating year is adjusted by removal of all initiative expenses. These initiative expenses were included in the provisional filing in the prior GRA; however, were also removed in the 2023/24 rating year per final PUB order.

If MPI included the initiative expenses in the 2024 GRA, the cost per unit would be $74.54, which is comparable to the provisional filing in the 2023 GRA.

CAC (MPI) 2-28

Part and Chapter:	**Part I Table of Contents** **Part II Minimum Filing Requirements**	**Page No.:**	**P 2**
PUB Approved Issue No:	**4. Compliance with Orders 4/23 and 35/23, and any outstanding directives from past orders**		
Topic:	**GRA format**		
Sub Topic:			

Preamble to IR:

In the 2023 GRA, the Faculty of Law Robson Hall Rights Clinic, University of Manitoba made a presentation and recommendations to the PUB. As summarized by the PUB in Order 4/23:

> *"Finally, the presenters raised issues regarding the manner in which the GRA is presented for public access. The GRA itself is nearly four thousand pages, and it is difficult to locate information relevant to the public due to this length. The presenters asked the Board to consider the following recommendations with respect to future GRA formats:*
>
> *• A master table of contents should be inserted at the beginning of the GRA;*
>
> *• In addition to the GRA, MPI should produce a document specifically catered to the general public. The document would be shorter in length and would use language that the average concerns citizen could understand."*

In PUB Order 4/23, the PUB indicated that:

> *"The Board anticipates that the Minimum Filing Requirements for the 2024 GRA will include a requirement for a master table of contents in the format suggested by the presenters."*

MPI's 2024 GRA includes a Table of Contents in Part I, as requested by the Minimum Filing Requirement A.1 Accessibility: Please include a master table of contents at the beginning of the application (found at *Part I Introduction Chapter*).

The Ontario Energy Board ("OEB") is the independent regulator of Ontario's electricity and natural gas sectors. The OEB has previously stated a requirement for electricity distribution rate applications on cost of service to include:

> *"The applicant must also provide a brief but complete summary of its application that will be posted as a stand-alone document on the OEB's website for review by the general public and be made available to customers of the applicant. This summary must include the main requests or proposals in the application with appropriate section references to the application content, as well as the rationale behind each request. The summary must include a description of the impacts of the requests, including bill impacts for a consumer using 750 kWh, as well as a typical consumer for a distributor's service area for each of the residential and small business customer classes. The summary must be written in plain language in a way that is easily comprehensible to residential and small business customers." (see https://www.oeb.ca/sites/default/files/Chapter-2-Filing-Requirements-20200514-track-copy.pdf).*

Question:

a) In addition to the table of contents included in Part I Introduction Chapter, please explain whether MPI also considered creating and making public a "document specifically catered to the general public", as recommended by the Faculty of Law Robson Hall Rights Clinic, University of Manitoba in the 2023 GRA. If this was not considered, please explain why not. If this option was considered and rejected, please explain why.

b) Please comment on whether MPI has investigated what other regulated entities are doing to increase accessibility of the general public to their rate applications (for example, the OEB's plain language summary request excerpted above).

c) Please comment on the usefulness of a plain language summary of MPI's rate application catered to the general public.

Rationale for Question:

To understand steps taken by MPI to increase accessibility to its rate application for the general public.

RESPONSE:

a) MPI considered the recommendation and, as a result, revised the GRA outline. MPI included new chapters and reorganized its evidence, as explained in section OV.3 of *Overview Chapter*:

> *"The 2024 GRA is based on a renewed outlined that is designed to assist in the reading and comprehension of the application. MPI focused on improving the flow of the application by reorganizing its content."*

In Part I of the GRA, MPI included a master *Table of Contents*[1] and created the *Introduction Chapter*, which introduces readers to each section of the GRA, providing a very simplified view of the chapters and content. The *Overview Chapter* remains in place to clarify the rate sought and provide a summary of other important themes in the GRA. Finally, MPI also added a *Glossary* following the recommendations of University of Manitoba Faculty of Law students.

b) MPI engaged the Insurance Corporation of British Columbia (ICBC) to share knowledge and ultimately improve the quality of its regulatory filings. While MPI appreciates the framework of British Columbia Utilities Commissions (BCUC) differs from that of the PUB, ICBC's latest application[2] follows a similar approach, from an accessibility standpoint.

[1] Requirement A.1. established by Public Utilities Board Order 64/23.
[2] https://www.bcuc.com/OurWork/ViewProceeding?applicationid=1068

MPI suggests that, when considering whether to change the structure or content of a GRA, a holistic view of the current regulatory process is needed. The plain language summary mentioned above is required by The Ontario Energy Board for Electricity Distribution Rate Applications, based on cost of service. The structure of these applications is also defined in the page 3 of the document quoted above[3], which is essentially composed of the following nine exhibits:

- Exhibit 1 Administrative Documents
- Exhibit 2 Rate Base (includes the Distribution System Plan)
- Exhibit 3 Operating Revenue
- Exhibit 4 Operating Expenses
- Exhibit 5 Cost of Capital and Capital Structure
- Exhibit 6 Calculation of Revenue Deficiency/Sufficiency
- Exhibit 7 Cost Allocation
- Exhibit 8 Rate Design
- Exhibit 9 Deferral and Variance Accounts

MPI currently relies on a GRA to approve rates every year, which pace, scope, and complexity differs from cost of service applications.

c) The GRA is largely based on complex actuarial and financial concepts and models. The evidence filed before the PUB every year relies on university-level methodologies and techniques. Well-known and highly educated professionals are engaged by both MPI and interveners to create and test over thousands of pages with hundreds of tables of qualified evidence. MPI believes that the use of technical and complex language is unavoidable, thereby making it difficult to produce a plain language summary. Additionally, MPI updates its application through the information request process, its October Update and its Oral Hearing, meaning that the entirety of its GRA is not available until the end of the Oral Hearing. MPI endeavours to provide a comprehensive summary in its closing submissions.

[3] https://www.oeb.ca/sites/default/files/Chapter-2-Filing-Requirements-20200514-track-copy.pdf

However, MPI has a Regulatory Affairs department that welcomes questions and enquiries from the public at any time. This channel may be used for those aiming to understand the filings and familiarize themselves with the proceeding. The communications team of MPI is also available and committed to continue using plain language to clarify its requests and, more importantly, the consequences of the relief sough in every application, in a way that is palatable and accessible to its customers.

CAC (MPI) 2-29

Part and Chapter:	Part II COM Appendix 3	Page No.:	COM Appendix 3, p 78 of 197 (PDF Page 161 of 4085)
PUB Approved Issue No:	22. Asset Liability Management Study		
Topic:	Liability Benchmark Portfolio		
Sub Topic:			

Preamble to IR:

The questions below have been modified from those in CAC (MPI) 1-75 to clarify the information requested.

Mercer's A/L Studies developed both nominal and real versions of Liability Benchmark Portfolios. In some cases, MPI may have adopted the nominal versions, but the questions below focus on the changes in the real versions of those portfolios from one A/L Study to the next.

Question:

a) Please provide a table that shows how the Real Liability Benchmark Portfolios have changed since the last A/L Study using the same format as in CAC (MPI) 1-75.

b) Please explain any material changes in any of the Real Liability Benchmark Portfolios since the last Study, along with the rationale for the changes.

Rationale for Question:

To understand how the economic characteristics of the liabilities are modeled.

RESPONSE:

a) The *real liability benchmarks* are only applicable to the Basic and Pension/EFB portfolios. The *real liability benchmarks* for the Basic and Pension/EFB portfolios from the last A/L study are shown below for comparison to the current A/L study.

In the current A/L Study, the Basic portfolio was separated into short-term and long-term in order to develop portfolios to back the respective claims. To aid in comparison to the prior A/L Study, we have shown the Combined Basic liability benchmark portfolio. Below EFB is from the "Status Quo scenario" under the Current A/L Study; the prior study only modelled Pension.

Canadian Fixed Income Index	Basic		Pension / EFB	
	Prior A/L Study	Current A/L Study	Prior A/L Study	Current A/L Study
Treasury Bills	26%	3%	-11%	-
Short Provincial Bonds	8%	39%	-	-
Mid Provincial Bonds	-	-	-	-
Universe Bonds	-	-	-	-
Long Bonds	-	-	-	42%
Long Provincial Bonds	-	-	30%	-
Strip 20+ Bonds	-	-	-	12%
Real Return Bonds	66%	58%	81%	46%

b) Each portfolio's total duration is similar between the last A/L Study and the current A/L Study, but the real duration at the time of the most recent A/L study was lower than the real duration at the time of the prior A/L study. An explanation of the changes in the Real Liability Benchmark Portfolios since the last A/L Study and supporting rationale for each portfolio is provided below.

Basic: In the current A/L Study, there is a slightly lower allocation to real return bonds, representing less liability sensitivity to inflation, whereas the total duration is very similar. The Real Liability Benchmark in the current A/L Study has higher allocations to short-term provincial bonds compared to the prior A/L study, in order to lengthen the duration to align with the total Basic Liability duration.

Pension/EFB: The current A/L study has a lower allocation to real return bonds, representing less liability sensitivity to inflation. The liability benchmark in the current A/L Study has higher allocations to long-term and 20+ strip bonds compared to the prior A/L study in order to lengthen the total duration due to the lower relative allocation to real return bonds. When determining the liability benchmark in the last A/L Study, Strip 20+ bonds were not considered. Therefore, “leverage,” as represented by the negative allocation to Treasury Bills, had to be used in order to extend the duration of the liability benchmark to match the relatively long overall duration of Pension liabilities. In the current A/L study, Mercer elected to use Strip 20+ bonds instead, which removed any need for “leveraging” as Strip 20+ bonds have a very long duration.

CAC (MPI) 2-30

Part and Chapter:	Part XI INV Appendix 12	Page No.:	INV Appendix 12, p12 of 184 (PDF page 3744 of 4085)
PUB Approved Issue No:	22. Asset Liability Management Study 17. Risk Assessment and Risk Management		
Topic:	Interest Rate Risk Management		
Sub Topic:			

Preamble to IR:

MPI's response to CAC (MPI) 1-78 did not fully explain the similarities and differences in the interest rate risk management of the two types of fixed income assets – i.e., real return bonds (RRBs) versus non-RRB fixed income.

For example, it is not clear whether moment matching would be part of the interest rate risk management practice for RRBs (i.e., similar to the approach used for non-RRBs).

Question:

a) How will MPI's management of the risks in the RRB portfolio, including any related leverage, be similar to its management of risks in other (non-RRB) fixed income portfolios?

b) How will MPI's management of the risks in the RRB portfolio, including any related leverage, be different from its management of risks in other (non-RRB) fixed income portfolios?

c) For any material differences noted above, please explain the reasons for the differences.

Rationale for Question:

To better understand and assess the consistency with which real and nominal interest rate risks are modeled and managed.

RESPONSE:

a) The interest rate risk will continue to be managed by matching the first two moments of the assets and the liabilities. If the inflation risk is hedged with physical RRBs only, they will be incorporated to the moment matching assets. The asset portfolio, including the RRB, and the liabilities shall have similar sensitivity to changes in interest rates.

   If the inflation risk is hedged using the long – short overlay strategy, inflation hedging will be independent from interest rate hedging because a long - short overlay structure has no material sensitivity to changes in interest rates. The long – short overlay strategy would not require any material changes to the current moment matching portfolio.

b) If the inflation risk is hedged using physical RRB only, MPI would revise the liability discount rate curve to reflect the exposure to Canada Federal bonds in order to maintain the efficacy of the interest rate hedge. This would result in a lower discount rate curve than the current discount curve and an increase of the present value of the Basic Claims. The use of <u>physical</u> U.S. TIPS would also require putting in place a currency hedging structure. If the inflation risk is hedged using the long – short overlay strategy, no changes to the liability discount rate curve are needed. If U.S. TIPS are used within an <u>overlay strategy</u>, the portfolio would not be materially exposed to currency risk.

   The use of a long – short overlay strategy would expose the portfolio to counterparty risk. The counterparty risk would be mitigated through holding collateral, diversification and dealing with highly rated counterparties.

c) The liability discount rate curve reflects the composition of the Basic Claims assets, also designated as the reference portfolio, less an adjustment for price factors not related to the liabilities. For the physical only RRB strategy, MPI would use nominal Canada Federal bonds in proportion to the exposure to RRBs in the composition of the reference portfolio. Replacing a portion of the provincial bonds or corporate bonds by lower-yielding Federal bonds would lower the discount rates and increase the present value of the liabilities.

CAC (MPI) 2-31

Part and Chapter:	Part XII RFM Appendix 4 Part XI INV	Page No.:	
PUB Approved Issue No:	17.Risk Assessment and Risk Management		
Topic:	Longer-term Risk Trend		
Sub Topic:			

Preamble to IR:

In CAC (MPI) 1-84, MPI provided the following table of the asset mix of MPI's policy portfolio, measured on a consolidated basis (i.e., all segments).

Note: It appears the title headers are inverted (i.e., 2024 should be on the right, and 2017 should be on the left).

Figure 1 MPI Policy Asset Mix Evolution

Line No.	Asset Class	2024 GRA	2017 GRA	Increase (Decrease)
1	Fixed Income			
2	Cash	0.0%	1.1%	1.1%
3	Marketable Bonds	50.0%	62.9%	12.9%
4	Non_Marketable Bor	20.0%	12.3%	-7.7%
5	Private Debt	0.0%	6.0%	6.0%
6	Public Equities			
7	Canadian Equity	10.0%	3.3%	-6.7%
8	Global Equity	0.0%	7.2%	7.2%
9	U.S. Equity	5.0%	0.0%	-5.0%
10	Alternatives			
11	Real Estate	10.0%	4.6%	-5.4%
12	Private Equity	0.0%	0.0%	0.0%
13	Infrastructure	5.0%	2.7%	-2.3%
14	**Total**	**100.0%**	**100.0%**	**-**

Question:

With respect to CAC (MPI) 1-84:

a) Please confirm the "as of" date in the 2024 GRA policy asset mix. (e.g., Was it "as of March 31, 2023", rather than "after March 31, 2023"?)

b) Was surplus volatility measured using realized (ex post) returns for the policy asset mixes and Liability Benchmark Portfolios, or were expected (ex ante) returns used?

c) Please confirm which Liability Benchmark Portfolios were used (e.g., real or nominal) for the 2024 GRA calculation and 2017 GRA calculation.

For the policy asset mix after March 31, 2023:

d) Please describe how the asset mix of MPI's policy portfolio, measured on a consolidated basis (i.e., all segments), has changed over the past seven years (i.e., since the 2017 GRA) by completing the table below. Note: the 2024 GRA column should show the policy asset mix after March 31, 2023.

Asset Class	2024 GRA (**after** March 31, 2023)	2017 GRA	Increase (Decrease)
Fixed Income *Cash and Equivalents* …			
Public Equities *Canadian Equity* …			
Alternatives *Real Estate* …			
Total	100%	100%	0%

e) What is the expected (ex ante) surplus volatility, not the realized (ex post) surplus volatility, for both the 2017 GRA asset mix and 2024 (after March 31, 2023) GRA asset mix when:

i. the Real Liability Benchmarks from the most recent A/L Study are used for both the 2024 GRA policy asset mix and 2017 GRA policy asset mix; and

ii. the capital market assumptions (returns, volatilities, correlations) from the most recent A/L Study are applied to both the 2024 GRA and 2017 GRA asset mixes.

At a minimum, a directional indication would be useful, such as the "expected surplus volatility is higher, lower, or the same" between these two policy asset mixes. However, ideally Mercer's "model" would be used to quantify the difference in the two expected surplus volatilities associated with the two asset mixes.

f) What is the expected return for both the 2017 GRA asset mix and 2024 (after March 31, 2023) GRA asset mix using the return assumptions from the most recent A/L Study?

Rationale for Question:

To understand how and why risk-taking (on a forward-looking or ex ante basis) has changed over a reasonably long period of time, taking into account any adjustments needed for "apples-to-apples" comparability.

RESPONSE:

a) Yes, the title headers in the response to *CAC (MPI) 1-84* were inverted (i.e., 2024 should be on the right, and 2017 should be on the left). The "as of" date in the 2024 GRA policy asset mix was as of March 31, 2023. Please refer to Exhibit #27 for Errors & Omissions filing.

b) Surplus volatility was measured using realized (ex post) returns for the policy asset mixes and liability benchmark portfolios.

c) The liability benchmark portfolios that were used for the 2024 GRA and 2017 GRA calculations were nominal.

d) The asset mix of MPI's policy portfolio measured on a consolidated basis is shown in the table below identified as *Figure 1*. As Figure 1 shows, cash, marketable bonds, commercial mortgages, private debt, global equities and infrastructure increased their weights in the asset mix over the past seven years since the 2017 GRA while non-marketable bonds, Canadian and U.S. equities and real estate decreased their weights in the asset mix over the same time period.

Figure 1 MPI Policy Asset Mix Evolution

Line No.	Asset Class	2024 GRA (after March 31, 2023)	2017 GRA	Increase (Decrease)
1	**Fixed Income**			
2	**Cash**	1.2%	0.0%	1.2%
3	**Marketable Bonds**	55.2%	50.0%	5.2%
4	**Non-Marketable Bond**	13.1%	20.0%	-6.9%
5	**Commercial Mortgage**	3.3%	0.0%	3.3%
6	**Private Debt**	6.2%	0.0%	6.2%
7				
8	**Public Equities**			
9	**CDN Equities**	4.0%	10.0%	-6.0%
10	**Global Equities**	5.9%	0.0%	5.9%
11	**US Equities**	0.0%	5.0%	-5.0%
12				
13	**Alternatives**			
14	**Real Estate**	5.0%	10.0%	-5.0%
15	**Private Equity**	0.0%	0.0%	0.0%
16	**Infrastructure**	6.1%	5.0%	1.1%
17	**Totals**	**100.0%**	**100.0%**	**0.0%**

e) As per Mercer:
The **real liability benchmarks** only apply to the Basic and Pension/EFB portfolios. The tables below compare the surplus volatility for the 2017 and 2024 (after March 31, 2023) GRA asset mixes, using the real liability benchmarks from the current A/L Study and capital market assumptions from the current A/L study.

Basic:

	Real Liability Benchmark (From Current A/L Study)	2017 GRA Asset Mix	2024 GRA Asset Mix*
Fixed Income	100%	70%	85%
Treasury Bills	3%	-	-
Real return bonds	58%	-	34%
Provincial short-term bonds	39%	6.5%	-
Provincial mid-term bonds	-	12%	3%
Provincial long-term bonds	-	29.5%	-
Corporate mid-term bonds	-	2%	11%
Corporate long-term bonds	-	-	17%
MUSH Bonds	-	20%	20%
Public Equities	--	15%	--
Canadian equity (large cap.)	-	10%	-
U.S. equity (large cap.)	-	5%	-
Alternatives	-	15%	15%
Commercial mortgages	-	-	5%
Infrastructure	-	5%	-
Core Canadian Real Estate	-	10%	10%
Risk Metrics			
Surplus volatility		4.02%	2.48%

*As per Current A/L Study Recommendations

The surplus volatility is considerably lower under the 2024 GRA asset mix than the mix from 2017. This is primarily attributed to the inclusion of real return bonds, which hedge the real component of the real liability benchmark, and the elimination of equities.

EFB:

	Real Liability Benchmark (From Current A/L Study)	2017 GRA Asset Mix	2024 GRA Asset Mix*
Fixed Income	100%	70%	16%
Strip 20+	12%	-	-
Real return bonds	46%	-	-
Overall long-term bonds	42%	-	-
Provincial short-term bonds	-	6.5%	-
Provincial mid-term bonds	-	12%	-
Provincial long-term bonds	-	29.5%	-
Corporate mid-term bonds	-	2%	-
Corporate long-term bonds	-	-	16%
MUSH bonds	-	20%	-
Public Equities	--	15%	34%
Canadian equity (large cap.)	-	10%	7%
Canadian equity (small cap.)	-	-	7%
Global equity (large cap.)	-	-	10%
Global low vol equity	-	-	10%
U.S. equity (large cap.)	-	5%	-
Alternatives	--	15%	50%
Private Debt IG (Long)	-	-	17%
Infrastructure	-	5%	23%
Core Canadian Real Estate	-	10%	10%
Risk Metrics			
Surplus volatility		4.85%	8.27%

*As per Current A/L Study Recommendations

The surplus volatility is considerably higher under the 2024 GRA asset mix than the mix from 2017. This can be attributed to the much lower allocation to fixed income (which serve as liability hedging assets) at 16% compared to 70% in 2017. Although not shown, the starting point of Mercer's analysis was the pre-March 2023 asset mix. That mix was estimated to have a surplus volatility of 8.26% so the 2024 GRA asset mix essentially maintained the same surplus volatility, but with a higher median return (+0.23% p.a.) based on Mercer's capital market assumptions.

f) The expected returns for the 2017 GRA asset mix and the 2024 GRA asset mix (after March 31, 2023) using the return assumptions from the most recent A/L Study are 4.1% and 4.3% respectively.

CAC (MPI) 2-32

Part and Chapter:	**Part II COM Appendix 3 and Part XI INV Appendix 12 Part IX Forecasting PF-3**	**Page No.:**	
PUB Approved Issue No:	**5. Financial Forecast 22. Asset Liability Management Study**		
Topic:	**Capital Reserves**		
Sub Topic:			

Preamble to IR:

In response to PUB (MPI) 1-18, MPI said:

> *Despite the fact that alternative asset classes are good diversifiers and help lower the risk metrics (both VaR and surplus volatility), they attract outsized MCT charges (for example, 10% for commercial mortgages, 20% for real estate).*
>
> *Unfortunately the MCT guidelines seem to miss nuances that can be picked up in an economic model, in this case the diversification benefits captured through correlations.*

CAC made two recommendations in last year's closing statements related to MPI's capital management (slide 88 of Exhibit CAC-7 from the 2023 GRA):

> *7. Adopt risk metrics and methodologies for capital reserve management (RSR) that are more consistent with the metrics and methodologies used in A/L studies.*
>
> *8. Heed OSFI's advice by a) conducting MPI's Own Risk and Solvency Assessment (ORSA); and b) setting capital (RSR) targets without undue reliance on regulatory capital measures, such as MPI's use of OSFI's Standard Approach (i.e. MCT).*

OSFI's 13-page Own Risk and Solvency Assessment (ORSA) Guideline is available at this link: https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/e1918.aspx.

The table of contents of OSFI's ORSA Guideline is below (from the above link).

Office of the Superintendent of Financial Institutions Canada | Bureau du surintendant des institutions financières Canada

Guideline

Subject: **Own Risk and Solvency Assessment**

Category: **Sound Business and Financial Practices**

No: **E-19** **Date:** **December 2017**
Effective Date: **January 1, 2018**

This guideline sets out OSFI's expectations with respect to the Own Risk and Solvency Assessment (ORSA) of federally regulated insurers (insurer).[1]

The ORSA should reflect an insurer's own risk and solvency assessment. OSFI expects an insurer to have processes in place to conduct an ORSA that is proportionate to the nature, scale and complexity of its business and risk profile.

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[1] Insurer refers to federally regulated insurers including Canadian branches of foreign life and property and casualty companies, fraternal benefit societies, regulated insurance holding companies and non-operating insurance companies.

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Question:

a) Please confirm that MPI is not required to comply with OSFI's Guidelines related to its capital requirements, and that MPI has chosen to do so by adopting OSFI's "standard" approach to capital management.

b) Please confirm that MPI has not adopted OSFI's ORSA Guideline.

The following questions relate to various OSFI's statements in its ORSA Guideline, which are provided in quotations above each question.

<u>Integration with Other Business Processes:</u>

c) *"The ORSA should … enhance an insurer's understanding of the interrelationships between its risk profile and capital needs. The ORSA should … be congruent with an insurer's business and strategic planning."*

> *… "The ORSA … should be consistent with an insurer's strategic and business planning ... An insurer's ORSA process should be consistent with and linked to the enterprise risk management and other management processes. For example, quantifiable estimates of risks that are used for ORSA purposes should be consistent with or feed into the decision making process and, where appropriate, have other business uses."*

i. Please provide a narrative description of how congruent MPI's current approach to capital management is with its business and strategic planning.

ii. Please explain the extent to which MPI's current estimates of capital-related risks are consistent with surplus volatility metrics used in Mercer's most recent A/L Study.

Relating Risk to Capital:

d) *"As part of its ORSA, an insurer is expected to set Internal Targets. These should normally be determined without undue reliance on regulatory capital measures. Before an insurer gives consideration to external constraints, Internal Targets should be, first and foremost, based on an insurer's assessment of its own capital needs."*

i. Would MPI agree (or disagree) that it places undue reliance on regulatory capital measures?

ii. How would MPI describe its reliance on OSFI's "standard" approach?

Nature, Scale and Complexity:

e) *"The ORSA is an internal assessment process, tailored to an insurer's own view of its risk profile and appetite, and reflective of the nature, scale and complexity of the insurer.*

Insurers are expected to use more sophisticated methods to estimate the amount of own capital needed for material complex risks they take on or are exposed to."

i. Would MPI agree that Mercer's approach to A/L modeling is "sophisticated"?

ii. Would MPI agree that Mercer's approach to A/L modeling is more "sophisticated" than the "standard" approach adopted by MPI for capital management?

iii. How difficult would it be to adopt risk metrics and methodologies for capital reserve management that are more consistent with the metrics and methodologies used in A/L Studies?

iv. What are the biggest roadblocks to achieving a more consistent approach in A/L and capital risk management?

Determining Own Capital Needs:

f) *"In conducting an ORSA, insurers should determine whether or not, for each risk, an explicit amount (quantity) of capital should be held and how the results for each risk should be aggregated. In doing so, insurers' own capital assessments will reflect their choice of data sets, distributions, measures, confidence levels, time horizons, valuation approaches, financial tools and methodologies, appropriate to their unique profile."*

…

"Insurers are expected to consider publications and professional and other research materials dealing with quantification of risks and risk mitigants such as:

- *Regulators, consulting firms, professional and other associations, academia, credit rating agencies and other purveyors of research, data, models and publications relating to the measurement of risks and risk mitigants;*
- *…*
- *Developments in the insurance, financial and other markets and their potential impact on the continued appropriateness of current measurement tools, data and assumptions used by the insurer; …"*

i. Has MPI considered approaching a consulting firm (e.g., Mercer) or regulator (including PUB and OSFI) to address deficiencies identified by MPI and others related to the measurement of risks and risk mitigants related to its approach to capital management?

Rationale for Question:

To understand why the bases for measuring risk for capital management differ from those used for A/L management.

RESPONSE:

a) Confirmed.

b) Confirmed.

c)

i. MPI’s Capital Management Plan is closely aligned with its business and strategic planning to help ensure that its corporate values are upheld. This is achieved by ensuring that a sufficient level of capital is maintained to withstand unexpected adverse events. Being sufficiently capitalized allows MPI to provide long-term rate stability, maintain coverage that is available and widely accessible, and keep rates affordable for Manitobans.

ii. Mercer’s surplus volatility metric is based on annualized standard deviation of surplus as a percentage of assets. OSFI’s risk charges are based on conditional tail expectation (CTE 99%) and are not surplus based.

Mercer’s most recent A/L study only considered potential impacts to capital required for market risk. The A/L study assumed no impacts to other risk categories for capital required. In addition, it assumed no impacts to Capital Available. In contrast, MPI’s estimates of capital must include all MCT risk categories (Insurance, Market, Credit, and Operational) and the correlations between them quantified through a diversification credit. In addition, MPI also considers impacts to the capital available component of the MCT calculation.

d)

i. MPI disagrees that it places undue reliance on regulatory capital measures. MPI is primarily guided by the capital requirements mandated by legislation (i.e., Section 18 of *The Manitoba Public Insurance Corporation Act*). MPI acknowledges that it has not conducted an ORSA review to set its internal capital targets. However, as part of the 2023 GRA, MPI submitted an internal target review that supported an operating target of 120% MCT.

ii. MPI relies on OSFI's guidelines for the calculation of the MCT.

e)

i. Agreed.

ii. MPI agrees that the Mercer approach to A/L modelling is more sophisticated. However, Mercer's A/L modeling has many metrics, one of which is the MCT. Mercer's approach to the MCT calculation used in the ALM study was limited to the investment components of the MCT as all other items were assumed to be unchanged (i.e., the asset mix was the only item that was changed in the ALM study). So, Mercer's MCT calculation was based upon OSFI's guidelines, but it was simplified and considered only the impact of changes to the target asset mix.

iii. MPI does not believe it would be difficult to adopt risk metrics and methodologies for capital reserve management that are more consistent with the metrics and methodologies used in the A/L Studies, but is currently unable to readily adopt them.

iv. The biggest roadblocks to achieving a more consistent approach in A/L and capital risk management are resourcing, tools and time.

f)

i. No, MPI has not considered lobbying OSFI to improve the MCT calculation methodology.

CAC (MPI) 2-33

Part and Chapter:	Part X RSR Appendix 1 CAC (MPI) I-86	Page No.:	N/A
PUB Approved Issue No:	22. Asset Liability Management Study		
Topic:	Minimum Capital Test		
Sub Topic:			

Preamble to IR:

MPI's response to CAC (MPI) 1-86 indicates that Mercer conducted a "simplified" MCT calculation for the purposes of the A/L study. The response also references the "MCT guidelines".

Question:

a) Please describe the similarities and differences between Mercer's "simplified" MCT calculation as described in the response to CAC (MPI) 1-86 and the market risk component of the MCT calculation conducted by MPI as described in RSR Appendix 1.

b) Please provide the capital requirements in percentage and value ($) by asset class for each asset class in MPI's investment portfolios comprising the Market Risk component of the MCT calculation.

c) Please file a copy of the "MCT guidelines" referenced by MPI in the response to CAC (MPI) 1-86.

Rationale For Question:

To understand the relationship between capital adequacy and risk in MPI's investment portfolio.

RESPONSE:

a) Mercer's "simplified" minimum capital test (MCT) calculation is based on the weighted average of the individual asset classes' risk factors and the target weights to each asset class specified in the Investment Policy Statement. Mercer's MCT calculation only reflects the market risk component of the MCT, which depends on the asset portfolio regardless of the associated liability.

MPI conducts a similar calculation for market risk on its investment assets. The market risk shown in *Part X - Rate Stabilization* Reserve RSR Appendix 1 *- Actual and Forecast Minimum,* is at the line of business level, which includes the associated risk on the RSR/EFB Investment Portfolios and on Basic's share of risk on physical property.

b) *Figure 1* below shows the forecasted Market Risk by Investment/Asset Class for Basic at the end of Fiscal 2023/24 as per the financial model.

Figure 1 MCT - Market Risk Margin - Basic - 2023/24

		Market Risk Class				
Line No.	Investment/Asset Class	Interest Rate	Foreign Exchange	Equity	Real Estate	% of Market Risk*
1	**Provincial Bonds**	87,881				6%
2	**Corporate Bonds**	65,116				4%
3	**MUSH**	38,381				3%
4	**Private Debt**	19,243	5,633			3%
5	**Canadian Equities**			35,715		12%
6	**Global Equities**		8,220	24,659		11%
7	**Global Low Volatility Equities**		8,207	24,622		11%
8	**Real Estate Investments**				65,755	23%
9	**Infrastructure & Other**		10,186	45,607		19%
10	**Commercial Mortgages**	10,253				1%
11	**Subtotal: Investment Portfolio**	**220,874**	**32,245**	**130,603**	**65,755**	
12	**Add: Physical Property**				15,810	6%
13	**Subtotal: Investments plus Property**	**220,874**	**32,245**	**130,603**	**81,566**	
14	**Less: Interest Rate Sensitive Liabilities**	263,597				
15	**Total Market Risk Margin**	**42,723**	**32,245**	**130,603**	**81,566**	**287,137**
16	*Interest Rate Sensitive assets and Liabilities are offset					

c) The MCT guidelines, as published by the Office of the Superintendent of Financial Institutions (OSFI), can be found in *Appendix 1*.

Office of the Superintendent of Financial Institutions Canada | Bureau du surintendant des institutions financières Canada

Guideline

Subject: Minimum Capital Test

No: A **Effective Date: January 1, 2023[1]**

Subsection 515(1) of the *Insurance Companies Act (ICA)* requires Federally Regulated Property and Casualty Insurance Companies (property and casualty companies) to maintain adequate capital. Subsection 608(1) of the *ICA* requires foreign property and casualty companies operating in Canada on a branch basis (foreign property and casualty companies) to maintain an adequate margin of assets in Canada over liabilities in Canada. The Minimum Capital Test (MCT) Guideline is not made pursuant to subsections 515(2) and 608(3) of the *Act*. However, the minimum and supervisory target capital standards set out in this guideline provide the framework within which the Superintendent assesses whether a property and casualty company that is not a mortgage insurance company[2] maintains adequate capital pursuant to subsection 515(1) and whether a foreign property and casualty company maintains an adequate margin pursuant to subsection 608(1). Notwithstanding that a property and casualty company that is not a mortgage insurance company may meet these standards, the Superintendent may direct the property and casualty company to increase its capital under subsection 515(3) or the foreign property and casualty company to increase the margin of assets in Canada over liabilities in Canada under subsection 608(4).

This guideline outlines the capital framework, using a risk-based formula, for target and minimum capital/margin required, and defines the capital/assets that are available to meet the minimum standard. The MCT determines the minimum capital/margin required and not the level of capital/margin required at which property and casualty companies that are not mortgage insurance companies must operate.

Foreign property and casualty companies are reminded that the MCT is only one element in the determination of the required assets that must be maintained in Canada by foreign property and casualty companies. Foreign property and casualty companies must vest assets in accordance with the Adequacy of Assets in Canada test as prescribed in the *Assets (Foreign Companies) Regulations.*

[1] This version of the guideline is effective for insurers' reporting years beginning on or after January 1, 2023. For example, an insurer with an October year-end should implement this version of the guideline starting on November 1, 2023. Early adoption of this version of the guideline is not permitted.
[2] Capital requirements for Federally Regulated Property and Casualty insurance companies that are mortgage insurance companies are set out in the guideline: *Mortgage Insurer Capital Adequacy Test* (MICAT).

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Chapter 1. Overview and General Requirements

The Minimum Capital Test (MCT) Guideline applies to Canadian property and casualty insurance companies that are not mortgage insurance companies and foreign property and casualty companies operating in Canada on a branch basis, collectively referred to as insurers. Chapter 3 of this guideline, *Foreign Companies Operating in Canada on a Branch Basis*, defines assets available for foreign property and casualty companies operating in Canada on a branch basis (foreign companies). The MCT Guideline uses generic expressions that are meant to apply to both Canadian insurers and foreign companies; e.g., capital available also refers to assets available for Branch Adequacy of Assets Test (BAAT) purposes, capital required refers to margin required for BAAT purposes and capital adequacy refers to margin adequacy for BAAT purposes.

This chapter provides an overview of the MCT Guideline and sets out general requirements. More detailed information on specific components of the capital test is contained under subsequent chapters.

Further guidance concerning some of the requirements of the MCT Guideline may be found in other guidelines and advisories available on OSFI's website under the Property and Casualty Insurance Companies section.

- Table of OSFI Guidelines
- Guidelines and Related Advisories – Capital
- Regulatory and Legislative Advisories

1.1. Overview

1.1.1. Minimum and target capital requirements under the MCT

Under the MCT, regulatory capital requirements for various risks are set directly at a pre-determined target confidence level. OSFI has elected 99% of the expected shortfall (conditional tail expectation or CTE 99%) over a one-year time horizon including a terminal provision as a target confidence level.[3]

The risk factors defined in this guideline are used to compute capital requirements at the target level. The resulting MCT capital requirements are then divided by 1.5 to derive the minimum capital requirements. The MCT ratio is expressed as the capital available over the minimum capital required.

[3] As an alternative, a value at risk (VaR) at 99.5% confidence level or expert judgement was used when it was not practical to use the CTE approach.

1.1.2. Risk-based capital adequacy

Insurers are required to meet the MCT capital requirements at all times. The definition of capital available to be used for this purpose is described in chapter 2 and includes qualifying criteria for capital instruments, capital composition limits, and regulatory adjustments and deductions. The definition encompasses capital available within all subsidiaries that are consolidated for the purpose of calculating the MCT ratio.

Insurers' minimum capital requirements are calculated on a consolidated basis and determined as the sum of the capital requirements at the target level for each risk component, less the diversification credit, divided by 1.5.

The minimum capital requirements are calculated as follows:

Sum of capital required for:

i.) Insurance risk (reference chapter 4):
   a. Liability for incurred claims and unexpired coverage;
   b. Reinsurance held with unregistered insurers[4];
   c. Earthquake and nuclear catastrophe reserves.

ii.) Market risk (reference chapter 5):
   a. Interest rate;
   b. Foreign exchange;
   c. Equity;
   d. Real estate;
   e. Right-of-use assets;
   f. Other market exposures.

iii.) Credit risk (reference chapter 6):
   a. Counterparty default for balance sheet assets;
   b. Counterparty default for off-balance sheet exposures;
   c. Collateral held for unregistered reinsurance and self-insured retention (reference section 4.3.3).

iv.) Operational risk (reference chapter 7).

Less:

v.) Diversification credit (reference chapter 8).

Divided by 1.5.

[4] For the definition of a registered reinsurer, see section 4.3.2

1.1.3. Scope of consolidation

The capital adequacy requirements apply on a consolidated basis. The consolidated entity includes the insurer and all of its directly or indirectly held subsidiaries, which carry on business that the parent could carry on directly in accordance with the *Insurance Companies Act* (ICA), including holding companies (e.g. property and casualty insurance and ancillary businesses such as agencies, brokerages and mutual funds). It therefore excludes:

- life insurance subsidiaries,
- other regulated financial institutions carrying on business that the parent would not be permitted to carry on directly under the *Insurance Companies Act* (ICA).

Whether a subsidiary should be consolidated is determined by the nature of the subsidiary's business (i.e. whether it carries on business related to property and casualty insurance), not the location where the subsidiary conducts its business (e.g. a U.S. property and casualty insurance subsidiary). All other interests in subsidiaries are considered "non-qualifying" for capital purposes and are excluded from capital available and capital required calculations.

1.1.4. Foreign companies

The margin requirement for foreign companies is set forth under the BAAT in chapter 3. The BAAT covers each of the risk components, and is determined using risk factors and other methods that are applied to assets under the control of the Superintendent, to specific assets under the control of the Chief Agent, and to liabilities in Canada.

The BAAT is only one element in the determination of the required assets that must be maintained in Canada by foreign companies. Foreign companies must vest assets in accordance with the Adequacy of Assets in Canada test, as prescribed in the *Assets (Foreign Companies) Regulations.*

1.1.5. Interpretation of results

The MCT is a standardized measure of capital adequacy of an insurer. It is one of several indicators that OSFI uses to assess an insurer's financial condition and should not be used in isolation for ranking and rating insurers.

1.2. General Requirements

1.2.1. MCT supervisory capital ratio for federally regulated insurers

The MCT ratio is expressed as a percentage and is calculated by dividing the insurer's capital available by minimum capital required, which is derived from capital required calculated at the target level for specific risks.

Federally regulated insurers are required, at a minimum, to maintain an MCT ratio of 100%. OSFI has established an industry-wide supervisory target capital ratio (supervisory target) of

150% that provides a cushion above the minimum requirement and facilitates OSFI's early intervention process. The supervisory target provides additional capacity to absorb unexpected losses and addresses capital needs through on-going market access.

OSFI expects each insurer to establish an internal target capital ratio (internal target) per Guideline A-4 *Regulatory Capital and Internal Capital Targets*, and maintain on-going capital, above this target. However, the Superintendent may, on a case-by-case basis, establish an alternative supervisory target (in consultation with an insurer) based upon the insurer's individual risk profile.

Insurers are required to inform OSFI immediately if they anticipate falling below their internal target and to lay out their plans, for OSFI's supervisory approval, to return to their internal target. OSFI will consider any unusual conditions in the market environment when evaluating insurers' performance against their internal targets.

Insurers are expected to maintain their MCT ratios at or above their established internal targets on a continuous basis. Questions about an individual insurer's target ratio should be addressed to the Lead Supervisor at OSFI.

1.2.2. Audit requirement

Insurers are required to engage their auditor appointed pursuant to section 337 or 633 of the ICA to report annually on the MCT or BAAT prepared as at fiscal year-end, in accordance with the relevant standards for such assurance engagements, as promulgated by the Canadian Auditing and Assurance Standards Board (AASB).

The annual audit report of the MCT or BAAT must be prepared separately from the audit report for the financial statements, and is to be filed no later than 90 days after the insurers' fiscal year-end for Canadian companies and no later than May 31st for foreign companies.

1.2.3. Allocation Methodology

Insurers may need to undertake an allocation exercise to determine capital requirements in accordance with this guideline. In doing so, OSFI expects that:

1. Allocation methods should be systematic and have a rationale that is reasonable.
2. Allocation methods for capital purposes should align with allocation methods used by the insurer for other business decision-making purposes.
3. Allocation methods should be reasonably consistent with respect to similarity of characteristics, and over time. Any occasional changes to the allocation methodology should be justifiable.

4. Allocation methods should be determined without bias. Insurers should be aware if their choices of allocation methods routinely bias results and adjust methods accordingly.

5. Allocation methods should allocate amounts of revenues and costs with reasonable accuracy[5], and consider all reasonable and supportable information available at the reporting date, without undue cost or effort.

An insurer should have effective monitoring and internal reporting procedures to comply, on an ongoing basis, with the above principles. An insurer should document the basis of its allocation methodology, as well as any changes to significant judgements in the allocation methods, including how it meets the principles set out above.

1.2.4. Intra-Group Pooling Arrangements

OSFI's supervisory approval of any intra-group pooling arrangement must be obtained prior to applying the intra-group pooling capital treatment described in this guideline[6].

1.3. Transitional Arrangements

1.3.1. Business combinations and portfolio transfers entered into and effective on or prior to June 30, 2019

The contractual service margin (CSM) arising from favorable development from business combinations and portfolio transfers entered into on or prior to June 30, 2019, can be included in capital available. This transitional arrangement will apply for a period of three years after this version of the guideline becomes effective.

[5] Allocation methods of loss component amounts, where relevant, should reflect the expected relative profitability of each MCT class of insurance grouping.
[6] A new supervisory approval is required; legacy arrangements and approvals obtained prior to May 1, 2022, will not be recognized.

Chapter 2. Definition of Capital Available

This chapter establishes requirements for the adequacy and appropriateness of capital resources used to meet capital requirements, having regard to their ability to meet insurers' obligations to policyholders and creditors and to absorb losses in periods of stress. This includes the determination of the criteria for assessing the quality of capital components for inclusion in capital available and the composition of capital available for regulatory purposes, focusing on the predominance of highest quality capital.

2.1. Summary of Capital Components

The four primary considerations for defining the capital available of a company for the purpose of measuring capital adequacy are:

- availability: the extent to which the capital element is fully paid in and available to absorb losses;
- permanence: the period for, and extent to which, the capital element is available;
- absence of encumbrances and mandatory servicing costs: the extent to which the capital element is free from mandatory payments or encumbrances; and
- subordination: the extent to which and the circumstances under which the capital element is subordinated to the rights of policyholders and creditors of the insurer in an insolvency or winding-up.

Regulatory capital available will consist of the sum of the following components: common equity or category A capital, category B capital, and category C capital.

2.1.1. Category A capital (i.e. common equity)

- Common shares issued by the insurer that meet the category A qualifying criteria as described below;
- Surplus (share premium) resulting from the issuance of instruments included in common equity capital and other contributed surplus[7];
- Retained earnings;
- Earthquake, nuclear and general contingency reserves;
- Accumulated other comprehensive income; and
- Residual interest, reported either as equity or as a liability, of owner-policyholders of mutual entities.

[7] Where repayment is subject to Superintendent's approval.

Retained earnings and accumulated other comprehensive income include interim profit or loss. Dividends are removed from capital available in accordance with applicable accounting standards.

2.1.1.1. Qualifying criteria for inclusion of capital instruments in category A for regulatory capital purposes[8]

For an instrument to be included in capital available under category A, it must meet all of the following criteria:

1. Represents the most subordinated claim in liquidation of the insurer.
2. The investor is entitled to a claim on the residual assets that is proportional with its share of issued capital, after all senior claims have been paid in liquidation (i.e. has an unlimited and variable claim, not a fixed or capped claim).
3. The principal is perpetual and never repaid outside of liquidation (setting aside discretionary repurchases or other means of effectively reducing capital in a discretionary manner that is allowable under relevant law and subject to the prior approval of the Superintendent).
4. The insurer does not, in the sale or marketing of the instrument, create an expectation at issuance that the instrument will be bought back, redeemed or cancelled, nor do the statutory or contractual terms provide any feature that might give rise to such expectation.
5. Distributions are paid out of distributable items (retained earnings included). The level of distributions is not in any way tied or linked to the amount paid in at issuance and is not subject to a contractual cap (except to the extent that an insurer is unable to pay distributions that exceed the level of distributable items or to the extent that distribution on senior ranking capital must be paid first).
6. There are no circumstances under which the distributions are obligatory. Non-payment is, therefore, not an event of default.
7. Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. This means that there are no preferential distributions, including in respect of other elements classified as the highest quality issued capital.
8. It is in the form of issued capital that takes the first and proportionately greatest share of any losses as they occur. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and *pari passu* with all the others.
9. The paid-in amount is recognized as equity capital (i.e. not recognized as a liability) for determining balance sheet solvency.

[8] The criteria also apply to non-joint stock companies, such as mutuals, taking into account their specific constitution and legal structure. The application of the criteria should preserve the quality of the instruments by requiring that they are deemed fully equivalent to common shares in terms of their capital quality as regards loss absorption and do not possess features that could cause the condition of the insurer to be weakened as a going concern during periods of market stress.

10. It is directly issued and paid-in[9] and the insurer cannot directly or indirectly have funded the purchase of the instrument. Where the consideration for the shares is other than cash, the issuance of the common shares is subject to the prior approval of the Superintendent.
11. The paid-in amount is neither secured nor covered by a guarantee of the issuer or related entity[10] or subject to any other arrangement that legally or economically enhances the seniority of the claim.
12. It is only issued with the approval of the owners of the issuing insurer, either given directly by the owners or, if permitted by applicable law, given by the Board of Directors or by other persons duly authorized by the owners.
13. It is clearly and separately disclosed on the insurer's balance sheet, prepared in accordance with the relevant accounting standards.

2.1.2. Category B capital

- Instruments issued by the institution that meet category B criteria and do not meet the criteria for classification as category A, subject to applicable limits;
- Surplus (share premium) resulting from the issuance of instruments meeting category B criteria.

2.1.2.1 Qualifying criteria for inclusion of capital instruments in category B for regulatory capital purposes

For an instrument to be included in capital available under category B, it must meet <u>all</u> of the following criteria:

1. Issued and paid-in in cash or, subject to the prior approval of the Superintendent, in property.
2. Subordinated to policyholders, general creditors and subordinated debt holders of the insurer.
3. Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis policyholders and creditors.[11]

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[9] Paid-in capital generally refers to capital that has been received with finality by the institution, is reliably valued, fully under the institution's control and does not directly or indirectly expose the institution to the credit risk of the investor.

[10] A related entity can include a parent company, a sister company, a subsidiary or any other affiliate. A holding company is a related entity irrespective of whether it forms part of the consolidated insurance group.

[11] Further, where an institution uses a special purpose vehicle to issue capital to investors and provides support, including overcollateralization, to the vehicle, such support would constitute enhancement in breach of criterion #3 above.

4. Is perpetual, i.e. there is no maturity date and there are no step-ups[12] or other incentives to redeem[13]
5. May be callable at the initiative of the issuer only after a minimum of five years:
    a. To exercise a call option, an insurer must receive prior approval of the Superintendent; and
    b. An insurer's actions and the terms of the instrument must not create an expectation that the call will be exercised; and
    c. An insurer must not exercise a call unless:
        i. It replaces the called instrument with capital of the same or better quality, including through an increase in retained earnings, and the replacement of this capital is done at conditions that are sustainable for the income capacity of the insurer[14]; or
        ii. The insurer demonstrates that its capital position is well above the supervisory target capital requirements after the call option is exercised.
6. Any repayment of principal (e.g. through repurchase or redemption) must require approval of the Superintendent and insurers should not assume or create market expectations that such approval will be given.
7. Dividend/coupon discretion:
    a. the insurer must have full discretion at all times to cancel distributions/payments;[15]
    b. cancellation of discretionary payments must not be an event of default or credit event;
    c. insurers must have full access to cancelled payments to meet obligations as they fall due;
    d. cancellation of distributions/payments must not impose restrictions on the insurer except in relation to distributions to common shareholders.
8. Dividends/coupons must be paid out of distributable items.

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12 A step-up is defined as a call option combined with a pre-set increase in the initial credit spread of the instrument at a future date over the initial dividend (or distribution) rate after taking into account any swap spread between the original reference index and the new reference index. Conversion from a fixed rate to a floating rate (or vice versa) in combination with a call option without any increase in credit spread would not constitute a step-up.

13 Other incentives to redeem include a call option combined with a requirement or an investor option to convert the instrument into common shares if the call is not exercised.

14 Replacement issuances can be concurrent with, but not after, the instrument is called.

15 A consequence of full discretion at all times to cancel distributions/payments is that "dividend pushers" are prohibited. An instrument with a dividend pusher obliges the issuing insurer to make a dividend/coupon payment on the instrument if it has made a payment on another (typically more junior) capital instrument or share. This obligation is inconsistent with the requirement for full discretion at all times. Furthermore, the term "cancel distributions/payments" means to forever extinguish these payments. It does not permit features that require the insurer to make distributions/payments in kind at any time.

9. The instrument cannot have a credit sensitive dividend feature, i.e., a dividend/coupon that is reset periodically based in whole or in part on the insurance organization's credit standing.[16]
10. The instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law.
11. Other than preferred shares, category B instruments included in capital available must be classified as equity per relevant accounting standards.
12. Neither the insurer nor a related party over which the insurer exercises control or significant influence can have purchased the instrument, nor can the insurer directly or indirectly have funded the purchase of the instrument.
13. The instruments cannot have any features that hinder recapitalization, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified timeframe.
14. If the instrument is not issued directly by the insurer (e.g. it is issued out of a special purpose vehicle or SPV), proceeds must be available immediately without limitation to an insurer in a form that meets or exceeds all of the other criteria for inclusion in capital available as specified under category B. For greater certainty, the only assets the SPV may hold are intercompany instruments issued by the insurer or a related entity with terms and conditions that meet or exceed criteria specified under category B. Put differently, instruments issued to the SPV have to fully meet or exceed all of the eligibility criteria under category B as if the SPV itself was an end investor – i.e. the insurer cannot issue a lower quality capital or senior debt instrument to an SPV and have the SPV issue higher quality capital instruments to third-party investors so as to receive recognition as qualifying capital under category B.

Purchase for cancellation of Category B capital instruments is permitted at any time with the prior approval of the Superintendent. For further clarity, a purchase for cancellation does not constitute a call option as described in the above Category B qualifying criteria.

Tax and regulatory event calls are permitted during an instrument's life subject to the prior approval of the Superintendent and provided the insurer was not in a position to anticipate such an event at the time of issuance.

Dividend stopper arrangements that stop payments on common shares or Category B instruments are permissible provided the stopper does not impede the full discretion the insurer must have at all times to cancel distributions or dividends on the Category B instrument, nor must it act in a way that could hinder the recapitalization of the institution pursuant to criterion number 13 above. For example, it would not be permitted for a stopper on a Category B instrument to:

[16] Institutions may use a broad index as a reference rate in which the issuing institution is a reference entity; however, the reference rate should not exhibit significant correlation with the institution's credit standing. If an institution plans to issue capital instruments where the margin is linked to a broad index in which the institution is a reference entity, the institution should ensure that the dividend/coupon is not credit-sensitive.

- attempt to stop payment on another instrument where the payments on the other instrument were not also fully discretionary;
- prevent distributions to shareholders for a period that extends beyond the point in time that dividends or distributions on the Category B instrument are resumed;
- impede the normal operation of the institution or any restructuring activity, including acquisitions or disposals.

A dividend stopper may also act to prohibit actions that are equivalent to the payment of a dividend, such as the insurer undertaking discretionary share buybacks.

Where an amendment or variance of a Category B instrument's terms and conditions affects its recognition as regulatory capital, such amendment or variance will only be permitted with the prior approval of the Superintendent.[17]

Insurers are permitted to "re-open" offerings of capital instruments to increase the principal amount of the original issuance provided that call options will only be exercised, with the prior approval of the Superintendent, on or after the fifth anniversary of the closing date of the latest re-opened tranche of securities.

Defeasance options may only be exercised on or after the fifth anniversary of the closing date with the prior approval of the Superintendent.

2.1.3. Category C capital

- Instruments issued by the institution that meet category C criteria, but do not meet the category A or B criteria, subject to an applicable limit;
- Surplus (share premium) resulting from the issuance of instruments meeting the category C criteria.

2.1.3.1. Qualifying criteria for inclusion of capital instruments in Category C for regulatory capital purposes

For an instrument to be included in capital available under category C, it must meet all of the following criteria:

1. Issued and paid-in in cash or, with the prior approval of the Superintendent, in property.
2. Subordinated to policyholders and general creditors of the insurer.
3. Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis the insurer's policyholders and/or general creditors.

[17] Any modification of, addition to, or renewal or extension of an instrument issued to a related party is subject to the legislative requirement that transactions with a related party be at terms and conditions that are at least as favourable to the institution as market terms and conditions.

4. Maturity:
   a. minimum original maturity of at least five years;
   b. recognition in regulatory capital in the remaining five years before maturity will be amortized on a straight line basis;
   c. there are no step-ups[18] or other incentives to redeem.
5. May be callable at the initiative of the issuer only after a minimum of five years:
   a. To exercise a call option, an insurer must receive the prior approval of the Superintendent; and
   b. An insurer must not do anything that creates an expectation that the call will be exercised;[19] and
   c. An insurer must not exercise a call unless:
      i. It replaces the called instrument with capital of the same or better quality, including through an increase in retained earnings, and the replacement of this capital is done at conditions that are sustainable for the income capacity of the insurer;[20] or
      ii. The insurer demonstrates that its capital position is well above the supervisory target capital requirements after the call option is exercised.
6. The investor must have no rights to accelerate the repayment of future scheduled payments (interest or principal), except in bankruptcy, insolvency, wind-up, or liquidation.
7. The instrument cannot have a credit sensitive dividend feature, i.e. a dividend/coupon that is reset periodically based in whole or in part on the insurer's credit standing[21].
8. Neither the insurer nor a related party over which the insurer exercises control or significant influence can have purchased the instrument, nor can the insurer directly or indirectly have funded the purchase of the instrument.
9. If the instrument is not issued directly by the insurer (e.g. it is issued out of an SPV), proceeds must be available immediately without limitation to the insurer in a form that meets or exceeds all of the criteria for inclusion specified under category C. For greater certainty, the only assets the SPV may hold are intercompany instruments issued by the

[18] A step-up is defined as a call option combined with a pre-set increase in the initial credit spread of the instrument at a future date over the initial dividend (or distribution) rate after taking into account any swap spread between the original reference index and the new reference index. Conversion from a fixed rate to a floating rate (or vice versa) in combination with a call option without any increase in credit spread would not constitute a step-up.

[19] An option to call the instrument after five years but prior to the start of the amortisation period will not be viewed as an incentive to redeem as long as the insurer does not do anything that creates an expectation that the call will be exercised at this point.

[20] Replacement issuances can be concurrent with but not after the instrument is called.

[21] Insurers may use a broad index as a reference rate in which the issuing insurer is a reference entity; however, the reference rate should not exhibit significant correlation with the insurer's credit standing. If an insurer plans to issue capital instruments where the margin is linked to a broad index in which the insurer is a reference entity, the insurer should ensure that the dividend/coupon is not credit-sensitive.

institution or a related entity with terms and conditions that meet or exceed the above category C criteria. Put differently, instruments issued to the SPV have to fully meet or exceed all of the eligibility criteria under category C as if the SPV itself was an end investor – i.e. the institution cannot issue a lower capital or a senior debt instrument to an SPV and have the SPV issue higher quality capital instruments to third-party investors so as to receive recognition as qualifying capital under category C.

Category C capital instruments must not contain restrictive covenants or default clauses that would allow the holder to trigger acceleration of repayment in circumstances other than the insolvency, bankruptcy or winding-up of the issuer.

Purchase for cancellation of category C instruments is permitted at any time with the prior approval of the Superintendent. For further clarity, a purchase for cancellation does not constitute a call option as described in the above Category C criteria.

Tax and regulatory event calls are permitted during an instrument's life subject to the prior approval of the Superintendent and provided the insurer was not in a position to anticipate such an event at the time of issuance.

Where an amendment or variance of a Category C instrument's terms and conditions affects its recognition as regulatory capital, such amendment or variance will only be permitted with the prior approval of the Superintendent[22].

Institutions are permitted to "re-open" offerings of capital instruments to increase the principal amount of the original issuance provided that call options will only be exercised, with the prior approval of the Superintendent, on or after the fifth anniversary of the closing date of the latest re-opened tranche of securities.

Defeasance options may only be exercised on or after the fifth anniversary of the closing date with the prior approval of the Superintendent.

2.1.3.2. Amortization

Category C capital instruments are subject to straight-line amortization in the final five years prior to maturity. Hence, as these instruments approach maturity, redemption or retraction, such outstanding balances are to be amortized based on the following schedule:

Amortization Schedule

[22] Any modification of, addition to, or renewal or extension of an instrument issued to a related party is subject to the legislative requirement that transactions with a related party be at terms and conditions that are at least as favourable to the institution as market terms and conditions.

Years to Maturity	*Included in Capital*
5 years or more	100%
4 years and less than 5 years	80%
3 years and less than 4 years	60%
2 years and less than 3 years	40%
1 year and less than 2 years	20%
Less than 1 year	0%

For instruments issued prior to January 1, 2015, where the terms of the instrument include a redemption option that is not subject to prior approval of the Superintendent and/or holders' retraction rights, amortization should begin five years prior to the effective dates governing such options. For example, a 20-year debenture that can be redeemed at the insurer's option at any time on or after the first 10 years would be subject to amortization commencing in year 5. Further, where a subordinated debt was redeemable at the insurer's option at any time without the prior approval of the Superintendent, the instrument would be subject to amortization from the date of issuance. For greater certainty, this would not apply when redemption requires the Superintendent's approval as is required for all instruments issued pursuant to the above criteria in section 2.1.3.1.

Amortization should be computed at the end of each fiscal quarter based on the "years to maturity" schedule above. Thus, amortization would begin during the first quarter that ends within five calendar years to maturity. For example, if an instrument matures on October 15, 2020, 20% amortization of the issue would occur on October 16, 2015 and be reflected in the December 31, 2015 regulatory return. An additional 20% amortization would be reflected in each subsequent December 31 return.

2.1.4. Non-controlling interests

Insurers are permitted to include, in capital available, non-controlling interests in operating consolidated subsidiaries, provided:

i. the capital instruments meet the qualifying criteria under category A, B and C;

ii. the capital in the subsidiary is not excessive in relation to the amount necessary to carry on the subsidiary's business; and

iii. the level of capitalization of the subsidiary is comparable to that of the insurance company as a whole.

If a subsidiary issues capital instruments for the funding of the insurer, or that are substantially in excess of its own requirements, the terms and conditions of the issue, as well as the intercompany transfer, must ensure that investors are placed in the same position as if the instrument were issued by the insurer directly in order for it to qualify as capital available upon consolidation. This can only be achieved by the subsidiary using the proceeds of the issue to purchase a similar instrument from the parent. Since subsidiaries cannot buy shares of the parent P&C insurance company, it is likely that this treatment will only be applicable to the subordinated debt. In addition, to qualify as capital for the consolidated entity, the debt held by third parties cannot effectively be secured by other assets, such as cash, held by the subsidiary.

2.2. Capital Composition Limits

The inclusion of capital instruments qualifying under category B and category C criteria is subject to the following limits:

- The sum of capital instruments meeting the qualifying criteria under category B and category C will not exceed 40% of total capital available, excluding accumulated other comprehensive income;
- Capital instruments meeting the qualifying criteria under category C will not exceed 7% of total capital available, excluding accumulated other comprehensive income.

Category B and category C capital exceeding the allowable limits will be subject to the following treatment for regulatory capital purposes:

- In cases where capital instruments qualifying under one of either category B or C exceed the limits, the capital in excess of the limits will not be considered in the calculation of capital available. In cases where capital instruments both under category B and category C are in excess of the prescribed limits, the greater value of the two excess amounts will be excluded from capital available. In doing so, insurers must first fully exclude excess capital under category C, followed by excess capital under category B.
- Under certain exceptional circumstances and subject to OSFI's supervisory approval, a company may be permitted to continue to include such excess amounts in capital available temporarily, upon providing OSFI with a satisfactory plan outlining the company's strategy to achieve compliance with the limits as soon as possible. Typically, only those excesses arising after issuance and as a result of operating losses or extraordinary events beyond the control of management will normally be eligible for temporary inclusion in capital available. In most other circumstances, for example, excesses resulting from:

  1) purchases or redemptions of capital instruments;
  2) discretionary dividend payments;
  3) new issuances of non-common capital instruments within the same fiscal quarter; or
  4) foreseeable events;

  would generally not qualify for inclusion in capital available.

2.3. Regulatory Adjustments to Capital Available

2.3.1. Deductions:

1. Interests in and loans or other forms of lending provided to non-qualifying subsidiaries, associates, and joint ventures in which the company holds more than a 10% ownership interest:
    - Interests in non-qualifying subsidiaries, associates, and joint ventures in which the company holds more than a 10% ownership interest must be deducted from capital available (reference section 2.4);
    - Loans or other forms of lending provided to non-qualifying subsidiaries, associates, and joint ventures in which the company holds more than a 10% ownership interest that are reported as equity on their financial statements must be deducted from capital available (reference section 2.4).
2. Unsecured unregistered reinsurance exposures and self-insured retentions:
    - Amounts receivable and recoverable from an unregistered reinsurer to the extent that they are not covered by amounts payable to the same assuming reinsurer or acceptable collateral (reference section 4.3) must be deducted from capital available;
    - Self-insured retentions, included in other recoverables on liability for incurred claims, where OSFI requires acceptable collateral to ensure collectability of recoverables, and no collateral has been received (reference section 4.4) must be deducted from capital available.
3. The earthquake premium reserve (EPR) not used as part of financial resources to cover earthquake risk exposure (reference section 4.5).
4. Insurance acquisition cash flows:
    - Any asset for insurance acquisition cash flows must be deducted from capital available.
    - Unamortized insurance acquisition cash flows[23] other than those arising from commissions[24] and premium taxes. This deduction is gross of any associated income tax and does not apply to the class of title insurance contracts.
5. Accumulated other comprehensive income on cash flow hedges:

    The amount of cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet (including projected cash flows) must be derecognized in the calculation of capital available. This includes items that are not recognized on the balance sheet but excludes items that are fair valued on the balance sheet. Positive amounts should be deducted from capital available and negative amounts should be added back. This treatment specifically identifies the element of the cash flow hedge reserve that is to be derecognized for prudential purposes. It removes the element that gives rise to artificial volatility in capital available, as in this

[23] Unamortized insurance acquisition cash flows used here as well as elsewhere in this document are insurance acquisition costs paid and deferred that are embedded in the liability or asset for remaining coverage (LRC/ARC) and are yet to be amortized/expensed.

[24] excluding contingent and other commissions that cannot be readily identified as exclusively relating to and varying with insurance premiums and therefore are not recoverable.

case the reserve only reflects one half of the picture (the fair value of the derivative, but not the changes in fair value of the hedged future cash flow).

6. Goodwill and other intangible assets:

   - Goodwill related to consolidated subsidiaries and subsidiaries deconsolidated for regulatory capital purposes and the proportional share of goodwill in joint ventures subject to the equity method accounting must be deducted from capital available. The amount reported on the balance sheet is to be deducted net of any associated deferred tax liability that would be extinguished if the goodwill becomes impaired or derecognized under relevant accounting standards.
   - All other intangible assets[25] must be deducted from capital available. This includes intangible assets related to consolidated subsidiaries and subsidiaries deconsolidated for regulatory capital purposes, and the proportional share of intangible assets in joint ventures subject to the equity method of accounting. The full amount is to be deducted net of any associated deferred tax liability that would be extinguished if the intangible assets become impaired or derecognized under relevant accounting standards.

7. Deferred tax assets:

   Deferred tax assets (DTAs), except for those eligible for the 10% risk factor, must be deducted from capital available. In addition, the amount of DTAs that is in excess of the amount that could be recoverable from income taxes paid in the three immediate preceding years is deducted from capital available. Deferred tax assets may be netted with associated deferred tax liabilities (DTLs) only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority[26]. The DTLs permitted to be netted against DTAs must exclude amounts that have been netted against the deduction of goodwill, intangibles and defined benefit pension plan assets, and must be allocated on a pro rata basis between DTAs that are to be deducted in full and DTAs that are subject to the 10% risk factor (reference section 6.1).

8. Cumulative gains and losses due to changes in own credit risk on fair valued financial liabilities:

   All accumulated after-tax unrealized gains and losses that have resulted from changes in the fair value of insurer's financial liabilities that are due to changes in the institution's own credit risk must be deducted from capital available. In addition, with regard to derivative liabilities, all accounting valuation adjustments arising from the institution's own credit risk should also be deducted on an after-tax basis. The offsetting between valuation adjustments arising from the institution's own credit risk and those arising from its counterparties' credit risk is not permitted.

9. Defined benefit pension fund assets and liabilities:

   For each defined benefit pension fund that is in a surplus position and reported as an asset on the institution's balance sheet, the amounts reported as a surplus asset on the

[25] This includes computer software intangibles.
[26] This does not permit offsetting of DTAs across provinces.

balance sheet must be deducted from capital available, net of any associated deferred tax liability that would be extinguished if the asset becomes impaired or derecognized under the relevant accounting standards, and net of any amount of available refunds of defined benefit pension fund surplus assets to which the insurer has unrestricted and unfettered access. Insurers may only reduce this deduction by an amount of available refunds of defined benefit pension plan surplus assets if they obtain a prior written supervisory approval from OSFI [27].

10. Investments in own instruments (treasury stock):

All of institution's investments in its own instruments, whether held directly or indirectly, must be deducted from capital available (unless already derecognized under IFRS). In addition, any own stock that the institution could be contractually obliged to purchase should be deducted from capital available.

11. Reciprocal cross holdings in the common shares of insurance, banking and financial entities:

Reciprocal cross holdings in common shares (e.g. Insurer A holds shares of Insurer B and Insurer B in return holds shares of Insurer A), also known as back-to-back placements, that are designed to artificially inflate the capital position of institutions must be fully deducted from capital available.

12. Underlying future business under the general measurement method (GMM):

Insurers should deduct the excess of:

- the amount of aggregate reinsurance contracts held that are assets that correspond to underlying future business, other than underlying future business that has been assumed through reinsurance contracts issued; over
- the amount of aggregate reinsurance contracts held that are liabilities that correspond to underlying future business, other than underlying future business that has been assumed through reinsurance contracts issued

if this amount is positive.

Items that are deducted from capital available will be subject to a 0% risk factor for capital required purposes.

2.3.2. Additions:

1. Contractual service margin (CSM) associated with title insurance contracts:

The net of reinsurance amount of CSM for the class of title insurance contracts is added to the insurer's capital available.

[27] To obtain OSFI supervisory approval, an insurer must demonstrate, to OSFI's satisfaction, that it has clear entitlement to the surplus and that it has unrestricted and unfettered access to the surplus pension assets. Evidence required by OSFI may include, among other things, an acceptable independent legal opinion and the prior authorization from the pension plan members and the pension regulator.

2.3.3. Adjustments:

Adjustments to owner-occupied property valuations[28]:

- For owner-occupied property accounted for using the cost model and where the deemed value of the property was determined at conversion to the International Financial Reporting Standards (IFRS) by using fair value, unrealized after tax fair value gains (losses) must be reversed from the institution's reported retained earnings for capital adequacy purposes. The amount determined at conversion is an on-going deduction from capital available and can only be changed as a result of a sale of owner-occupied properties (owned at the time of IFRS conversion) and the resulting realization of actual gains (losses); and
- Accumulated net after tax revaluation losses in excess of gains accounted for using the revaluation model must be reversed from retained earnings. Net after tax revaluation gains must be reversed from accumulated other comprehensive income included in capital available.

2.4. Capital Treatment of Interests in and Loans to Subsidiaries, Associates and Joint Ventures

The equity method of accounting is used for all interests in non-qualifying subsidiaries, associates and joint ventures[29]. These interests remain unconsolidated for MCT purposes.

2.4.1. Consolidated subsidiaries (e.g. property and casualty insurance and ancillary businesses such as agencies, brokerages and mutual funds)

The financial statements of the subsidiaries are fully consolidated and the net value is included in the parent's capital available. The assets and liabilities of these subsidiaries are therefore subject to risk factors and liability margins in the parent's MCT.

2.4.2. Non-qualifying subsidiaries

Interests in non-qualifying subsidiaries are excluded from capital available. Loans or other forms of lending provided to a non-qualifying subsidiary, if they are reported as equity on the financial statements of the non-qualifying subsidiary, are also excluded from capital available of the insurer. Loans or other forms of lending provided to a non-qualifying subsidiary that are **not** reported as equity are subject to a risk factor of 45%. Receivables from non-qualifying subsidiaries will attract a risk factor of 5% or 10% depending on how long the balances are outstanding (reference section 6.1).

[28] No adjustments are required for "investment properties" as fair value gains (losses) are allowed for capital purposes.
[29] Interests in limited partnerships that are reported using the equity method of accounting are subject to the same capital treatment as joint ventures.

2.4.3. Associates

An enterprise is an associate of another enterprise if:

- both are subsidiaries of the same enterprise; or
- each of them represents an investment by the same person or enterprise, in which the investor holds 20% or more of the voting power in each investment; or
- one enterprise exerts significant influence over the other. The notion of significant influence is defined in accordance with IFRS; or
- if an insurance broker is economically dependent on the insurer, then the broker must be treated as an associate of the insurer for capital purposes.

Interests in associates are excluded from capital available. Loans or other forms of lending provided to associates, if they are reported as equity in the financial statements of the associates, are also excluded from capital available of the insurer. Loans or other forms of lending provided to associates that are **not** reported as equity are subject to a risk factor of 45%. Insurance receivables from associates that are registered reinsurers will attract a risk factor of 0.7%. Other receivables from associates will be subject to risk factors of 5% or 10% depending on how long the balances are outstanding (reference section 6.1).

2.4.4. Joint ventures in which a company holds less than or equal to 10% ownership interest

Where an insurer holds less than or equal to 10% ownership in a joint venture, the investment is included in capital available. The investment is reported under capital required for equity risk, and is subject to the risk factor applicable to investments in common shares (reference section 5.3).

2.4.5. Joint ventures in which a company holds more than a 10% ownership interest

Interests in joint ventures with more than 10% ownership are excluded from capital available. Loans or other forms of lending provided to a joint venture with more than a 10% ownership interest, if they are reported as equity on the financial statements of the joint venture with more than a 10% ownership interest, are also excluded from capital available of the insurer. Loans or other forms of lending provided to a joint venture with more than a 10% ownership interest that are **not** reported as equity are subject to a risk factor of 45%. Receivables from joint ventures with more than a 10% ownership interest will attract a risk factor of 5% or 10% depending on how long the balances are outstanding (reference section 6.1).

2.4.6. Ownership interests in an intra-group investment arrangement

Where companies participate in an intra-group investment arrangement, and the arrangement has been approved by OSFI pursuant to the requirements of the ICA, companies are not required to deduct from capital available their ownership interest. A “look-through” approach should be used for intra-group investments, similar to that for mutual funds (reference section 6.1).

2.4.7 *Summary of exposures*

Types of exposures an insurer might have with non-qualifying subsidiaries, associates, and joint ventures.

Examples of exposures and capital treatment

Exposure	Capital treatment
Common or preferred shares (non-qualifying subsidiaries and associates) including share of accumulated earnings/losses less dividends received based on equity accounting	Excluded from capital available
Ownership interests > 10% joint venture	Excluded from capital available
Ownership interests ≤ 10% joint venture	Included in capital available with a risk factor of 30% applied to the ownership interest
Loans or other forms of lending (bonds, debentures, mortgages, etc.) reported as equity	Excluded from capital available
Loans or other forms of lending (bonds, debentures, mortgages, etc.) **not** reported as equity	Included in capital available with a risk factor of 45%
Insurance receivables from associates that are registered reinsurers	Included in capital available with a risk factor of 0.7%
Receivables from associates that are registered reinsurers	Included in capital available with a risk factor of 5% or 10% depending on how long the balances are outstanding
Receivables from other associates, non-qualifying subsidiaries and joint ventures	Included in capital available with a risk factor of 5% or 10% depending on how long the balances are outstanding

Appendix 2-A: Information Requirements for Capital Confirmations

Given the potential impact of the disqualification of a capital instrument, insurers are encouraged to seek confirmations of capital quality from OSFI prior to issuing instruments[30]. In conjunction with such requests, the insurer is expected to provide the following information to the Capital Division:

1. An indicative term sheet specifying indicative dates, rates and amounts and summarizing key provisions in respect of all proposed instruments.
2. The draft and final terms and conditions of the proposed instrument supported by relevant documents (i.e. Prospectus, Offering Memorandum, Debt Agreement, Share Terms, etc.).
3. A copy of the institution's current by-laws or other constating documents relevant to the capital to be issued as well as any material agreements, including shareholders' agreements, which may affect the capital quality of the instrument.
4. Where applicable, for all debt instruments only:
    a) the draft and final Trust Indenture and supplemental indentures; and
    b) the terms of any guarantee relating to the instrument.
5. Where the terms of the instrument include a redemption option or similar feature upon a tax event, an external tax opinion confirming the availability of such deduction in respect of interest or distributions payable on the instrument for income tax purposes[31].
6. An accounting opinion describing the proposed treatment and disclosure of the capital instrument (other than common shares) on the institution's financial statements[32].
7. Where the initial interest or coupon rate payable on the instrument resets periodically or the basis of the interest rate changes from fixed to floating (or vice versa) at a pre-determined future date, calculations demonstrating that no incentive to redeem, or step-up, will arise upon the change in the initial rate. Where applicable, a step-up calculation should be provided according to the swap-spread methodology, which confirms there is no step-up upon the change in interest rate, and supported by screenshots of the applicable reference index rate(s).
8. Capital projections demonstrating that the insurer will be in compliance with its supervisory target capital ratios as well as the capital composition requirements specified in section 2.2 at the end of the quarter in which the instrument is expected to be issued.
9. An assessment of the features of the proposed capital instrument against the qualifying criteria for category B capital instruments or category C capital instruments, as applicable, as

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30 If an insurer fails to obtain a capital confirmation (or obtains a capital confirmation without disclosing all relevant material facts to OSFI), OSFI may, at its discretion and at any time, determine that such capital does not comply with these principles and is to be excluded from the insurer's capital available.

31 OSFI reserves the right to require a Canada Revenue Agency advance tax ruling to confirm such tax opinion if the tax consequences are subject to material uncertainty.

32 OSFI reserves the right to require such accounting opinion to be an external opinion of a firm acceptable to OSFI if the accounting consequences are subject to material uncertainty.

specified in the MCT Guideline. For greater certainty, this assessment would only be required for an initial issuance or precedent and is not required for subsequent issuances provided the terms of the instrument are not materially altered.

10. A written attestation from a senior officer of the institution confirming that the insurer has not provided financing to any person for the express purpose of investing in the proposed capital instrument.

Chapter 3. Foreign Companies Operating in Canada on a Branch Basis

Under subsection 608(1) of the ICA, a foreign company is required to maintain in Canada an adequate margin of assets over liabilities in respect of its insurance business in Canada. The Branch Adequacy of Assets Test (BAAT) provides the framework within which the Superintendent assesses whether foreign companies maintain an adequate margin pursuant to subsection 608(1).

All provisions in this guideline apply to branches unless stated otherwise in this chapter.

Notwithstanding the stated requirements, in any case where the Superintendent believes that the capital treatment is inappropriate, a specific additional capital requirement will be determined.

3.1. Branch Adequacy of Assets Test

The BAAT ratio measures the adequacy of net assets available to meet the margin requirements as determined in accordance with this guideline. The BAAT ratio is defined as the net assets available divided by the minimum margin required, expressed as a percentage. The determination of the net assets available and the minimum margin required is described below.

3.1.1 Net assets available

For BAAT purposes, net assets available are calculated as follows, subject to regulatory adjustments:

Total vested assets

Less:

Total net liabilities, which are equal to total liabilities, net of:

- Insurance contract assets
- Reinsurance contracts held assets associated with registered reinsurers;
- Reinsurance contracts held assets associated with unregistered reinsurers;
- Other allowable recoverables on liability for incurred claims, including salvage and subrogation;
- Self-insured retention recoverables to the extent permitted by OSFI (reference section 4.4);
- Contractual service margin (CSM) associated with title insurance contracts net of CSM associated with reinsurance contracts held;
- Contractual service margin (CSM) associated with business combinations and portfolio transfers prior to June 30, 2019, net of CSM associated with reinsurance contracts held.

This transitional arrangement will apply for a period of three years after this version of the guideline becomes effective;

- Residual interest, reported as a liability, of owner-policyholders of mutual entities

3.1.2 Regulatory adjustments to net assets available:

Additions:

1. Balance sheet values of right-of-use assets associated with owner-occupied leased properties, as recognised on the branch's balance sheet in accordance with relevant accounting standards.
2. Accumulated net after tax revaluation losses in excess of gains on owner-occupied properties that are reflected in the head office account for accounting purposes.
3. Amounts due from federally regulated insurers and approved reinsurers that can be legally netted against the insurance contract liabilities of the branch and that meet the following conditions:
    - The amount due does not exceed the liability owed to the insurer (i.e. any excess of receivables over liabilities is excluded).
    - The branch has executed a written, bilateral netting contract or agreement with the insurer to which the liability is owed that creates a single legal obligation. The result of such an arrangement must be that the branch has only one obligation for payment or one claim to receive funds based on the net sum of the liabilities and amounts due in the event the counterparty to the agreement failed to perform due to default, bankruptcy, liquidation or similar circumstances.
    - The netting arrangement specifies that only the liabilities to the counterparty arising out of the Canadian operations of the foreign company may be taken into consideration in determining the net amount owed. In particular, the counterparty must not be able to net amounts due to the branch against any liabilities of the home office or affiliates of the branch that are not liabilities arising out of the Canadian operations of the foreign company.
    - The branch must have written and reasoned legal opinions confirming that, in the event of any legal challenge, the relevant courts or administrative authorities will find the amount owed under the netting agreement to be the net amount under the laws of all relevant jurisdictions. In reaching this conclusion, legal opinions must address the validity and enforceability of the entire netting agreement under its terms.
        - The laws of "all relevant jurisdictions" are: a) the law of the jurisdiction where the counterparty is incorporated and, if the foreign branch of a counterparty is involved, the laws of the jurisdiction in which the branch is located; b) the law governing the individual insurance transaction; and c) the law governing any contracts or agreements required to effect the netting arrangement. The legal opinions must be generally recognized as

such by the legal community in Canada or by a memorandum of law that addresses all relevant issues in a reasoned manner.

- The branch must have procedures in place to update legal opinions as necessary to ensure continuing enforceability of the netting arrangement in light of possible changes in relevant law.
- The netting contract/agreements terms and conditions and the quality and content of the legal opinions must meet the conditions of this guideline and be submitted to OSFI for review prior to the branch including the receivables in its net assets available.

Deductions:

1. Amounts recoverable from unregistered reinsurers to the extent that they are not covered by acceptable collateral held as security from assuming reinsurers (reference section 4.3).
2. Unrealized fair value gains (losses) on owner-occupied properties reflected in the head office account at conversion to IFRS.
3. Accumulated net after tax revaluation gains on owner-occupied properties that are reflected in the accumulated other comprehensive income for accounting purposes.
4. Cash flows in from other insurers and subsidiaries, associates & joint ventures, including cash flows in from reinsurance contracts held that do not meet the criteria in (3) of the additions above, that are included in the determination of liabilities.
5. Insurance acquisition cash flows
   - unamortized insurance acquisition cash flows other than those arising from commissions[33] and premium taxes. This deduction does not apply to the class of title insurance contracts;
   - 45% of unamortized insurance acquisition commission[34] cash flows associated with accident and sickness (A&S) business (reference section 4.6).

   These deductions are gross of any associated income tax.
6. Underlying future business under the general measurement method (GMM):

   Insurers should deduct the excess of:

   - the amount of aggregate reinsurance contracts held that are assets that correspond to underlying future business, other than underlying future business that has been assumed through reinsurance contracts issued; over
   - the amount of aggregate reinsurance contracts held that are liabilities that correspond to underlying future business, other than underlying future business that has been assumed through reinsurance contracts issued

[33] excluding contingent and other commissions that cannot be readily identified as exclusively relating to and varying with insurance premiums and therefore are not recoverable.
[34] idem

if this amount is positive.

3.1.3 Margin required

Margin required is calculated with respect to the branch's liabilities, vested assets and other assets available. The BAAT minimum margin required is the sum of the following risk margins, less the diversification credit, divided by 1.5:

Sum of margin required for:

i) Insurance risk (reference chapter 4):
   a. Liability for incurred claims and unexpired coverage;
   b. Reinsurance held with unregistered insurers;
   c. Earthquake and nuclear catastrophe reserves.

ii) Market risk (reference chapter 5):
   a. Interest rate;
   b. Foreign exchange;
   c. Equity;
   d. Real estate;
   e. Right-of-use assets;
   f. Other market exposures.

iii) Credit risk (reference chapter 6):
   a. Counterparty default for balance sheet assets;
   b. Counterparty default for off-balance sheet exposures;
   c. Collateral held for unregistered reinsurance and self-insured retention (reference section 4.3.3).

iv) Operational risk (reference chapter 7).

Less:

v) Diversification credit (reference chapter 8).

Divided by 1.5.

Chapter 4. Insurance Risk

Insurance risk is the risk arising from the potential for claims or payouts to be made to policyholders or beneficiaries. Exposure to this risk results from the present value of losses being higher than the amounts originally estimated.

Insurance risk includes uncertainties around:

a) the ultimate amount of net cash flows from premiums, commissions, claims, and related settlement expenses, and

b) the timing of the receipt and payment of these cash flows.

The insurance risk component reflects the insurer's consolidated risk profile by individual classes of insurance and results in specific margin requirements for insurance risk. For the MCT, the risk associated with insurance exposure is divided into four parts:

i.) liability for incurred claims (i.e. reserving risk associated with variation in claims provisions);

ii.) unexpired coverage (i.e. underwriting risk including catastrophe risk, other than earthquakes and nuclear);

iii.) unregistered reinsurance; and

iv.) earthquake and nuclear catastrophes.

4.1. Diversification Credit within Insurance Risk

The risk factors for each class of insurance contain an implicit diversification credit based on the assumption that insurers have a well-diversified portfolio of risks for a given portfolio of business.

4.2. Margins for Liability for Incurred Claims and Unexpired Coverage

Given the uncertainty that insurance contract liabilities will be sufficient to cover future claims, margins are added to cover a potential shortfall.

4.2.1. Margin for liability for incurred claims

The margin for liability for incurred claims is calculated by class of insurance, by multiplying the liability for incurred claims for insurance contracts issued (net of salvage and subrogation), excluding the associated risk adjustment for non-financial risk, less the asset for incurred claims for reinsurance contracts held excluding the associated risk adjustment for non-financial risk, by the applicable risk factors multiplied by 1.10

$$\begin{gathered}Margin\ for\ liability\ for\ incurred\ claims = \\ 1.10\ x\ \sum class\ of\ insurance\ risk\ factor\ x\ (\\ best\ estimate\ liability\ for\ incurred\ claims\ for\ insurance \\ contracts\ issued\ less\ the\ best\ estimate\ asset\ for \\ incurred\ claims\ for\ reinsurance\ contracts\ held)\end{gathered}$$

Where:

$$\textit{Best estimate liability for incurred claims for insurance contracts issued} = \textit{liability for incurred claims for insurance contracts issued excluding the associated risk adjustment for non-financial risk}$$

$$\textit{Best estimate asset for incurred claims for reinsurance contracts held} = \textit{asset for incurred claims for reinsurance contracts held excluding the associated risk adjustment for non-financial risk}$$

Table of applicable insurance risk factors for determining the margins for liability for incurred claims are as follows:

Class of Insurance	Risk Factor Liability for Incurred Claims
Personal property	15%
Commercial Property	10%
Aircraft	20%
Auto – Liability	10%
Auto – Personal Accident	10%
Auto – Other	15%
Boiler & Machinery	15%
Credit	20%
Credit Protection	20%
Fidelity	20%
Hail	20%
Legal Expense	25%
Liability	25%
Other Approved Products	20%
Surety	20%
Title	15%
Marine	20%
Warranty	Use same risk factors as the underlying class of insurance
Accident & Sickness	Refer to section 4.6

For reinsurance contracts, the liability or asset for incurred claims should be grossed up by the amount of funds held, if any. For insurance contracts issued, the funds held amount held by the ceding insurer is added back to the assuming insurers' liability for incurred claims. For reinsurance contracts held, the funds held amount is added back to the ceding insurers' asset for incurred claims.

For groups of retrospective reinsurance contracts held carried on the balance sheet as an asset for remaining coverage, where the underlying insurance contract issued is carried as a liability for incurred claims, these contracts are included in the determination of the margin for liability for incurred claims (section 4.2.1) instead of in the determination of the margin for unexpired coverage (section 4.2.2).

4.2.2. Margin for unexpired coverage

The margin for unexpired coverage is calculated by class of insurance, by multiplying the greater of:

- net unexpired coverage; and
- 30% of net premiums received (i.e., premiums received net of associated reinsurance premiums paid) in the past 12 months

by the applicable risk factors.

The net unexpired coverage is determined as:

$$\begin{aligned}&\textit{Net unexpired coverage}\\&\quad= \textit{Unexpired coverage for insurance contracts issued}\\&\quad- \textit{Unexpired coverage for reinsurance contracts held}\end{aligned}$$

4.2.2.1. Unexpired coverage for insurance contracts issued

The unexpired coverage for insurance contracts issued is determined using one of two methods depending on whether the group of insurance contracts issued is measured applying the general measurement model (GMM) or the premium allocation approach (PAA) to determine the liability for remaining coverage (LRC).

1. For groups of insurance contracts issued measured using the GMM to determine the LRC:

$$\begin{aligned}&\textit{Unexpired coverage for insurance contracts issued } (GMM)\\&\quad= \textit{estimate of future cash flows for insurance contracts issued}\\&(\textit{excluding premium and acquisition expenses cash flows}), \textit{adjusted for the time value of money}\end{aligned}$$ [35]

   The estimate of future cash flows includes expenses directly attributable to fulfilling the obligations under insurance contracts, but it would not include the risk adjustment for non-financial risk.

2. For groups of insurance contracts issued that are measured using the PAA to determine the LRC:

[35] Reference to IFRS 17 paragraphs 33-36.

$$\begin{aligned}&\mathit{Unexpired\ coverage\ for\ insurance\ contracts\ issued\ (PAA)}\\&\quad= \big(\mathit{liability\ for\ remaining\ coverage, excluding\ the\ loss\ component}\\&\quad+\ \mathit{unamortized\ insurance\ acquisition\ cash\ flows}^{36}\\&\quad+ \mathit{premiums\ to\ be\ received}^{37}\big) \times ELR + \mathit{costs}\end{aligned}$$

The costs in unexpired coverage for insurance contracts issued (PAA) are expenses directly attributable to fulfilling the obligations under insurance contracts. These costs can be implicit in the expected loss ratio (ELR), explicitly added, or a combination of implicit and explicit. Unexpired coverage for insurance contracts issued (PAA) exclude any risk adjustment for non-financial risk and may be adjusted for the time value of money.

4.2.2.2. Unexpired coverage for reinsurance contracts held

The unexpired coverage for reinsurance contracts held applies to the unexpired portion of underlying insurance contracts issued. It is determined using one of two methods depending on whether the group of reinsurance contracts held is measured applying the GMM or PAA to determine the asset for remaining coverage (ARC).

1. For groups of reinsurance contracts held that are measured using the GMM to determine the ARC:

$$\begin{aligned}&\mathit{Unexpired\ coverage\ for\ reinsurance\ contracts\ held\ (GMM)}\\&= (\mathit{estimate\ of\ future\ cash\ flows\ for\ reinsurance\ contracts\ held}\\&+ \mathit{estimate\ of\ future\ cash\ flows\ for\ future\ reinsurance\ contracts\ held}),\\&\qquad \mathit{adjusted\ for\ time\ value\ of\ money}\end{aligned}$$

   The estimate of future cash flows does not include the risk adjustment for non-financial risk. Estimates of future cash flows for reinsurance contracts held and future reinsurance contracts held refer to the portion of these contracts that covers the unexpired portion of underlying insurance contracts issued. These cash flows include expected losses recoverable, net of expected future reinsurance costs.

   Illustrative example:
   An insurance contract written October 1 would have reinsurance coverage for 3 months under an existing January to December reinsurance contract. The remaining 9 months of the insurance contract issued would be covered under a future reinsurance contract held.

2. For groups of reinsurance contracts held that are measured using the PAA to determine the ARC:

[36] If the insurer chooses to expense its insurance acquisition cash flows, per IFRS 17 paragraph 59 (a), the remaining amount of unamortized insurance acquisition cash flows will be zero.
[37] Whether outstanding or not yet due, including instalment premiums.

$$
\begin{aligned}
&\textit{Unexpired coverage for reinsurance contracts held (PAA)} \\
&\quad = \Big[\big(\textit{asset for remaining coverage excluding loss recovery component} \\
&\quad + \textit{unamortized reinsurance commission}^{38}\big) \\
&\quad + \textit{premiums to be paid}^{39} \textit{ for reinsurance contracts held} \\
&\quad + \textit{expected premiums payable for future reinsurance contracts held}\Big] \\
&\quad \times ELR^{40} \\
&- \left(\begin{array}{c}\textit{premiums to be paid}^{41} \textit{ for reinsurance contracts held net of} \\ \textit{associated reinsurance commissions to be received}^{42} + \textit{expected premiums payable for future reinsurance contracts held} \\ \textit{net of associated expected reinsurance commissions receivable}\end{array}\right)
\end{aligned}
$$

Unamortized reinsurance commission is equal to the amount of reinsurance commission used for the measurement of the asset for remaining coverage (ARC). Unexpired coverage for reinsurance contracts held (PAA) excludes any risk adjustment for non-financial risk and may be adjusted for the time value of money.

Table with the applicable insurance risk factors for determining the margins for unexpired coverage are as follows:

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[38] The reinsurance commission is the ceding commission (or portion of the ceding commission) paid by the reinsurer to the ceding insurer that is not contingent on claims of the underlying contracts and generally includes a total provision for broker/agent commissions, premium taxes, and other acquisition and servicing expenses.
[39] Whether outstanding or not yet due
[40] The ELR for the unexpired coverage for reinsurance contracts held (PAA) in section 4.2.2.2 is the ELR for the ceded calculations that relates to the portion of these contracts covering the unexpired portion of underlying insurance contracts issued, and is not necessarily the same as the ELR for the gross calculations in section 4.2.2.1 for the unexpired coverage for insurance contract issued (PAA).
[41] Whether outstanding or not yet due
[42] Idem

Class of Insurance	Risk Factor Net Unexpired Coverage
Personal property	20%
Commercial Property	20%
Aircraft	25%
Auto – Liability	15%
Auto – Personal Accident	15%
Auto – Other	20%
Boiler & Machinery	20%
Credit	25%
Credit Protection	25%
Fidelity	25%
Hail	25%
Legal Expense	30%
Liability	30%
Other Approved Products	25%
Surety	25%
Title	20%
Marine	25%
Warranty	Use same risk factors as the underlying class of insurance
Accident & Sickness	Refer to section 4.6

4.2.3. Risk factors for warranty business

The risk factors to be used for home and product warranty should be the same as those applied for personal property. The risk factors to be used for equipment warranty should be the same as the risk factors applied for boiler and machinery.

4.3. Risk Mitigation and Risk Transfer - Reinsurance

4.3.1. General

The terms registered and unregistered, as defined below, are relevant in determining whether credit can be taken for reinsurance placed by insurers. In order for an insurer to obtain credit for reinsurance on account of any reinsurance arrangement with a registered or unregistered reinsurer, the reinsurance arrangement must comply with the requirements of Guideline B-3 *Sound Reinsurance Practices and Procedures*.

4.3.2. Registered reinsurers

4.3.2.1 Definition of registered reinsurer

A reinsurer is generally considered to be a registered reinsurer if it is:

(a) a reinsurer that is either:

  i. incorporated federally and has reinsured the risks of the ceding company, or

  ii. a foreign company that has reinsured in Canada the risks of the ceding company, and is authorized by order of the Superintendent to do so;

(b) a provincially/territorially regulated insurer that has been approved by the Superintendent;

(c) the Insurance Corporation of British Columbia;

(d) the Manitoba Public Insurance Corporation;

(e) Saskatchewan Government Insurance;

(f) Export Development Canada;

(g) Provincial Risk Sharing Pools administered by The Facility Association; or

(h) Quebec Risk Sharing Plan administered by the Groupement des assureurs automobiles.

Subsection 578(5) of the ICA requires a foreign company, in respect of risks it reinsures in Canada, to set out in all premium notices, applications for policies and policies (which may include cover notes, offer letters or quotations) a statement that the document was issued or made in the course of its insurance business in Canada. In cases where the cover note, offer letter or quotation can be considered neither an application for a policy nor a policy, an insurer will be permitted to treat a reinsurance arrangement as registered reinsurance only if the foreign reinsurer includes, in the cover note, offer letter or quotation, a statement that the foreign reinsurer intends to issue the policy under negotiation in the course of its insurance business in Canada, and that it will take measures to ensure that the cedant's risks will be reinsured in Canada in accordance with OSFI's advisory No. 2007-01-R1 entitled *Insurance in Canada of Risks*.

With respect to a Canadian company's reinsurance of out-of-Canada business only, reinsurers regulated in an OECD country may be recognized as "registered" on the basis of financial soundness, provided that the reinsurance contracts are recognized by the regulatory agencies of the countries in question. OSFI retains the authority to disqualify such reinsurance if not satisfied with the financial condition of the reinsuring company.

All out-of-Canada business ceded to reinsurers not satisfying the recognized "registered" definition in the previous paragraph must follow the requirements of section 4.3.3 and must be reported on the unregistered reinsurance exhibit of the MCT Return.

4.3.2.2 Risk factors

The risk of uncollectability of recoverables from reinsurers arises from the risk that the reinsurer will fail to pay the insurer what it is owed. There is additional risk associated with mis-assessing the amount of the required provision. The risk factor applied to the premiums associated with unexpired coverage on reinsurance contracts held from registered reinsurers[43] and the asset for incurred claims recoverable from registered reinsurers is treated as a combined weight under the MCT (reference section 6.1).

The balance sheet value used to calculate the credit risk requirement for the amounts of premiums associated with unexpired coverage on reinsurance contracts held and the asset for incurred claims recoverable from the assuming insurer arising from registered reinsurance may be reduced by:

1. the liability for funds held by the ceding insurer for exclusive benefit of the ceding insurer (e.g. funds held reinsurance) to secure the payment to the ceding insurer by the reinsurer of the reinsurer's share of any loss or liability for which the reinsurer is liable under the reinsurance contract; and
2. any other liabilities of the ceding insurer due to the reinsurer for which the ceding insurer has a legal and contractual right of setoff against the amount recoverable from the reinsurer.

Total reinsurance contract assets by reinsurer cannot be negative. Acceptable collateral posted by the reinsurers under registered reinsurance contracts may be recognized provided the conditions under section 4.3.3.4 are met.

4.3.3. Unregistered reinsurers

4.3.3.1. Definition of unregistered reinsurer

A reinsurer is generally considered to be unregistered if it is not a registered reinsurer as defined in section 4.3.2.1.

A ceding insurer is given credit for unregistered reinsurance where the ceding insurer obtains and maintains a valid and enforceable security interest that has priority over any other security interest in assets of an unregistered reinsurer that are held in Canada in accordance with OSFI's *Guidance for Reinsurance Security Agreements (RSA)*. A ceding insurer is also given credit for the amount of acceptable letters of credit held to secure the payment to the ceding insurer by the reinsurer of the reinsurer's share of any loss or liability for which the reinsurer is liable under the reinsurance contract. Insurers should refer to *General Guidelines for Use of Letters of Credit* available on OSFI's website.

[43] The definition of unexpired coverage on reinsurance contracts held, is defined in part (A) of section 4.3.3.2.

4.3.3.2. Deduction from capital available

Amounts receivable and recoverable from an unregistered reinsurer, as reported for regulatory purposes, are deducted from capital available to the extent that they are not covered by premiums payable to the assuming reinsurer or acceptable collateral. Acceptable collateral is defined as non-owned deposits under a RSA, other acceptable non-owned deposits, funds held to secure payment from an assuming reinsurer, and letters of credit held as security from an assuming reinsurer. Section 4.3.3.4 outlines further conditions for using collateral to obtain credit for unregistered reinsurance. Amounts payable to an assuming reinsurer may be deducted from amounts receivable and recoverable only where there is a legal and contractual right of setoff.

In respect of each unregistered reinsurer to which an insurer has ceded business, a deduction from capital available is required if the following calculation is positive:

A+B+C-D-E-F-G-H

Where:

(A) is the amount of premiums associated with unexpired coverage, including any loss-recovery component, on reinsurance contracts held.

Premiums associated with unexpired coverage on reinsurance contracts held are determined using one of two methods depending on whether an insurer uses the GMM or PAA to measure the ARC for a group of reinsurance contracts held.

1. For P&C insurers using the PAA to measure a group of reinsurance contracts held, the premiums associated with unexpired coverage on reinsurance contracts held is determined as:

$$\begin{aligned} &Asset\ for\ remaining\ coverage\ on\ reinsurance\ contracts\ held \\ &\quad + unamortized\ reinsurance\ commission^{44} \\ &\quad + premiums\ to\ be\ paid\ to\ the\ assuming\ insurer \end{aligned}$$

2. For P&C insurers using the GMM to measure a group of reinsurance contracts held, the premiums associated with the unexpired coverage on reinsurance contracts held is determined as:

   a) If the contractual service margin (CSM) of a group of reinsurance contracts held represents a net cost of purchasing reinsurance[45]:

$$\begin{aligned} &Expected\ cash\ inflow\ from\ reinsurer + risk\ adjustment\ (RA) + CSM \\ &\quad + unamortized\ reinsurance\ commission \end{aligned}$$

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[44] Unamortized reinsurance commission is equal to the amount used for the measurement of the ARC, and includes ceding commissions that are received and receivable, and yet to be amortized.

[45] A group of reinsurance contracts representing a net cost may include the aggregate of groups of contracts within a portfolio that have not been included in the group of contracts with a net gain for accounting purposes (i.e. the groups with no significant possibility of a net gain and remaining contracts).

b) If the CSM of a group of reinsurance contracts held represents a net gain of purchasing reinsurance:

$$Expected\ cash\ inflow\ from\ reinsurer + risk\ adjustment\ (RA) - CSM + unamortized\ reinsurance\ commission$$

(B) is the asset for incurred claims on reinsurance contracts held from the assuming insurer;

(C) is the amount of cash outflows associated with the funds held collateral that are included in (A) and (B) above;

(D) are the amounts receivable from the assuming insurer that are already included in (A) or (B) above (foreign branches only);

(E) is the amount of non-owned deposits held as security from assuming insurer under an acceptable RSA;

(F) is the amount of premiums payable and other acceptable non-owned deposits;

(G) is the amount of funds held to secure payment from the assuming insurer;

(H) is the amount of acceptable letters of credit held as security from assuming insurer.

4.3.3.3. Margin required

The margin required for unregistered reinsurance is calculated in the unregistered reinsurance exhibit of the MCT Return and reported as margin required for "Reinsurance ceded to unregistered insurers" in the MCT.

The margin is 20% of premiums associated with the unexpired coverage on reinsurance contracts held, asset for incurred claims recoverable from the assuming insurer, cash flows out for funds held less amounts receivable (foreign branches) included in A or B (the sum of amounts A, B and C less D in section 4.3.3.2). The margin requirement for each unregistered reinsurer may be reduced to a minimum of zero by premiums payable to the reinsurer and acceptable collateral (the sum of amounts E to H in section 4.3.3.2) that are in excess of the amounts of premiums associated with the unexpired coverage on reinsurance contracts held, asset for incurred claims recoverable from the assuming insurer, cash flows out for funds held less amounts receivable (foreign branches) included in A or B (the sum of amounts A, B and C less D in section 4.3.3.2).

4.3.3.4. Collateral

The collateral used to obtain credit for a specific unregistered reinsurer must materially reduce the risk arising from the credit quality of the reinsurer. In particular, collateral used may not be related party obligations of the unregistered reinsurer (i.e. obligations of the reinsurer itself, its parent, or one of its subsidiaries or associates). With respect to the above three sources available to obtain credit, this implies that:

- To the extent that a ceding insurer is reporting obligations due from a related party of the reinsurer as assets in its annual return, the ceding insurer is precluded from taking credit for funds held to secure payment from the unregistered reinsurer;
- Reinsurers' assets located in Canada in which a ceding company has a valid and perfected first priority security interest under applicable law may not be used to obtain credit if they are obligations of a related party of the unregistered reinsurer; and
- A letter of credit is not acceptable if it has been issued by a related party of the unregistered reinsurer.

Collateral must be available to the company for a period of not less than the remaining term of the liabilities covered by the reinsurance contracts held in order to be valid towards obtaining credit for unregistered reinsurance. In cases where an arrangement contains a renewal provision for the cedant to maintain collateral for a part of or the whole of the remaining term of the liabilities covered by the reinsurance contracts held (e.g. additional fees or higher interest rate), the renewal provision should be included when determining the ceded reserves.

Non-owned deposits from reinsurers

Insurers that have received non-owned deposits provided by an unregistered reinsurer must comply with OSFI's *Guidance for Reinsurance Security Agreements*.

Deposits from reinsurers that are "not owned" by an insurer, including deposits held on behalf of reinsurers, are not to be reported on the insurer's balance sheet. Details of these deposits must be reported in the unregistered reinsurance exhibit of the MCT Return.

Non-owned deposits held on behalf of an unregistered assuming reinsurer must be valued at market value as at the end of the statement year, including the amount of investment income due and accrued respecting these deposits.

Letters of credit

In order to be recognized for capital purposes, letters of credit must be approved by OSFI. Insurers should refer to *Guidelines for Use of Letters of Credit*, available on OSFI's website, for OSFI's requirements relating to the use of LOCs and their approvals.

The limit on the use of letters of credit to obtain capital credit for unregistered reinsurance is 30% of reinsurance contract assets (the sum of A and B in section 4.3.3.2) from assuming insurers. This limit is applied in the aggregate and not against individual reinsurance exposures.

Capital requirements

Letters of credit for unregistered reinsurance are considered a direct credit substitute and are subject to risk factors based on the credit rating of the issuing/confirming bank and the term of the liabilities covered by the reinsurance contracts held. Non-owned deposits held as collateral are subject to the same risk factors as those applied to similar assets owned by the insurer (reference sections 5.3 and 6.1).

Capital requirements for collateral associated with unregistered reinsurance are calculated on an aggregate basis for the total amount of acceptable collateral from each reinsurer using applicable risk factors. Acceptable collateral that is greater than the unregistered reinsurance requirements is considered excess collateral and are not subject to capital requirements.

Two steps are required to compute excess collateral and arrive at a reduction in capital required for excess collateral.

Step 1 Example: Computation of excess collateral Canadian Company (reference *unregistered reinsurance* exhibit of the MCT Return)

Table with step 1 calculation example

Reinsurance Contracts Held from an Unregistered Insurer	Amount ($)
Premiums associated with the unexpired coverage for reinsurance contracts held	100
Asset for incurred claims recoverable from assuming insurer	500
Cash flows out for funds held	100
20% margin on premiums associated with the unexpired coverage, asset for incurred claims and cash flows out for funds withheld recoverable	140
Unregistered reinsurance exposure	**840**
Collateral required to reduce the margin required to 0 (100 + 500 + 100) x 120%	840
Premiums payable and Non-owned deposits	1,000
Funds held	100
Letters of credit	100
Total collateral	**1,200**
Excess collateral (no capital required on this amount) 1,200-840	**360**

The amount of excess collateral should be calculated separately for each individual reinsurer and then added together.

Step 2 Example: Reduction in capital required for excess collateral

The total amount of capital required for collateral should be pro-rated to discount for excess collateral.

Following step 1, the ratio of 0.30 (360/1,200) should be applied to the total amount of capital required for collateral in order to calculate the capital required for collateral excluding the excess.

Table with step 2 calculation example

	Collateral amount (01)	Risk factor (02)	Total capital required (03)=(01)x(02)	Proportional allocation of excess collateral (04)	Reduction in capital required for excess collateral (05)=(03)x(04)
LOCs (AA rating ≤ 1 year)	$100	0.25%	$0.25	n/a	n/a
Non-owned deposits (AAA bonds ≤1 year)	$500	0.25%	$1.25	n/a	n/a
Non-owned deposits (AA bonds >1 year ≤5 years)	$500	1.00%	$5.00	n/a	n/a
Funds Held (demand deposits)	$100	0.25%	$0.25	n/a	n/a
Total	$1,200	n/a	$6.75	0.30	$2.025

The capital requirements for acceptable collateral, less the excess, are reported as part of capital required for credit risk (reference chapter 6).

Funds held to secure payment from unregistered reinsurer

Cash and securities received to secure payment from unregistered reinsurers that have been co-mingled with the insurer's own funds should be reported on the insurer's balance sheet in the appropriate asset categories and will be subject to the corresponding risk factors. Funds held also include reinsurance premiums withheld by the ceding company as specified in the reinsurance contract. Details of funds held must also be reported in the unregistered reinsurance exhibit of the MCT Return. The reinsurance contract must clearly provide that, in the event of the cedant's or reinsurer's insolvency, the funds held must form part of the property of the cedant's general estate[46].

In order for a ceding insurer to obtain credit for funds held under a funds held reinsurance arrangement, the arrangement must not contain any contractual provision that would require payment of funds held to the reinsurer, other than those funds that, together with other forms of acceptable collateral, if any, are in excess of the ceded policy liabilities and the margin required for unregistered reinsurance, before all subject policies have expired and all claims settled (e.g. an acceleration clause). Furthermore, the ceding insurer may not provide non-contractual or implicit support, or otherwise create or sustain an expectation that any funds held could be paid to the reinsurer, other than those funds that, together with other forms of acceptable collateral, if any, are in excess of the ceded policy liabilities and the margin required for unregistered reinsurance, before all subject policies have expired and all claims settled.

[46] This requirement only applies to reinsurance contracts that came into force on or after January 1, 2018, or that have been renewed after that date.

4.4. Self-Insured Retention

Self-insured retention (SIR) represents the portion of a loss that is payable by the policyholder. In some cases, SIRs may be included in the policy declaration or in an endorsement to the policy, stipulating that the policy limit applies in excess of the SIR.

To admit SIRs recoverable for regulatory capital purposes, OSFI must be satisfied with the collectability of recoverables, and may require collateral to ensure collectability. For example, collateral may be required when it is deemed that there is an excessive concentration of SIRs owed by any one policyholder.

Letters of credit and other acceptable securities may be used as collateral for SIRs. Collateral used may not be related party obligations of the policyholder (i.e. obligations of the policyholder itself, its parent, or one of its subsidiaries or associates).

Letters of credit for SIRs are considered a direct credit substitute and are subject to a risk factor based on the credit rating of the issuing/confirming bank and the term of ceded liabilities (subject to the provision for excess collateralization). General guidelines concerning letters of credit as referred to in section 4.3 also apply to SIRs. Risk factors for collateral other than letters of credit are the same as those applied to similar assets owned by the insurer (reference Chapter 5 and Chapter 6).

4.5. Earthquake and Nuclear Catastrophes

4.5.1. Earthquake risk exposure

Insurers must refer to OSFI's Guideline B-9 *Earthquake Exposure Sound Practices* for details on OSFI's expectations relating to insurers' earthquake exposure risk management and the related definitions. The MCT Guideline outlines the framework for quantifying the earthquake risk exposure for regulatory capital purposes and assessing insurers' capacity and financial preparedness to meet contractual obligations that may arise from a major earthquake.

Earthquake Reserves Formula:

Earthquake Reserves = (EPR + ERC) x 1.25

The amount of earthquake reserves includes Earthquake Premium Reserve (EPR) and Earthquake Reserve Component (ERC) and is added to total capital requirements for the purposes of the MCT/BAAT as capital/margin required at the target level.

ERC *(Section 4.5.1.3)* = **{**Earthquake Risk Exposure *(Section 4.5.1.1)***}** **-** **{**Financial Resources *(Section 4.5.1.2)***}** ≥ 0

The ERC must always be greater than or equal to 0.

In the case where EPR is not used as part of financial resources to cover the earthquake risk exposure, i.e. the company has enough financial resources to cover its earthquake risk exposure without the voluntary reserve, the EPR can be deducted from capital available instead of being added to total capital requirements.

4.5.1.1. Measurement of Earthquake Risk Exposure

The earthquake *Probable Maximum Loss (PML)* is the threshold dollar value of losses beyond which losses caused by a major earthquake are unlikely. Gross PML, which is the PML amount *after* deductibles but *before* catastrophic and other reinsurance protection, is used for calculating earthquake risk exposure for regulatory purposes. In this section, PML refers to a dollar amount[47] that includes adjustments for data quality, non-modelled exposures and model uncertainty as outlined in Guideline B-9 Earthquake Exposure Sound Practices.

Model approach

Insurers with material exposure to earthquake risk are required to use models to estimate their PML. Earthquake models include models licensed from various commercial vendors and maintained in-house or run by third parties on behalf of the insurer or can be an internal estimation technique or model developed by the insurer to OSFI's satisfaction.

OSFI expects an insurer to meet a test of financial preparedness for a 500 year return period country-wide earthquake event.

$$\text{Country-wide PML500} = (\text{East Canada PML500}^{\,1.5} + \text{West Canada PML500}^{\,1.5})^{\frac{1}{1.5}},$$

where

- *East Canada PML500* refers to a one in 500 year Eastern Canada event, which represents the 99.8th percentile of the exceedance probability curve plus appropriate adjustments for data quality, model uncertainty, non-modelled business etc., using exceedance probability curves based only on earthquake risk exposure in Eastern Canada.
- *West Canada PML500* refers to a one in 500 year Western Canada event, which represents the 99.8th percentile of the exceedance probability curve plus appropriate adjustments for data quality, model uncertainty, non-modelled business etc., using exceedance probability curves based only on earthquake risk exposure in Western Canada.

Standard approach

Insurers should use the following standard formula for calculating their PML if:

- The insurer does not use an earthquake model for calculating its PML, or
- An earthquake risk exposure estimation technique is not to OSFI's satisfaction

[47] The PML amount corresponds to the worldwide exposure for Canadian insurers and Canadian exposure for branches of foreign insurers.

Country-wide PML = Maximum (East Canada PTIV – applicable policyholder deductibles, West Canada PTIV – applicable policyholder deductibles),

where

PTIV is the property total insured value for earthquake risk exposure, which includes building, contents, outbuildings, additional living expenses and business interruption.

4.5.1.2. Financial Resources

An insurer must have adequate financial resources to cover its earthquake risk exposure calculated in section 4.5.1.1. Financial resources that can be used to support the insurer's earthquake risk exposure include:

- capital & surplus;
- earthquake premium reserve;
- reinsurance coverage; and
- capital market financing.

➢ *Capital and Surplus*

Insurers can count up to a maximum of 10% of capital and surplus as part of their financial resources to cover their earthquake risk exposure. This maximum limit is subject to supervisory discretion and can be lowered to an amount less than 10% of capital and surplus.

For Canadian insurers, the amount of capital and surplus corresponds to a maximum of 10% of total equity as at the end of the reporting period being filed.

A Canadian branch of a foreign insurer may use up to 10% of its worldwide capital and surplus to cover its earthquake risk exposure; however, it must be able to demonstrate that after an event, at least 10% of the worldwide capital and surplus is still available to meet its obligations to Canadian policyholders. The amount of worldwide capital and surplus corresponds to the Canadian dollar amount as at the end of the most recent reporting period filed in the home jurisdiction.

➢ *Earthquake Premium Reserve*

Earthquake Premium Reserve (EPR) is the voluntary accumulation of earthquake premiums. This amount must not exceed the country-wide PML500[48].

- In the case where the earthquake coverage premium is implicitly included in an overall policy premium, the insurer should be able to demonstrate the reasonableness of the premium allocation specifically attributed to earthquake coverage. As an example, in the case of catastrophic reinsurance coverage not specific to earthquake risk, an allocation of

48 Refer to the Canadian *Income Tax Act* for the annual contribution limit.

the premium amount must be made and the reasonableness of the reinsurer's premium allocation must be demonstrated.

- Any earthquake premium contributed to the EPR must remain in the EPR unless there is a material decrease in the exposure.
- Should an earthquake occur and trigger claims, companies would establish an incurred claims provision including claims adjustment expenses. The EPR component would be reduced by an amount equal to the claims reserves.
- Any reduction in the EPR should be brought back into unappropriated surplus immediately.
- The EPR is a component of the reserves amount reported on the balance sheet.

➢ *Reinsurance Coverage*

The estimated reinsurance coverage available should be based on reinsurance in force on the day immediately following the end of the financial reporting period and should be equal to an amount of reinsurance collectable for a loss of the size of the PML, net of retention (e.g., policies in force on July 1 for MCT calculations as at June 30).

➢ *Capital Market Financing*

Prior supervisory approval from OSFI is required before these instruments can be recognized as a financial resource in the calculation of the earthquake risk formula. Refer to Guideline B-9 *Earthquake Exposure Sound Practices* for additional information.

4.5.1.3. Earthquake Reserve Component

Earthquake Reserve Component (ERC) is an additional component used to cover an insurer's earthquake risk exposure not covered by the financial resources. The formula to compute the ERC is as follows:

ERC = Country-wide PML500 - capital and surplus - reinsurance coverage - capital market financing - EPR

- Should an earthquake occur and trigger claims, companies would establish an incurred claims provision including claims adjustment expenses. The ERC component would be reduced after the EPR, by an amount equal to the claims reserves.
- Any reduction in the ERC should be brought back into unappropriated surplus immediately.
- The ERC is a component of the reserves amount reported on the balance sheet.

4.5.2. Nuclear reserve

Insurers issuing nuclear risk policies are required to record an additional provision of 100% of premiums received, less premiums paid, and net of commissions, multiplied by 1.25. This provision must be held by the insurer for twenty years, after which it may be reversed.

4.6. Accident and Sickness Business

Accident and sickness reserves determined by actuaries in their valuations are primarily intended to cover expected variations in these requirements based on assumptions about mortality and morbidity. Margins on unexpired coverage and liabilities for incurred claims for accident and sickness insurance are included in the MCT to take into account possible abnormal negative variations in actual requirements.

The unexpired coverage margin is calculated by applying a factor to annual insurance revenue. Generally, the factor varies with the length of the premium guarantee remaining. For Canadian insurers, a margin for insurance acquisition cash flows arising from commissions is also required and is calculated by multiplying unamortized insurance acquisition cash flows on commissions, net of unamortized reinsurance commissions, by 45%. The liability for incurred claims margin is calculated by applying a factor to the liability for incurred claims experience relating to prior years. Generally, the factor varies with the length of benefit period remaining.

Instructions for calculating the margin required for accident and sickness business are included in this section. The total requirement calculated should be included in the amount reported as the margin required for liability for incurred claims and unexpired coverage in the MCT.

<u>Instructions for calculating the margin required</u>

Mortality/morbidity risk for accident and sickness insurance is the risk that the liability assumptions about mortality and morbidity rates will be wrong.

To compute the mortality/morbidity component, a factor is applied to the measure of the exposure to the risk. The resulting values are added to arrive at the liability for incurred claims and unexpired coverage margin requirements.

The factors used in deriving the risk component vary with the guaranteed term remaining in the exposure measure.

Table with the measure of the exposure to risk

Risk	Measure of Exposure	Applicable Guaranteed Term
Disability Income, New Claims Risk	Annual insurance revenue	the length of the premium guarantee remaining
Disability Income, Continuing Claims Risk	Disability income net reserves relating to claims of prior years	the length of the benefit period remaining
Accidental Death and Dismemberment	Net amount at risk = the total net face amount of insurance less the policy liabilities (even if negative)	the period over which the mortality cost cannot be changed (limited to the remaining period to expiry or maturity)

1. Disability income insurance

The additional risks associated with non-cancellable guaranteed premium business should be recognized. As well, increased volatility is characteristic of disability income insurance, as compared to medical and dental expense reimbursement business.

Unexpired coverage margin

The unexpired coverage component relates to claims arising from the current year's coverage, and includes the risks of incidence and claims continuance.

Table of factors applied to the measure of exposure

Percentage of Annual Insurance Revenue[49]		Length of Premium Guarantee Remaining
Individually Underwritten	**Other**	
15%	15%	less than or equal to 1 year
25%	31.25%	greater than 1 year, but less than or equal to 5 years
37.5%	50%	greater than 5 years

Liability for incurred claims margin

The liability for incurred claims component covers the risk of claims continuance arising from coverage provided in prior years. The factor applies to disability income claim reserves related to claims incurred in prior years, including the portion of the provision for incurred but unreported claims.

Table of the factors applied to the measure of risk exposure

Duration of Disability			Length of Benefit Period Remaining
less than or equal to 2 years	**greater than 2 years but less than or equal to 5 years**	**greater than 5 years**	
5.0%	3.75%	2.5%	**less than or equal to 1 year**
7.5%	5.625%	3.75%	**greater than 1 year but less than or equal to 2 years**
10.0%	7.5%	5.0%	**greater than 2 years or lifetime**

2. Accidental death and dismemberment

To compute the components for accidental death and dismemberment, factors are applied to the net amount at risk.

49 For travel insurance, annual insurance revenue should be considered revenue premiums.

Table of factors applied to the net amount at risk

Type		Factor	Guaranteed Term Remaining
Participating	Group	.019%	less than or equal to 1 year
	All other	.038%	All
Non-participating *Individual*	Adjustable	.038%	All
	All other	.019%	less than or equal to 1 year
		.038%	greater than 1 year but less than or equal to 5 years
		.075%	greater than 5 years, whole life, and all life insurance continued on disabled lives without payment of premiums
Non-participating *Group*	All	.019%	less than or equal to 1 year
		.038%	greater than 1 year but less than or equal to 5 years
		.075%	greater than 5 years, whole life, and all life insurance continued on disabled lives without payment of premiums

For participating business without meaningful dividends, and participating adjustable policies where mortality adjustability is not reasonably flexible, the factors for all other non-participating business should be used.

If current premium rates are significantly less than the maximum guaranteed premium rates, the guarantee term used is that applicable to the current rates.

Additional adjustments are according to group insurance. They are as follows:

- The above factors may be multiplied by 50% for any group benefit that carries one of the following features: 1) a "guaranteed no risk", 2) deficit repayment by policyholders, or 3) "hold harmless" agreement where the policyholder has a legally enforceable debt to the insurer.
- No component is required for "Administrative services only" group cases where the insurer has no liability for claims.

Only "all cause" policies solicited by mail should be included in this section for automobile and common carrier accidental death and dismemberment. Specific accident perils included in accidental death and dismemberment policies solicited by mail, and "free" coverages on premium credit card groups, should be included in the "Other accident and sickness benefits" section.

3. Other accident and sickness benefits

Unexpired coverage margin

The component requirement is 15% of annual insurance revenue.

Liability for incurred claims margin

The component requirement is 12.5% of the provision for the liability for incurred claims relating to prior years. The use of prior years avoids a double component requirement for the liability for incurred claims arising from coverage purchases by premiums paid in the current year.

4. Special policyholder arrangements

For group insurance deposits in excess of liabilities, excluding the liability for such deposits may reduce the component requirement on any policy to a minimum of zero. Such deposits must be:

- made by policyholders;
- available for claims payment (e.g., claim fluctuation and premium stabilization reserves, and accrued provision for experience refunds); and
- returnable, net of applications, to policyholders on policy termination.

Chapter 5. Market Risk

Market risk arises from potential changes in rates or prices in various markets such as for interest rates, foreign exchange rates, equities, real estate, and other market risk exposures. Exposure to this risk results from trading, investing, and other business activities, which create on- and off-balance sheet positions.

Investments in mutual funds or other similar assets must be broken down by type of investment (bonds, preferred shares, common shares, etc.) and assigned the appropriate risk factor relating to the investment. If these investments are not reported on a prorated basis, then the factor of the riskiest asset held in the fund is assigned to the entire investment.

5.1. Interest Rate Risk

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

Assets and liabilities whose value depends on interest rates are affected. Interest rate sensitive assets include fixed income assets. Interest rate sensitive liabilities include those for which the values are determined using a discount rate.

To compute the interest rate risk margin, a duration and an interest rate shock factor are applied to the fair value of interest rate sensitive assets and liabilities. The interest rate risk margin is the difference between the change in the value of interest rate sensitive assets and the change in the value of interest rate sensitive liabilities, taking into account the change in the value of recognized interest rate derivative contracts, as appropriate.

5.1.1. General requirements

The components used to calculate the interest rate risk margin are as follows.

5.1.1.1. Interest rate sensitive assets

The interest rate sensitive assets to be included in the calculation of the interest rate margin are those for which their fair value will change with movements in interest rates. Although certain assets, for example loans and bonds held to maturity, may be reported on the balance sheet on an amortized cost basis, their economic value, and changes in that value, are to be considered for interest rate risk margin purposes. Interest rate sensitive assets include:

- term deposits and other similar short-term securities (excluding cash),
- bonds and debentures,
- commercial paper,
- loans,

- mortgages (residential and commercial),
- mortgage-backed and asset-backed securities (MBS and ABS),
- preferred shares,
- interest rate derivatives held for other than hedging purposes,
- insurance contracts assets, and
- reinsurance contracts held assets.

Investments in mutual funds and other similar assets should be broken down by type of investment (bond, preferred share, common shares, etc.). The assets in the fund that are interest rate sensitive are to be included in the determination of the fair value of the insurer's total interest rate sensitive assets.

Other assets, such as cash, investment income due and accrued, common shares and investment properties, are not to be included in the determination of the value of interest rate sensitive assets. Such assets are assumed for interest rate risk margin determination purposes to be insensitive to movements in interest rates.

Branches of foreign companies are to include only vested interest rate sensitive assets and interest rate sensitive assets included as adjustments to net assets available in the determination of the margin for interest rate risk.

5.1.1.2. Interest rate sensitive liabilities

The interest rate sensitive liabilities to be included in the calculation of the interest rate risk margin are those for which their fair value will change with movements in interest rates. The following liabilities are considered sensitive to interest rates and are to be included:

- insurance contracts liabilities for incurred claims,
- insurance contracts liabilities for remaining coverage, and
- reinsurance contract held liabilities.

Insurers must obtain OSFI's supervisory approval in order to include other liabilities in the calculation of interest rate risk margin.

A mutual P&C insurer's residual interest of owner-policyholders is not to be included in the interest rate sensitive liabilities in the calculation of the interest rate risk margin.

5.1.1.3. Allowable interest rate derivatives

Interest rate derivatives are those for which the cash flows are dependent on future interest rates. They may be used to hedge an insurer's interest rate risk and as such may be recognized in the determination of the margin required for interest rate risk, subject to the conditions below.

Only plain-vanilla interest rate derivatives that clearly serve to offset fair value changes in a company's capital position due to changes in interest rates may be included in the interest rate risk calculation. Plain-vanilla interest rate derivative instruments are limited to the following:

- interest rate and bond futures,
- interest rate and bond forwards, and
- single-currency interest rate swaps.

Other interest rate derivatives, including interest rate options, caps and floors are not considered plain-vanilla and may not be recognized in the determination of the interest rate risk margin.

Insurers must understand the interest rate hedging strategies that they have in place and be able to demonstrate to OSFI, upon request, that the underlying hedges decrease interest rate risk exposure and that the addition of such derivatives does not result in overall increased risk. For example, insurers are expected to be able to demonstrate that they have defined the hedging objectives, the class of risk being hedged, the nature of the risk being hedged, the hedge horizon, and have considered other factors, such as the cost and liquidity of the hedging instruments. In addition, the ability to demonstrate an assessment, retrospectively or prospectively, of the performance of the hedge would be appropriate. If the insurer cannot demonstrate that the derivatives result in decreased overall risk, then additional capital may be required, and companies in this situation should contact OSFI for details.

Derivatives used for hedging an insurer's interest rate risk are subject to credit risk requirements. Refer to section 6.2 for further details.

5.1.1.4. Duration of interest rate sensitive assets and liabilities

Insurers are required to calculate the duration of the interest rate sensitive assets and liabilities for the purpose of the interest rate risk requirement calculation. The duration of an asset or a liability is a measure of the sensitivity of the value of the asset or liability to changes in interest rates[50] [51]. More precisely, it is the percentage change in an asset or liability value given a change in interest rates.

The calculation of duration for an asset or liability will depend on the duration measure chosen and whether the cash flows of the asset or liability are themselves dependent on interest rates. *Modified duration* is a duration measure in which it is assumed that interest rate changes do not

[50]An asset or liability for which the future cash flows are not adjusted to reflect the time value of money has a duration of zero.
[51] The duration of the LRC is a weighted average of its components including the CSM. The CSM component of the LRC under GMM accounting is normally not interest rate sensitive . Therefore, the duration of the CSM is zero.

change the expected cash flows. *Effective duration* is a duration measure in which recognition is given to the fact that interest rate changes may change the expected cash flows.

An insurer may use either modified duration or effective duration to calculate the duration of its assets and liabilities. However, the duration methodology chosen should apply to all interest rate sensitive assets and liabilities under consideration and the same methodology must be used consistently from year to year (i.e. "cherry-picking" is not permitted).

The cash flows associated with interest rate derivatives are sensitive to changes in interest rates and therefore the duration of an interest rate derivative must be determined using effective duration. In particular, if a company has interest rate derivatives on its balance sheet that lie within the scope of section 5.1.1.3, then it must use effective duration for all of its interest rate sensitive assets and liabilities.

The *portfolio duration* (modified or effective) can be obtained by calculating the weighted average of the duration of the assets or the liabilities in the portfolio.

The *dollar duration* of an asset or liability is the change in dollar value of an asset or liability for a given change in interest rates.

5.1.1.5. Modified duration

Modified duration is defined as the approximate percentage change in the present value of cash flows for a 100 basis point change in the annually compounded yield rate, assuming that expected cash flows do not change when interest rates change.

Modified duration can be written as:

$$\text{Modified duration} = \frac{1}{1+\text{Yield}} \times \frac{\Sigma\, t \times PVCF_t}{\text{Market Value}}$$

where,

Yield = the annually compounded yield to maturity of the cash flows,
$PVCF_t$ = the present value of the cash flow at time t discounted at the yield rate, and

the sum in the numerator is taken over all times *t* at which a cash flow occurs.

5.1.1.6. Effective duration

Effective duration is a duration measure in which recognition is given to the fact that interest rate changes may change the expected cash flows. Although modified duration will give the same estimate of the percentage fair value change for an option-free series of cash flows, the more appropriate measure for any series of cash flows with an embedded option is effective duration.

Effective duration is determined as follows:

$$\text{Effective duration} = \frac{\text{Fair value if yields decline} - \text{fair value if yields rise}}{2 \text{ x (initial price) x (change in yield in decimal)}}$$

where,

Δy = change in yield in decimal
V_0 = initial fair value
V_- = fair value if yields decline by Δy
V_+ = fair value if yields increase by Δy,

then effective duration is as follows:

$$\frac{V_- - V_+}{2 \text{ x } (V_0) \text{ x } (\Delta y)}$$

5.1.1.7. Portfolio duration

The duration of a portfolio of interest rate sensitive assets or liabilities is to be determined by calculating the weighted average of the duration of the assets or liabilities in the portfolio. The weight is the proportion of the portfolio that a security comprises. Mathematically, a portfolio's duration is calculated as follows:

$$w_1 D_1 + w_2 D_2 + w_3 D_3 + \ldots + w_k D_K$$

where,

w_i = fair value of security i/fair value of the portfolio
D_i = duration of security i
K = number of securities in the portfolio.

5.1.1.8. Dollar fair value change

Modified and effective duration are related to percentage fair value changes. The interest rate risk requirements depend on determining the adjustment to the fair value of interest rate sensitive assets and liabilities for dollar fair value changes. The dollar fair value change can be measured by multiplying duration by the dollar fair value and the number of basis points (in decimal form). In other words,

Dollar fair value change = duration x dollar fair value x interest rate change (in decimal)

5.1.1.9. Duration of allowable interest rate derivatives

Effective duration is the appropriate measure that should be used when assets or liabilities have embedded options. For portfolios with eligible plain-vanilla interest rate derivatives, insurers should be using effective dollar duration because the insurer is hedging the dollar interest rate risk exposure.

Example 5-1: Effective dollar duration of a swap

Assuming an insurer has a longer duration for its interest rate sensitive assets and a shorter duration for its interest rate sensitive liabilities, the current dollar duration position of the insurer, prior to taking into consideration any interest rate derivatives, is effectively as follows:

Insurer's dollar duration = dollar duration of assets – dollar duration of liabilities > 0

The insurer enters into a single-currency interest rate swap in which it pays fixed-rate and receives floating-rate. The dollar duration of a swap for a fixed-rate payer can be broken down as follows:

Effective dollar duration of a swap for a fixed-rate payer	=	effective dollar duration of a floating-rate bond – effective dollar duration of a fixed rate bond

Assuming the dollar duration of the floating-rate bond is near zero, then

Effective dollar duration of a swap for a fixed-rate payer	=	0 – effective dollar duration of a fixed-rate bond

The dollar duration of the swap position is negative; therefore, adding the swap position reduces the company's dollar duration of assets and moves the insurer's overall dollar duration position closer to zero.

5.1.2. Interest rate risk margin

The interest rate risk margin is determined by measuring the economic impact on the insurer of a Δy change in interest rates. The Δy interest rate shock factor is 1.25% ($\Delta y = 0.0125$).

A. The estimated change in the interest rate sensitive asset portfolio for an interest rate shock factor increase of Δy is determined as follows:

Dollar fair value change of the interest rate sensitive asset portfolio	=	(Duration of interest rate sensitive asset portfolio) x Δy x (Fair value of interest rate sensitive asset portfolio)

B. The change in the interest rate sensitive liabilities for an interest rate shock factor increase of Δy is determined as follows:

Dollar fair value change of the interest rate sensitive liabilities	=	(Duration of interest rate sensitive liabilities) x Δy x (Fair value of interest rate sensitive liabilities)

C. The change in the allowable interest rate derivatives for the interest rate shock factor increase of Δy is determined as follows:

Effective dollar duration of the allowable interest rate derivatives portfolio	=	sum of the effective dollar duration of the allowable interest rate derivatives for a Δy increase in interest rates

D. The capital requirement for an interest rate shock factor increase of Δy is determined as the greater of zero and A – B + C.

E. Steps A through C are repeated for an interest rate shock factor decrease of Δy (i.e. -Δy) and the capital requirement for an interest rate decrease of Δy is the greater of zero and A – B + C.

F. The interest rate risk margin is then determined as the maximum of D or E.

5.2. Foreign Exchange Risk

The foreign exchange risk margin is intended to cover the risk of loss resulting from fluctuations in currency exchange rates and is applied to the entire business activity of the insurer.

5.2.1. General requirements

Two steps are necessary to calculate the foreign exchange risk margin. The first is to measure the exposure in each currency position. The second is to calculate the capital requirement for the portfolio of positions in different currencies.

The foreign exchange risk margin is 10% of the greater of:

i.) the aggregate net long positions in each currency, adjusted by effective allowable foreign exchange rate hedges if any are used, and

ii.) the aggregate net short positions in each currency, adjusted by effective allowable foreign exchange rate hedges if any are used,

where effective allowable foreign exchange rate hedges are limited to plain-vanilla foreign currency derivatives such as futures and forward foreign currency contracts and currency swaps.

Investments in mutual funds and other similar assets should be broken down by type of investment (bonds, preferred shares, common shares, etc.) for calculating foreign exchange risk margin. The assets in the fund that are denominated in a foreign currency are to be included in the calculation to determine the capital requirement for each currency position. In cases where a claim liability is recorded in Canadian dollars but the settlement of the claim will be made in a foreign currency, the liability must be included in the calculation of the foreign exchange risk margin.

5.2.2. Foreign exchange risk margin

Step 1: Measuring the exposure in a single currency

<u>The net open position for each currency is calculated by summing:</u>

- the net spot position, defined as all asset items less all liability items denominated in the currency under consideration, including accrued interest and accrued expenses if they are subject to exchange rate fluctuations;

- the net forward position (i.e. all net amounts under forward foreign exchange transactions, including currency futures and the principal on currency swaps), valued at current spot market exchange rates or discounted using current interest rates and translated at current spot rates;
- guarantees (and similar instruments) that are certain to be called and are likely to be irrecoverable;
- net future income/expenses not yet accrued but already fully hedged (at the discretion of the reporting institution); and
- any other item representing a profit or loss in foreign currencies.

Adjustments:

For insurers with foreign operations, those items that are currently deducted from capital available in calculating the MCT ratio and are denominated in the corresponding currency may be excluded from the calculation of net open currency positions, to a maximum of zero. For example:

- Goodwill and other intangibles;
- Interests in non-qualifying subsidiaries, associates and joint ventures; and
- Non-allowable foreign exchange rate hedges that are not considered in capital available.

Carve-out:

An insurer with a net open long position in a given currency may reduce the amount of the net exposure, to a maximum of zero, by the amount of a carve-out, which is equivalent to a short position of up to 25% of the liabilities denominated in the corresponding currency.

Step 2: Calculating the capital requirement for the portfolio

The nominal amount (or net present value) of the net open position in each foreign currency calculated in *step 1* is converted at a spot rate into Canadian dollars. The gross capital requirement is 10% of the overall net open position, calculated as the greater of:

- the sum of the net open long positions; and
- the absolute value of the sum of the net open short positions.

Example:

An insurer has $100 of U.S. assets and $50 of U.S. liabilities.

- The net spot position, defined as assets less liabilities, is a long position of $50.
- The carve-out, using 25% of liabilities, is:

  = 25% * 50

  = 12.5

- Therefore, the foreign exchange risk margin is:

  = 10% * MAX[52] ((net spot position - carve-out), 0)

  = 10% * MAX ((50 – 12.5), 0)

  = 10% * 37.5

  = 3.75

5.2.2.1. Allowable foreign currency hedges

Foreign currency derivatives are those for which the cash flows are dependent on future foreign exchange rates. They may be used to hedge an insurer's foreign exchange risk and as such, may be recognized in the determination of the capital requirement for foreign exchange risk, subject to the following requirements.

Only effective hedges that offset the changes in fair value of the hedged item may be included in the foreign exchange risk calculation. The company must be able to demonstrate to OSFI the effectiveness of its foreign exchange hedges.

Companies with foreign currency derivatives on their balance sheet must be able to demonstrate that the addition of such derivatives does not result in increased risk. If the insurer cannot demonstrate that the derivatives do not result in increased risk, then OSFI may require additional capital.

Only plain-vanilla foreign currency derivatives may be recognized in the calculation of the foreign exchange capital requirement. Plain-vanilla foreign currency derivative instruments are limited to the following:

- futures foreign currency contracts,
- forward foreign currency contracts, and
- currency swaps.

Other foreign currency derivatives, including options on foreign currencies, are not considered plain-vanilla and are not to be recognized in the determination of the foreign exchange risk margin.

Derivatives used for hedging an insurer's foreign exchange risk are subject to credit risk requirements. Refer to section 6.2 for further details.

5.2.2.2. Measurement of forward currency positions

Forward currency positions should be valued at current spot market exchange rates. It would not be appropriate to use forward exchange rates since they partly reflect current interest rate

[52] The carve-out can be used to reduce the net open long currency position to a minimum of zero.

differentials. Companies that base their normal management accounting on net present values are expected to use the net present values of each position, discounted using current interest rates and translated at current spot rates, for measuring their forward currency positions.

5.2.2.3. Accrued and unearned interest income and expenses

Accrued interest, accrued income and accrued expenses should be treated as a position if they are subject to exchange rate fluctuations. Unearned but expected future interest, income or expenses may be included, provided the amounts are certain and have been fully hedged by allowable forward foreign exchange contracts. Companies must be consistent in their treatment of unearned interest, income and expenses and must have written policies covering the treatment. The selection of positions that are only beneficial to reducing the overall position will not be permitted for capital purposes.

5.2.2.4. Unregistered reinsurance

A separate component calculation must be performed for each group of liabilities ceded to an unregistered reinsurer that is backed by a distinct pool of assets, where the defining characteristic of the pool is that any asset in the pool is available to pay any of the corresponding liabilities. Each calculation should take into consideration the ceded liabilities, the assets supporting them, and deposits placed by the reinsurer to cover the capital requirement for the ceded liabilities if the deposits are in a currency different from the currency in which the ceded liabilities are payable to policyholders. If some of the assets supporting the liabilities ceded to an unregistered reinsurer are held by the ceding company (e.g. funds held), the company's corresponding liability should be treated as an asset in the calculation of the open positions for the ceded business.

Excess deposits placed by an unregistered reinsurer within a pool of supporting assets may be used to reduce the foreign exchange risk requirement for the corresponding ceded business to a minimum of zero. Any requirements not covered by excess deposits must be added to the ceding company's own requirement.

5.3. Equity Risk

Equity risk is the risk of economic loss due to fluctuations in the value of common shares and other equity securities.

5.3.1. Common shares and joint ventures

A 30% risk factor applies to investments in common shares and joint ventures in which a company holds less than or equal to 10% ownership interest.

5.3.2. Futures, forwards, and swaps

Equity futures, forwards, and swaps attract a 30% risk factor, which is applied to the market value of the underlying equity security or index. Where a swap exchanges a return on an equity security or index for a return on a different equity security or index, a 30% risk factor applies to the market value of both equity securities or indices for which the returns are being exchanged.

Example:

An insurer has entered into a one-year swap during which it will pay the 3-month Canadian Dollar Offered Rate (CDOR) plus fees, and receive the total return on a notional index of equities that was worth 100 at the time of inception. The index of equities is currently worth 110. A 30% equity risk charge will apply to 110 for the long position in the index, but no capital charge will be required on the short position in the bond because such a position is not subject to an equity risk charge.

In addition to the capital requirements set out in this section, futures, forwards, and swaps are subject to credit risk requirements. Refer to section 6.2 for further details.

5.3.3. Short positions

The capital requirements for short positions in common shares, equity futures, forwards, and swaps that do not wholly or partially offset a long equity position are determined by assuming the instrument is held long and then applying the corresponding risk factor. Common shares, futures, forwards, and swaps eligible for offset recognition and the corresponding capital treatment are described in section 5.3.4.

5.3.4. Recognition of equity hedges

Equity futures, forwards, and swaps, as well as common shares can be used to wholly or partially hedge an equity exposure. Insurers may recognize qualifying equity hedges in the calculation of the capital requirements in accordance with section 5.3.4.1 and 5.3.4.2.

Insurers must document the equity hedging strategies employed and demonstrate that the hedging strategies decrease the overall risk. The documentation must be available for review, upon request. If the insurer cannot demonstrate, to the satisfaction of the Superintendent, that the hedging strategies result in decreased overall risk, then additional capital above that calculated as per sections 5.3.4.1 and 5.3.4.2 may be required, at the discretion of the Superintendent.[53]

For hedges to qualify, they must be issued by an entity that:

- issues obligations which attract a 0% factor under section 6.1.2; or
- is rated A- or better (including clearing houses rated A- or better).

[53] An insurer may contact OSFI to discuss the adequacy of its documentation and/or risk assessment to assess the likelihood or amount of potential additional capital that may be required.

5.3.4.1. Identical equity securities or indices

Long and short positions in exactly the same underlying equity security or index may be considered to be offsetting so that the capital requirements are calculated for the net exposure only. Individual instruments of portfolios that qualify for the capital treatment under section 5.3.4.2 cannot be carved out of the portfolios to receive the capital treatment of section 5.3.4.1.

Only common shares and plain-vanilla equity futures, forwards, and swaps can obtain the capital treatment under this section. Exotic equity derivatives[54] do not qualify for this treatment.

5.3.4.2. Closely linked equity securities or indices

A portfolio of common shares and equity futures, forwards, and swaps can be used to partially hedge the equity exposure of another portfolio of similar instruments. When the instruments contained in both portfolios are closely linked, instead of following the capital requirements set out in sections 5.3.1, 5.3.2, and 5.3.3, insurers may calculate the capital requirements for the combined portfolios in the following manner:

(1- Correlation Factor) × 1.5 × MIN (*market value of the portfolio of hedging instruments, market value of the portfolio of instruments being hedged*)

The capital requirements set out above are capped at 60% of the minimum market value of both portfolios.

The difference between the market value of the two portfolios is not considered a hedged position and is subject to a 30% risk factor.

The Correlation Factor is derived by using:

CF = A*(B/C)

where:

A represents the historical correlation between the returns on the portfolio of instruments being hedged and the returns on the portfolio of hedging instruments

B represents the minimum of [standard deviation of returns on the portfolio of instruments being hedged, standard deviation of returns on the portfolio of hedging instruments]

C represents the maximum of [standard deviation of returns on the portfolio of instruments being hedged, standard deviation of returns on the portfolio of hedging instruments]

[54] An example of an exotic derivative would be one that has a discontinuous payoff structure.

The historical correlations and standard deviations must be calculated on a weekly basis, covering the previous 52-week period. The returns on each portfolio of hedging instruments used to calculate the components of the CF must be determined by assuming that the portfolio is held long. The returns on each portfolio must be measured net of additional capital injections, and must include the returns on each component of the portfolio. For example, the returns on both the long and short legs of a total return swap included in a portfolio must be reflected in the calculation of the CF.

The CF for the previous 52 weeks is required to be calculated for each of the past four quarters. The Correlation Factor is the lowest of the four CFs calculated and is used to calculate capital requirements.

In order for the portfolios to obtain the capital treatment set out in this section, the following conditions must be met:

- The instruments in both portfolios are limited to exchange-traded common shares, and plain-vanilla equity futures, forwards, and swaps where the underlying asset is an exchange-traded common share or an equity index. Portfolios that contain instruments other than those specified in this section will be subject to the capital treatment under sections 5.3.1, 5.3.2, and 5.3.3.
- The CF is determined at the portfolio level. Individual instruments cannot be carved-out of the portfolios and receive the capital treatment as per section 5.3.4.1.
- The portfolios that are part of a hedging strategy must have been established at least two years prior to the reporting date. In addition, the hedging strategy and the active management strategy on which both portfolios are based must not have changed in the past two years prior to the reporting date. [55] Portfolios that have been established for at least two years but have undergone a change in the hedging strategy or active management strategy will attract a 30% risk factor.

Example:

Suppose a portfolio of instruments is valued at $200 and is paired with another portfolio of instruments as part of a qualifying equity hedge. Assuming that the second portfolio is worth $190 and that the Correlation Factor between the two portfolios is 0.95, the total capital charge for both portfolios will be $190 \times 5\% \times 1.5 + \$10 \times 30\% = \$17.25$.

Portfolios that were established less than two years prior to the reporting date attract the following capital treatment:

1. No recognition of the equity hedge in the first year following the establishment of the portfolios (i.e. a 30% factor is applied to both portfolios); and

[55] For the purposes of this section, the hedging strategy and active management strategy together are deemed to be unchanged if the ex-ante equity risk profile of the combined portfolios is maintained. For example, the ex-ante equity risk profile is maintained if the combined beta is continuously targeted to be 0 (the hedging strategy), and if instrument selection is continuously based on the price-earnings ratio (the active management strategy).

2. in the second year, the sum of:
   - T × capital requirements for the combined portfolios using the correlation factor approach described in this section[56]; and
   - (1-T) × capital requirements set out in 1 above.

   T equals 20%, 40%, 60%, and 80% in the first, second, third, and fourth quarter, respectively, of the second year following the establishment of the portfolios.

Example:

Two portfolios (as part of an equity hedge), each equal to 100, are established on April 1, 2016. On March 31, 2017, the capital charge for both portfolios will be 30% × 100 + 30% × 100 = 60. On June 30, 2017, assuming that the Correlation Factor is 0.90, the combined portfolios will be subject to a capital charge of 20% × 10% × 1.5 × 100 + 80% × 60% × 100 = 51.

5.4. Real Estate Risk

Real estate risk is the risk of economic loss due to changes in the value of a property or in the amount and timing of cash flows from a property.

The risk factors for real estate

Type of Real Estate	Risk Factor
Owner-occupied properties	10%
Investment properties	20%

For owner-occupied properties, the risk factor is applied to the value using the cost model, excluding any unrealized fair value gains (losses) arising at the conversion to IFRS, or subsequent unrealized fair value gains (losses) due to revaluation.

5.5. Right-of-Use Assets

The risks associated with right-of-use assets are related to fluctuating market lease rates and to potential changes in the amount and timing of cash flows from early cancellation penalties, and costs associated with renegotiating or locating a new lease.

A 10% risk factor is applied to right-of-use assets, determined in accordance with relevant accounting standards, associated with leased owner-occupied properties and associated with leased assets that fall in the category of "other assets" (e.g. equipment).

[56] For the purposes of this calculation, the Correlation Factor must be determined based on actual portfolio returns (i.e. portfolio returns up to the reporting date). Projected (simulated) returns cannot be used. The Correlation Factor must be determined as the lowest of available 52 week Correlation Factors given the actual history of portfolio returns. During the second year, the number of available 52 week Correlation Factors will increase from one to four as time elapses.

A 20% risk factor is applied to right-of-use assets, determined in accordance with relevant accounting standards, associated with leased investment properties.

5.6. Other Market Risk Exposures

Other market risk exposures include assets that fall in the category "other assets," for example, equipment, that are exposed to asset value fluctuations that may result in the value realized upon disposal being less than the balance sheet carrying value. A 10% risk factor applies to other assets as part of the total capital requirements for market risk.

Chapter 6. Credit Risk

Credit risk is the risk of loss arising from a counterparty's potential inability or unwillingness to fully meet its contractual obligations due to an insurer. Exposure to this risk occurs any time funds are extended, committed, or invested through actual or implied contractual agreements. Components of credit risk include loan loss/principal risk, pre-settlement/replacement risk and settlement risk. Counterparties include issuers, debtors, borrowers, brokers, policyholders, reinsurers and guarantors.

All on- and off-balance sheet exposures are subject to a specific risk factor that either: 1) corresponds to the external credit rating of the counterparty or issuer or 2) represents a prescribed factor determined by OSFI. To determine the capital requirements for balance sheet assets, factors are applied to the balance sheet values or other specified values of these assets. To determine the capital requirements for off-balance sheet exposures, factors are applied to the exposure amounts determined according to the section 6.2. Collateral and other forms of credit risk mitigators may be used to reduce the exposure. No risk factors are applied to assets deducted from capital available (reference section 2.3). The resulting amounts are summed to arrive at the credit risk capital requirements.

In respect of invested assets, insurers must comply with OSFI's Guideline B-2 *Investment Concentration Limit for Property and Casualty Insurance Companies*.

6.1. Capital Requirements for Balance Sheet Assets

For the purpose of calculating the capital requirements for credit risk, balance sheet assets should be valued at their balance sheet carrying amounts, with the following exceptions:

- Loans measured at fair value through profit and loss, fair value hedge accounting, or fair valued through other comprehensive income, should be measured at amortized cost;
- financial assets measured at amortized cost should be valued gross of IFRS 9 Stage 1 and Stage 2 expected credit loss provisions; and
- off-balance sheet exposures should be valued in accordance with section 6.2.

6.1.1. Use of ratings

Many of the risk factors in this chapter depend on the external credit rating assigned to an asset or an obligor. In order to use a factor that is based on a rating, an insurer must meet all of the conditions specified in this section. For MCT purposes, insurers may recognize credit ratings from the following rating agencies:

- DBRS
- Fitch Rating Services
- Japan Credit Rating Agency (JCR)

- Kroll Bond Rating Agency (KBRA)
- Moody's Investors Service
- Rating and Investment Information (R&I)
- Standard and Poor's (S&P)

An insurer must choose the rating agencies it intends to rely on and then use their ratings for MCT purposes consistently for each type of asset or obligation. Companies should not select the assessments provided by different rating agencies with the sole intent to reduce their capital requirements (i.e. "cherry picking" is not permitted).

Any rating used to determine a factor must be publicly available, i.e. the rating must be published in an accessible form and included in the rating agency's transition matrix. Ratings that are made available only to the parties to a transaction do not satisfy this requirement.

If an insurer is relying on multiple rating agencies and there is only one assessment for a particular asset or obligor, that assessment should be used to determine the capital requirements. If there are two assessments from the rating agencies used by an insurer and these assessments differ, the insurer should apply the risk factor corresponding to the lower of the two ratings. If there are three or more assessments for an asset or obligor from an insurer's chosen rating agencies, the insurer should exclude one of the ratings that corresponds to the lowest capital requirement, and then use the rating that corresponds to the lowest capital requirement of those that remain (i.e. the insurer should use the second-highest rating from those available, allowing for multiple occurrences of the highest rating).

Where an insurer holds a particular securities issue that carries one or more issue-specific assessments, the capital requirements for the asset or obligor will be based on these assessments. Where an insurer's asset is not an investment in a specifically rated security, the following principles apply:

- In circumstances where the borrower has a specific rating for an issued debt security, but the insurer's asset is not an investment in this particular security, a rating of BBB- or better on the rated security may only be applied to the insurer's unrated asset if this asset ranks pari passu or senior to the rated security in all respects. If not, the credit rating cannot be used and the insurer's asset must be treated as an unrated obligation.
- In circumstances where the borrower has an issuer rating, this assessment typically applies to senior unsecured assets or obligations on that issuer. Consequently, only senior assets or obligations on that issuer will benefit from a BBB- or better issuer assessment; other unassessed assets or obligations on the issuer will be treated as unrated. If either the issuer or one of its issues has a rating of BB+ or lower, this rating should be used to determine the capital requirements for an unrated asset or obligation on the issuer.
- Short-term assessments are deemed to be issue specific. They can only be used to derive capital requirements for assets or obligations arising from the rated facility. They cannot be generalized to other short-term assets or obligations, and in no event can a short-term rating be used to support a risk factor for an unrated long-term asset or obligation.

- Where the risk factor for an unrated exposure is based on the rating of an equivalent exposure to the borrower, foreign currency ratings should be used for exposures in foreign currency. Canadian currency ratings, if separate, should only be used to determine the capital requirements for assets or obligations denominated in Canadian currency.

The following additional conditions apply to the use of ratings:

- External assessments for one entity within a corporate group may not be used to determine the risk factors for other entities within the same group.
- No rating may be inferred for an unrated entity based on assets that the entity possesses.
- In order to avoid the double counting of credit enhancement factors, companies may not recognize credit risk mitigation if the credit enhancement has already been reflected in the issue-specific rating.
- An insurer may not recognize a rating if the rating is at least partly based on unfunded support (e.g. guarantees, credit enhancement or liquidity facilities) provided by the insurer itself or one of its associates.
- Any assessment used must take into account and reflect the entire amount of credit risk exposure an insurer has with regard to all payments owed to it. In particular, if an insurer is owed both principal and interest, the assessment must fully take into account and reflect the credit risk associated with repayment of both principal and interest.
- Insurers may not rely on unsolicited ratings in determining the risk factors for an asset, except where the asset is a sovereign exposure and a solicited rating is not available.

6.1.2. Credit risk factors

Various risk factors are applied to invested assets depending on the external credit rating and the remaining term to maturity as outlined below.

Investments in mutual funds or other similar assets must be broken down by type of investment (bonds, preferred shares, etc.) and assigned the appropriate risk factor relating to the investment. If these investments are not reported on a prorated basis, then the factor of the riskiest asset held in the fund, is assigned to the entire investment.

6.1.2.1. Long-term obligations

Long-term obligations, including term deposits, bonds, debentures, and loans that are not eligible for a 0% risk factor attract risk factors according to the following table. Long-term obligations generally have an original term to maturity at issue of 1 year or more.

Factors for Long-Term Obligations

Rating	1 year or less remaining term to maturity	Greater than 1 year up to and including 5 years remaining term to maturity	Greater than 5 years remaining term to maturity
AAA	0.25%	0.50%	1.25%
AA+ to AA-	0.25%	1.00%	1.75%
A+ to A-	0.75%	1.75%	3.00%
BBB+ to BBB-	1.50%	3.75%	4.75%
BB+ to BB-	3.75%	7.75%	8.00%
B+ to B-	7.50%	10.50%	10.50%
Unrated	6.00%	8.00%	10.00%
Below B-	15.50%	18.00%	18.00%

- Remaining term to maturity denotes the number of years from the reporting date until the maturity date.
- Insurers may use effective maturity as an option for determining risk factors for investments in long-term obligations subject to a determined cash flow schedule. The following formula may be used to calculate effective maturity:

$$\textit{Effective Maturity (M)} = \frac{\sum_t t \times CF_t}{\sum_t CF_t},$$

  where CF_t denotes the cash flows (principal, interest payments and fees) contractually payable by the borrower in period t.
- In cases where an insurer elects not to calculate an effective maturity or if it is not feasible to do so using the above formula, the insurer is required to use the maximum remaining time (in years) that the borrower is permitted to fully discharge its contractual obligation (principal, interest, and fees) under the terms of the loan agreement. Normally, this would correspond to the nominal maturity or term to maturity of the instrument.
- Where information is not available to determine the redemption/maturity of an asset, insurers must use the "greater than 5 years" category for that asset.

6.1.2.2. Short-term obligations

Short-term obligations, including commercial paper, that are not eligible for a 0% risk factor have risk factors assigned according to the following table. Short-term obligations generally have an original term to maturity at issue of no more than 365 days.

Factors for Short-Term Obligations

Rating	Factor
A-1, F1, P-1, R-1 or equivalent	0.25%

A-2, F2, P-2, R-2 or equivalent	0.50%
A-3, F3, P-3, R-3 or equivalent	2.00%
Unrated	6.00%
All other ratings, including non-prime and B or C ratings	8.00%

6.1.2.3. Asset-backed securities

The category of asset-backed securities encompasses all securitizations, including collateralized mortgage obligations and mortgage-backed securities, as well as other exposures that result from stratifying or tranching an underlying credit exposure. For exposures that arise as a result of asset securitization transactions, insurers should refer to Guideline B-5: *Asset Securitization*[57] to determine whether there are functions provided (e.g., credit enhancement and liquidity facilities) that require capital for credit risk.

National Housing Act (NHA) mortgage-backed securities:

NHA mortgage-backed securities that are guaranteed by Canada Mortgage Housing Corporation (CMHC) receive a factor of 0% to recognize the fact that obligations incurred by CMHC are legal obligations of the Government of Canada.

Other asset-backed securities:

The capital requirements for all other asset-backed securities are based on their external ratings. In order for an insurer to use external ratings to determine a capital requirement, the insurer must comply with all of the operational requirements for the use of ratings in Guideline B-5: *Asset Securitization*.

For asset-backed securities (other than resecuritizations) rated BBB or higher, the capital requirement is the same as the requirement specified in subsection 6.1.2.1 for a long-term obligation having the same rating and maturity as the asset-backed security. If an asset-backed security is rated BB, an insurer may recognize the rating only if it is a third-party investor in the security. The credit risk factor for an asset-backed security (other than a resecuritization) rated BB in which a company is a third-party investor is 300% of the requirement for a long-term obligation rated BB having the same rating and maturity as the security.

The credit risk factors for short-term asset-backed securities (other than resecuritizations) rated A-3 or higher are the same as those in subsection 6.1.2.2 for short-term obligations having the same rating.

The credit risk factor for any resecuritization rated BBB or higher is 200% of the risk factor applicable to an asset-backed security having the same rating and maturity as the resecuritization.

The credit risk factor for securitization exposures classified within the highest risk category of securitization exposures, as defined in Guideline B-5: *Asset Securitization*, is 60%.

57 Guideline B-5 should be read in conjunction with any current Advisories concerning securitization (e.g., the October 2008 Advisory, "*Securitization – Expected Practices*").

The credit risk factor for any asset-backed security that is not mentioned above (including unrated securities and any asset-backed security that is rated lower than BB) is 60%.

6.1.2.4. Preferred shares

Risk factors for preferred shares:

Rating	Factor
AAA, AA+ to AA-, Pfd-1, P-1 or equivalent	3.00%
A+ to A-, Pfd-2, P-2 or equivalent	5.00%
BBB+ to BBB-, Pfd-3, P-3 or equivalent	10.00%
BB+ to BB-, Pfd-4, P-4 or equivalent	20.00%
B+ or lower, Pfd-5, P-5 or equivalent or unrated	30.00%

6.1.2.5. Other balance sheet assets

Other risk factors for balance sheet assets

Factor	Asset
0.00%	• Cash held on the company's own premises[58], • Obligations[59] of federal, provincial, and territorial governments in Canada, • Obligations of agents of the federal, provincial or territorial governments in Canada whose obligations are, by virtue of their enabling legislation, direct obligations of the parent government, • Obligations of sovereigns rated AA- or better and their central banks[60], • Obligations that have been explicitly, directly, irrevocably and unconditionally guaranteed by a government entity eligible for a 0% risk factor including, for example, residential mortgages insured under the NHA or equivalent provincial mortgage insurance program and NHA mortgage-backed securities that are guaranteed by the Canada Mortgage and Housing Corporation, • Current tax assets (income tax receivables), • Premiums associated with the unexpired coverage on reinsurance contracts held from registered reinsurers arising from intra-group pooling arrangements approved by OSFI. • Asset for incurred claims recoverable from registered reinsurers arising from intra-group pooling arrangements approved by OSFI. • Any deductions from capital, including goodwill, intangible assets and interests in non-qualifying subsidiaries, associates, and joint ventures with more than 10% ownership interest.

[58] Applies to all vested cash assets of branches.
[59] Includes securities, loans and accounts receivable.
[60] Sovereign obligations rated lower than AA- may not receive a factor of 0%, and are instead subject to the factor requirements in section *6.1.2*.

0.25%	• Demand deposits, certificates of deposit, drafts, checks, acceptances and similar obligations that have an original maturity of less than three months, and that are drawn on regulated deposit-taking institutions subject to the solvency requirements of the Basel Framework. (Note: where the maturity of the asset is longer than three months, the risk factor related to the credit rating of the regulated deposit-taking institution would apply instead.)
0.70%	• Insurance receivables from registered reinsurers that are not included in premiums associated with the unexpired coverage on reinsurance contracts held or asset for incurred claims recoverable, excluding intra-group pooling arrangements approved by OSFI, • Receivables from the Facility Association Residual Market and Uninsured Automobile Fund.
2.50%	• Investment income due and accrued, • Premiums associated with the unexpired coverage on reinsurance contracts held from (reference section 4.3.2.2) registered reinsurers, excluding intra-group pooling arrangements approved by OSFI, • Asset for incurred claims recoverable from registered reinsurers, excluding intra-group pooling arrangements approved by OSFI.
4%	• First mortgages on one- to four-unit residential dwellings.
5%	• Receivables, outstanding less than 60 days, from agents, brokers, non-qualifying subsidiaries, associates, joint ventures, and policyholders, including instalment premiums and other receivables[61].
10%	• Receivables, outstanding 60 days or more, from agents, brokers, non-qualifying subsidiaries, associates, joint ventures and policyholders, including instalment premiums and other receivables[62], • Commercial mortgages and other residential mortgages that do not qualify as first mortgages on one- to four-unit residential dwellings, • The amount of available refunds of defined benefit pension fund surplus assets included in capital available, • Deferred tax assets arising from temporary differences that the institution could recover from income taxes paid in the three immediate preceding years. DTAs from temporary differences that are in excess of the amount of taxes recoverable in the three immediate preceding years should be deducted from capital available. • Other investments not specified in this section or section 5.5 as part of other market risk exposures, excluding derivative-related amounts. Capital requirements for derivative-related amounts included in other investments are set out in section 6.2,

[61] Includes receivables from unregistered insurers for reinsurance contracts issued.
[62] Includes receivables from unregistered insurers for reinsurance contracts issued.

	• Other assets not specified in this section or section 5.5 as part of other market risk exposures, excluding other investments.
15%	• Mortgages secured by undeveloped land (i.e. construction financing), other than land used for agricultural purposes or for the production of minerals. A property recently constructed or renovated will be considered as "under construction" until it is completed and 80% leased.
20%	• Other recoverables (mainly salvage and subrogation) on the liability for incurred claims, • Self-insured retention recoverables not deducted from capital (reference section 4.4), • Assets held for sale (other than financial)[63].
45%	• Loans or other forms of lending (bonds, debentures, mortgages, etc.) to non-qualifying (non-consolidated) subsidiaries, associates and joint ventures with more than a 10% ownership interest, that are not reported as equity on their financial statements. • Unamortized insurance acquisition commission cash flows related to A&S business (reference section 4.6)

6.2. Capital Requirements for Off-Balance Sheet Exposures

The capital required for off-balance sheet exposures such as structured settlements, letters of credit or non-owned deposits, derivatives and other exposures is calculated in a manner similar to on-balance sheet assets in that the credit risk exposure is multiplied by a counterparty risk factor to arrive at the capital required. However, unlike most assets, the face amount of an off-balance sheet exposure does not necessarily reflect the true credit risk exposure. To approximate this exposure, a credit equivalent amount is calculated for each exposure. This amount, net of any collateral or guarantees, is then multiplied by a credit conversion factor. For letters of credit and non-owned deposits, the credit equivalent amount is the face value. The determination of the counterparty credit risk categories and the approach for determining the eligibility of collateral and guarantees is the same as it is for other assets. For letters of credit and non-owned deposits, the counterparty credit risk is found under section 4.3.

Insurers should also refer to OSFI's Guideline B-5: *Asset Securitization*, which outlines the regulatory framework for asset securitization transactions, including transactions that give rise to off-balance sheet exposures.

[63] 1) Alternatively, assets classified as held for sale may be re-consolidated (look-through approach) at the option of the insurer. If this method is selected, any write-down made as a result of re-measuring the assets classified as held for sale at the lower of carrying amount and fair value less costs to sell should be reflected in the MCT after re-consolidation. Any asset within a consolidated group that is deducted from capital available for MCT purposes should continue to be deducted from capital when it becomes an asset held for sale.
2) If the insurer has elected to apply a 20% risk factor to assets held for sale instead of using the look-through approach, associated liabilities held for sale should be subject to the usual MCT treatment of liabilities as per chapter 4.

The risk to an insurer associated with structured settlements, letters of credit, non-owned deposits, derivatives and other exposures and the amount of capital required to be held against this risk is:

i.) The credit equivalent amount of the instrument at the reporting date;

ii.) Less: the value of eligible collateral securities or guarantees (reference section 6.3);

iii.) Multiplied by: a factor reflecting the nature and maturity of the instrument (credit conversion factor); and

iv.) Multiplied by: a factor reflecting the risk of default of the counterparty to a transaction (counterparty credit risk).

6.2.1. Credit equivalent amount

The credit equivalent amount related to off-balance sheet exposures varies according to the type of instrument.

6.2.1.1. Structured settlements

The credit equivalent amount for a "Type 1" structured settlement is the current replacement cost of the settlement, which is gross of the coverage provided by Assuris.

"Type 1" structured settlements are not recorded as liabilities on the balance sheet, and have the following characteristics:

i.) An annuity is purchased by an insurer who is named the owner. There is an irrevocable direction from the insurer to the annuity underwriter to make all payments directly to the claimant.

ii.) Since the annuity is non-commutable, non-assignable and non-transferable, the insurer is not entitled to any annuity payments and there are no rights under the contractual arrangement that would provide any current or future benefit to the insurer.

iii.) The insurer is released by the claimant indicating settlement of the claim amount.

iv.) The insurer remains liable to make payments to the claimant in the event and to the extent the annuity underwriter fails to make payments under the terms and conditions of the annuity and the irrevocable direction given.

Under this type of structured settlement arrangement, the insurer is not required to recognize a liability to the claimant, nor is it required to recognize the annuity as a financial asset. However, the insurer is exposed to some credit risk by guaranteeing the obligation of the annuity underwriter to the claimant and, consequently, must set aside additional capital.

Insurers should refer to Guideline D-5 *Accounting for Structured Settlements*.

6.2.1.2. Derivatives

The credit equivalent amount for derivatives is the positive replacement cost (obtained by "marking to market") plus an amount for potential future credit exposure (an "add-on" factor).

Derivatives include forwards, futures, swaps, purchased options, and other similar contracts. Insurers are not exposed to credit risk for the full face value of these contracts (notional principal amount); only to the potential cost of replacing the cash flow (on contracts showing a positive value) if the counterparty defaults. The credit equivalent amounts are assigned the risk factor appropriate to the counterparty in order to calculate the capital requirement.

The credit equivalent amount depends on the maturity of the contract and the volatility of the underlying instrument. It is calculated by adding:

i.) the total replacement cost (obtained by "marking to market") of all contracts with positive value; and

ii.) an amount for potential future credit exposure (or "add-on"). This is calculated by multiplying the notional principal amount by the following factors:

Derivative "Add-On" Factors

Residual Maturity (01)	Interest Rate (02)	Exchange Rate and Gold (03)	Equity (04)	Precious Metals except Gold (05)	Other Instruments (06)
One year or less	0.0%	1.0%	6.0%	7.0%	10.0%
One year to five years	0.5%	5.0%	8.0%	7.0%	12.0%
Over five years	1.5%	7.5%	10.0%	8.0%	15.0%

Notes:

1. Instruments traded on exchanges do not require capital for counterparty credit risk where they are subject to daily margining requirements.
2. For contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments in the contract.
3. For contracts that are structured to settle outstanding exposures following specified payment dates, and where the terms are reset so that the market value of the contract is zero on these specified dates, the residual maturity is considered to be the time until the next reset date. In the case of interest rate contracts with remaining maturities of more than one year and that also meet the above criteria, the add-on factor is subject to a floor of 0.5%.
4. Contracts not covered by columns (02) to (05) in the above table are to be treated as "other instruments" for the purpose of determining the add-on factor.
5. No potential credit exposure would be calculated for single currency floating/floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

6. The add-ons are based on effective rather than stated notional amounts. In the event that the stated notional amount is leveraged or enhanced by the structure of the transaction, companies must use the actual or effective notional amount when determining potential future exposure. For example, a stated notional amount of $1 million with payments calculated at two times LIBOR would have an effective notional amount of $2 million.
7. Potential credit exposure is to be calculated for all over-the-counter (OTC) contracts (with the exception of single currency floating/floating interest rate swaps), regardless of whether the replacement cost is positive or negative.

No add-on for potential future exposure is required for credit derivatives. The credit equivalent amount for a credit derivative is equal to the greater of its replacement cost or zero.

6.2.1.3. Other exposures

Commitments

A commitment involves an obligation (with or without a material adverse change or similar clause) of the insurer to fund its customer in the normal course of business should the customer seek to draw down the commitment. This includes:

i.) extending credit in the form of loans or participations in loans, lease financing receivables, mortgages or loan substitutes; or

ii.) purchasing loans, securities, or other assets.

Normally, commitments involve a written contract or agreement and a commitment fee or some other form of consideration.

The maturity of a commitment should be measured from the date when the commitment was accepted by the customer, regardless of whether the commitment is revocable or irrevocable, conditional or unconditional, until the earliest date on which:

i.) the commitment is scheduled to expire, or

ii.) the insurer can, at its option, unconditionally cancel the commitment.

Repurchase and reverse repurchase agreements

A securities repurchase (repo) is an agreement whereby a transferor agrees to sell securities at a specified price and repurchase the securities on a specified date and at a specified price. Since the transaction is regarded as a financing transaction for accounting purposes, the securities remain on the balance sheet. Given that these securities are temporarily assigned to another party, the factor accorded to the asset should be the higher of the factor of the security and the factor of the counterparty to the transaction (net of any eligible collateral).

A reverse repo agreement is the opposite of a repo agreement, and involves the purchase and subsequent sale of a security. Reverse repos are treated as collateralized loans, reflecting the economic reality of the transaction. The risk is therefore to be measured as an exposure to the counterparty. Where the asset temporarily acquired is a security that attracts a preferential factor, this would be recognized as collateral and the factor would be reduced accordingly.

Guarantees provided in securities lending

In securities lending, insurers can act as principal to the transaction by lending their own securities or as agent by lending securities on behalf of clients. When the insurer lends its own securities, the risk factor is the higher of:

- the risk factor related to the instruments lent, or
- the risk factor for an exposure to the borrower of the securities. The exposure to the borrower may be reduced if the insurer holds eligible collateral (reference section 6.3). Where the insurer lends securities through an agent and receives an explicit guarantee of the return of the securities, the insurer may treat the agent as the borrower subject to the conditions in section 6.3.2.

When the insurer, acting as an agent, lends securities on behalf of a client and guarantees that the securities lent will be returned, or the insurer will reimburse the client for the current market value, the insurer should calculate the capital requirement as if it were the principal to the transaction. The capital requirements are those for an exposure to the borrower of the securities, where the exposure amount may be reduced if the insurer holds eligible collateral (reference section 6.3).

6.2.2. Credit conversion factors

Separate credit conversion factors exist for structured settlements, letters of credit, non-owned deposits, derivatives and other exposures.

For other exposures, the weighted average of the credit conversion factors, described below, for all of these instruments held by the P&C insurer, should be used.

Table of Credit Conversion Factors

Factor	Instrument
100%	• Direct credit substitutes (general guarantees of indebtedness and guarantee-type instruments, including standby letters of credit and non-owned deposits serving as financial guarantees for, or supporting, loans and securities). • Derivatives such as forwards, futures, swaps, purchased options (including options purchased over the counter) and other similar derivative contracts, including: i.) Interest rate contracts (single currency interest rate swaps, basis swaps, forward rate agreements and products with similar characteristics, interest rate futures, interest rate options purchased, and similar derivative contracts based on specific parameters as well as on indices, etc.). ii.) Equity contracts (forwards, swaps, purchased options, and similar derivative contracts based on specific parameters as well as on indices, etc.). iii.) Exchange rate contracts (gold contracts, cross-currency swaps, cross-currency interest rate swaps, outright forward foreign exchange contracts, currency futures, currency options purchased, and similar derivative contracts based on specific parameters as well as on indices, etc.). iv.) Precious metals (except gold) and other commodity contracts (forwards, swaps, purchased options, and similar derivative contracts based on specific parameters as well as on indices, etc.). v.) Other derivative contracts based on specific parameters as well as on indices (such as catastrophe insurance options and futures). • Forward agreements (contractual obligations) to purchase assets. • Sale and repurchase agreements. • All other exposures not reported elsewhere (provide details).
50%	• Structured settlements that are not recorded as liabilities on the balance sheet (refer to Type 1 characteristics and to Guideline D-5 *Accounting for Structured Settlements*). • Transaction-related contingencies (for example, warranties and standby letters of credit related to a particular transaction). • Commitments with an original maturity exceeding one year.
20%	• Commitments with an original maturity of one year or less.
0%	• Commitments that are unconditionally cancellable at any time without prior notice.

6.2.3. Risk factors

Risk factors for off-balance sheet exposures are assigned a risk factor consistent with section 6.1. All criteria in section 6.1 around the use of ratings are applicable to off-balance sheet exposures.

Risk factors for structured settlements, which are considered long-term exposures, are based on the credit rating of the counterparty from which the annuity is purchased.

Risk Factors by Credit Rating

Rating	Risk factor
Rated A- and higher	2%
Rated BBB+ to B-	8%
Unrated	10%
Below B-	18%

If the structured settlement is not rated by one of the four rating agencies listed in section 6.1.1, an insurer may use a credit rating from another reputable rating agency. The use of an alternative rating agency must comply with all the criteria around the use of ratings specified in section 6.1.1, including a consistent use of the same rating agency in order to assign a risk factor based on the credit rating of the annuity underwriter.

6.3. Capital Treatment of Collateral and Guarantees

6.3.1. Collateral

A collateralized transaction is one in which:

- a company has a credit exposure or potential credit exposure; and
- the credit exposure or the potential credit exposure is hedged in whole or in part by collateral posted by a counterparty or by a third party on behalf of the counterparty.

Recognition of collateral in reducing the capital requirement is limited to cash or securities rated A- or higher. Any collateral must be held throughout the period for which the exposure exists. Only that portion of an exposure that is covered by eligible collateral will be assigned the risk factor given to the collateral, while the uncovered portion retains the risk factor of the underlying counterparty. Only collateral securities with a lower risk factor than the underlying exposure will lead to reduced capital requirements. All criteria in section 6.1 around the use of ratings are applicable to collateral. Where a rating is not available for the collateral asset, exposure, or counterparty where applicable, no reduction in capital required is permitted.

The effects of collateral may not be double counted. Therefore, insurers may not recognize collateral on claims for which an issue-specific rating is used that already reflects that collateral.

Collateral securities used to reduce capital requirements must materially reduce the risk arising from the credit quality of the underlying exposure. In particular, collateral used may not be related party obligations of the issuer of the underlying exposure (i.e. obligations of the underlying counterparty itself, its parent, or one of its subsidiaries or associates).

6.3.2. Guarantees

Investments (principal and interest) or exposures that have been explicitly, directly, irrevocably and unconditionally guaranteed by a guarantor whose long-term issuer credit rating is A- and higher, may attract the risk factor allocated to a direct claim on the guarantor where the desired effect is to reduce the risk exposure. Thus only guarantees[64] issued by entities with a lower risk factor than the underlying counterparty will lead to reduced capital requirements. To be eligible, guarantees must be legally enforceable.

Where the recovery of losses on a loan, financial lease agreement, security or exposure is partially guaranteed, only the part that is guaranteed is to be weighted according to the risk factor of the guarantor (see examples below). The uncovered portion retains the risk factor of the underlying counterparty.

All criteria in section 6.1 around the use of ratings remain applicable to guarantees. Where a rating is not available for the investment, exposure, or guarantor where applicable, no reduction in capital required is permitted.

An insurer may not recognize a guarantee provided by a related party (parent, subsidiary or associate) of the insurer. This treatment follows the principle that guarantees within a corporate group are not a substitute for capital.

The effects of credit protection may not be double counted. Therefore, no capital recognition is given to credit protection on claims for which an issue-specific rating is used that already reflects that protection.

To be eligible, a guarantee must cover the full term of the exposure, i.e. no recognition will be given to a guarantee if there is a maturity mismatch[65].

6.3.2.1. Additional requirements for guarantees

The following conditions must be satisfied in order for a guarantee to be recognized:

1. On the qualifying default/non-payment of the counterparty, the insurer may in a timely manner pursue the guarantor for any monies outstanding under the documentation governing the transaction. The guarantor may make one lump sum payment of all monies under such documentation to the insurer, or the guarantor may assume the future payment obligations of the counterparty covered by the guarantee. The insurer must have the right

[64] Letters of credit for which a company is the beneficiary are included within the definition of guarantees, and receive the same capital treatment.

[65] A maturity mismatch occurs when the residual maturity of the credit protection is less than that of the underlying exposure.

to receive any such payments from the guarantor without first having to take legal action in order to pursue the counterparty for payment.

2. The guarantee is an explicitly documented obligation assumed by the guarantor.
3. Except as noted in the following sentence, the guarantee covers all types of payments the underlying obligor is expected to make under the documentation governing the transaction, for example notional amount, margin payments etc. Where a guarantee covers payment of principal only, interest and other uncovered payments should be treated as an unsecured amount in accordance with section 6.1.2.

Example 6-1: Credit risk exposure.

To record a $100,000 bond rated AAA due in 10 years that has a government guarantee of 90%, the insurer would report a balance sheet value of $90,000 ($100,000 x 90%) in the 0% risk weighted category and a balance value of $10,000 ($100,000 - $90,000) in the AAA category under bonds expiring or redeemable in more than five years. The capital required in the 0% risk weighted category is $0 ($90,000 x 0.0%). The capital required in the AAA category is $125 ($10,000 x 1.25%) for a total capital requirement of $125.

Example of the credit risk calculation, assuming no other assets:

Bonds	**Factor** (%)	**Balance Sheet Value**	**Capital Required**
0% risk factor	0.0%	$90,000	$0
Rating: AAA	1.25%	$10,000	$125
Total		**$100,000**	**$125**

Example 6-2: Type 1 structured settlement.

To record a $300,000 Type 1 structured settlement rated BBB+ to B-, backed by collateral or a guarantee of $200,000 from a counterparty rated A- or higher, the insurer would report a credit equivalent amount of $300,000 and collateral and guarantees of negative $200,000 in the BBB+ to B- category, and collateral and guarantees of $200,000 in the A- and higher category.

The capital required in the BBB+ to B- category is $4,000 (($300,000 - $200,000) x 50% x 8%). The capital required in the A- and higher category is $500 ($200,000 x 50% x 0.5%) for a total capital requirement of $4,500.

Example of the structured settlement calculation, assuming no other exposures

Structured Settlements	**Credit Equivalent Amount** (01)	**Collateral and Guarantees** (02)	**Credit Conversion Factor** (03)	**Risk Factor** (04)	**Capital Required** (05)
0% risk factor					
Rated A- and higher		$200,000	50%	0.5%	$500
Rated BBB+ to B-	$300,000	($200,000)	50%	8.0%	$4,000
Total					**$4,500**

Chapter 7. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk[66] but excludes strategic and reputation risk.

Exposure to operational risk results from either day-to-day operations or a specific, unanticipated event.

7.1. Operational Risk Formula

The two risk drivers used to determine the operational risk margin are capital required and premiums, subject to a cap.

$$\textit{Operational risk margin} = MIN\ \{30\%\ CR_0,\ (8.50\%\ CR_0 + 2.50\%\ P_d + 1.75\%\ P_a + 2.50\%\ P_r + 2.50\%\ P_\Delta) + \text{MAX}(0.75\%\ P_{aig},\ 0.75\%\ P_{rig})\}$$

where:

- CR_0 is total capital required for the reporting period, before the operational risk margin and diversification credit
- P_d is direct premiums received in the past 12 months for insurance contracts issued
- P_a is premiums received in the past 12 months for reinsurance contracts issued arising from third party reinsurance
- P_{aig} is premiums received in the past 12 months for reinsurance contracts issued arising from intra-group pooling arrangements
- P_r is premiums paid in the past 12 months for reinsurance contracts held arising from third party reinsurance
- P_{rig} is premiums paid in the past 12 months for reinsurance contracts held arising from intra-group pooling arrangements
- P_Δ is growth in gross premiums received in the past 12 months above a 20% threshold

7.2. Components of Operational Risk Margin

7.2.1. Capital required

A portion of the operational risk margin is based on total capital required, reflecting the overall riskiness of an insurer. An 8.50% risk factor applies to total capital required, before the operational risk margin and diversification credit.

[66] Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

7.2.2. Premium volume

The following risk factors apply to insurance premiums:

- *2.50% for direct premiums received for insurance contracts issued*
- *1.75% for premiums received for reinsurance contracts issued arising from third party reinsurance*
- *0.75% for premiums received for reinsurance contracts issued arising from intra-group pooling arrangements*
- *2.50% for premiums paid for reinsurance contracts held arising from third party reinsurance*
- *0.75% for premiums paid for reinsurance contracts held arising from intra-group pooling arrangements*

The 2.50% risk factor for direct premiums received and the 1.75% risk factor for premiums received from third party reinsurance contracts issued capture an insurer's operational risk exposure on new business and renewals.

The 2.50% risk factor for premiums paid for reinsurance contracts held from third party reinsurance captures the operational risk remaining with the ceding insurer. While the insurer cedes a portion of its insurance risk exposure through reinsurance, the operational risk remains with the ceding insurer. Because the capital requirements for insurance liabilities (reference section 4.2) are calculated on the net amount of risk (net of reinsurance), the portion of operational risk requirement calculated as 8.50% of capital required does not account for the operational risk on the entire business of the insurer.

Intra-group pooling arrangements

The 0.75% risk factor for premiums received for reinsurance contracts issued and premiums paid for reinsurance contracts held arising from intra-group pooling arrangements captures the additional operational risks associated with pooling premiums within a group compared to a company that does not enter into transactions moving the premiums from a company to another within a group.

Only premiums received and paid from intra-group pooling arrangements between associated Canadian federally or provincially regulated companies are included in P_{aig} and P_{rig}, and a prior supervisory approval from OSFI is required. If prior approval is not granted, the premiums received and paid in the intra-group pooling arrangement will be considered as premiums arising from a third party reinsurance arrangement and, therefore, will be included in P_a and P_r for capital requirement calculation purposes.

In cases where property and casualty subsidiaries are consolidated in the financial statements of the property and casualty parent company, P_d, P_a, and P_r , at the parent level, must be determined on a consolidated basis, while P_{aig} and P_{rig} must be equal to the non-consolidated intra-group pooled premiums received and paid by the parent company, respectively.

- For example, assume that two subsidiaries, company Y and company Z cede 100% of their direct business to Company X (the parent). Company X then cedes 20% of the total of the direct business of each company (including the parent's business) to each subsidiary. Assuming that each of the three companies receive $100 of direct premiums, the following amounts would apply to calculate the operational risk margin for company X:

P_d :	3 x $100 (direct premiums received by each company) = $300
P_a and P_r :	$0 (assuming all three companies are not part of third party reinsurance arrangements)
P_{aig} :	2 x $100 (premiums received by company X as part of the intra-group arrangement) = $200
P_{rig} :	2 x $60 (premiums paid by company X as part of the intra-group arrangement) = $120

  The capital requirement for operational risk associated with the premiums would be calculated as follows:

  $(2.50\%\ P_d + 1.75\%\ P_a + 2.50\%\ P_r + 2.50\%\ P_\Delta) + MAX\ (0.75\%\ P_{aig,}, 0.75\%\ P_{rig}) =$

  ($7.50 + 0 + 0 + 0) + $1.50 = $9.00

7.2.3. *Year-over-year premium growth beyond a threshold*

Rapid growth, which is linked to the acquisition of another entity, the acquisition of a block of business through assumption reinsurance, new lines of business or changes to existing products or underwriting criteria, can create additional pressures on people and systems. Companies with premium growth beyond a 20% threshold are subject to additional capital requirements for operational risk.

The premium growth requirement is calculated using gross premiums received, i.e. direct premiums received on insurance contracts issued plus premiums received for reinsurance contracts issued. For the purposes of this section, premiums received for reinsurance contracts issued arising from intra-group pooling arrangements (i.e. P_{aig}) are excluded from gross premiums received. A 2.50% risk factor applies to the total amount of premiums received in the past 12 months above the 20% growth threshold compared to the premiums received for the same period in the previous year.

- For example, assume that as a result of rapid growth, gross premiums received increase by 50% from $100 to $150. The amount above the 20% increase ($30) is subject to an additional risk factor of 2.50%.

In the case of an acquisition, the total gross premiums received for a prior reporting period (before the acquisition) is the sum of the gross premiums received by the two separate entities, i.e. the sum of the acquiring and the acquired companies' gross premiums received.

- For example, assume that in Year T a company A with gross premiums received of $100 for the 12 months period ending December 31, Year T-1 acquired a company B with gross premiums received of $50 for the same period. The merged company reported a total of $225 in gross premiums received for the 12 months period ending December 31, Year T. The capital requirement for operational risk associated with rapid growth in premiums would be calculated as follows:

$$2.50\% \times [225 – ((100 + 50) \times 1.20)] \text{ or } 2.50\% \times \$45 = \$1.13$$

7.2.4. Cap on operational risk margin

A 30% cap serves to dampen the operational risk margin for companies that have high-volume/low-complexity business. The 30% cap is calculated in relation to total capital required, before the operational risk margin and diversification credit.

Chapter 8. Diversification Credit

Because losses arising across some risk categories are not perfectly correlated with each other, a company is not likely to incur the maximum possible loss at a given level of confidence from each type of risk simultaneously. Consequently, an explicit credit for diversification is permitted between the sum of credit and market risk requirements, and the insurance risk requirement so that the total capital required for these risks is lower than the sum of the individual requirements for these risks.

8.1. Risk Aggregation and Diversification Credit

The diversification credit is calculated using the following formula:

$$Diversification\ credit = A + I - \sqrt{A^2 + I^2 + 2 \times R \times A \times I},$$

where:

A is the asset risk margin, which is the sum of capital required for:

- credit risk, including requirements for balance sheet assets and off-balance sheet exposures, and collateral for unregistered reinsurance and self-insured retentions;
- market risk, including interest rate risk, foreign exchange risk, equity risk, real estate risk and other market risk exposures.

I is the insurance risk margin, which is the sum of capital required for:

- liability for incurred claims;
- unexpired coverage;
- unregistered reinsurance exposures; and
- earthquake and nuclear catastrophes.

R is the correlation factor between *A* and *I*, equal to 50%.

-END-

CAC (MPI) 2-34

Part and Chapter:	**Part XI INV Appendix 12**	**Page No.:**	**Part XI – INV Appendix 12, p 44 of 184 (PDF Page 3776 of 4085)**
PUB Approved Issue No:	**22. Asset Liability Management Study**		
Topic:	**Leverage**		
Sub Topic:			

Preamble to IR:

MPI indicated that the RRB overlay strategy is executed through repurchase (repo) and reverse repurchase agreements, as described below.

Strategy Implementation

Implementation of the RRB portfolio can be accomplished through two approaches

Physical Portfolio Only

- Sale of government bonds funds purchase of inflation linked bonds
- Government bond holdings decline from 52.2% to 2.9%
- May impact interest rate risk hedge effectiveness
- Use of TIPS requires currency hedging

Allocation (%)	Current	Physical Only	Overlay
Government Bonds	52.2	2.9	34.6
Overall Corporate	22.4	26.1	26.1
MUSH Bonds	24.6	18.6	18.6
Short Term	0.8	6.1	6.1
Core Canadian Real Estate		9.3	9.3
Commercial Mortgages		5.3	5.3
Canadian RRB / US TIPS (physical)		31.7	--
Canadian RRB / US TIPS (repo)		--	31.7
Canada/US Treasuries (reverse repo)		--	-31.7

Portfolio with Overlay (via repo use)

- Provides inflation protection without losing provincial credit exposure
- Isolate inflation risk protection from interest rate risk for greater hedging efficiency
- Long inflation linked and short nominal components leave no significant net leverage
- Maintaining the government bond portfolio allows the interest risk hedge to be preserved

MPI described the IFRS considerations of an overlay strategy below.

> **Capital & IFRS Considerations of an Overlay Strategy**
>
> IFRS
>
> - Incorporation of inflation linked investments into the physical portfolio will require an adjustment to the IFRS 17 discount rate setting to reflect a higher allocation to federal government holdings resulting in a lower yield which will increase the value of the liabilities
> - Use of an overlay strategy for inflation exposure does not require a change to the IFRS discount curve composition as a result of its inclusion

Question:

a) Please explain the economic benefit of preserving the interest risk hedge (by maintaining the government bond portfolio and using repos/reverse repos), compared to the alternative of selling government bonds to finance the RRBs.

b) What are the expected returns for the "Physicals Only" and "Overlay" alternatives?*

c) What are the expected costs for the "Physicals Only" and "Overlay" alternatives?*

**Please provide a breakdown of returns and costs by asset class, along with the total, distinguishing between Canada and Provincial Bonds as well.*

d) What are the expected surplus volatilities for the "Physicals Only" and "Overlay" alternatives?

e) Will the nature of the leverage (e.g., modified duration of short/borrowing) be similar to the leverage that was modeled in the A/L Study? If not, please explain any difference.

f) Please explain why the use of "physicals" to implement the RRB strategy results in a higher discount rate. i.e., Does it arise from the use of physicals per se, or does it depend on the composition of the portfolio (e.g., mix of different bonds, such as Canada, Provincial, etc.)?

g) Is there an accounting method, perhaps not chosen by MPI, that would result in the same discount rate being applied for the "Physicals Only" and "Overlay" alternatives? If so, please describe the alternative accounting method.

Rationale for Question:

To clarify the nature of financial leverage (e.g., modified duration), and its impact on expected costs, returns, risks, and accounting values.

RESPONSE:

a) The economic benefit of the bond overlay strategy is derived from the higher allocation to Provincial bonds and the fact that Provincial bonds have higher yields relative to Federal bonds.

b) The expected annualized return of the overlay strategy net of financing costs would exceed the expected annualized return of a physical only strategy by the average provincial credit spread upon implementation of the hedging strategy less the financing cost of 15 basis points per year.

The table below shows the expected returns by asset class, along with the total expected returns for each strategy. We compared the estimated returns to the expected returns of the current Basic Claims portfolio as at July 31, 2023. We used the following assumptions to determine expected returns.

Assumptions:

- Real Rate of Return 1.75%
- Breakeven Rate & Inflation Rate 2.00%
- Average Nominal Yield on Canada Bonds 3.75%
- Expected Return on Short Term Assets 4.90%

We use the Yield to Maturity as an estimate of expected long-term annualized returns.
(Source: Addenda Capital)

Estimated Annual Returns

	Current Strategy			Physical Only Strategy		Long - Short Strategy			
Assset Allocation	Actual Weights (%)	Estimated Returns (%)	Estimated Credit Spread (bps)	Target Weights (%)	Estimated Returns (%)	Target Weights (%)	Estimated Returns (%)	Repo Rate / Financing Cost (%)	Estimated Net Returns (%)
Provincial Bonds - Addenda Completion	12	4.48	73	12	4.48	16	4.48		4.48
Provincial Bonds - Manitoba Treasury	33	4.39	64	3	4.39	33	4.39		4.39
Corporate Bonds - Addenda	29	5.18	143	28	5.18	28	5.18		5.18
MUSH Bonds - Manitoba Treasury	20	5.24	149	20	5.24	20	5.24		5.24
Short Term - Manitoba Treasury	3	4.90		0	4.90	3	4.90		4.90
Real Return Bonds (physical strategy)	4	3.75		37	3.75				
Long position RRB (overlay)						37	3.75	(5.00)	(1.25)
Short position Nominal Bonds (overlay)						(37)	(3.75)	4.85	1.10
Total	100	4.79		100	4.56	100	4.81	(0.06)	4.76
Difference vs. Current Strategy (bps)					**(23)**		**2**		**(3)**

Source: Addenda Capital

The estimated annual return of the physical only strategy is approximately 4.56% or 23 basis points lower than that of the current portfolio (4.79%), while the long – short strategy is expected to produce an annual return of approximately 4.76%, i.e., 4.82% less the financing cost of 0.06% (37% x 0.15%). On average, the long-short strategy is expected to outperform the long only strategy by approximately 20 basis points per annum, net of the financing cost.

c) The expected costs of the bond overlay strategy will exceed the cost of the physical only strategy by the net cost of borrowing (i.e., the bid-ask spread on the repurchase agreements & reverse repurchase agreements), which is estimated at 15 basis points multiplied by the percentage allocation to the hedging RRB strategy. Based on a target RRB exposure of 37%, the financing cost of the long - short overlay strategy is estimated to be 6 basis points. The net borrowing cost is relatively stable regardless of the level of interest rates. The table in question b) describes the net borrowing cost.

d) Both strategies could adequately hedge inflation risk and have a similar contribution to the volatility of the surplus on the condition the liability discount curve is aligned with the credit exposure of the asset portfolio and the sensitivity of the assets to changes in interest rates match the sensitivity of the liabilities. As explained in question f), a physical only strategy would result in a lower discount rate curve, i.e., a one-time reduction of the surplus, in order to maintain a similar surplus volatility as the long – short overlay strategy. As a corollary, not changing the discount rate curve to reflect the lower exposure to provincial credit spread of the physical RRB strategy would increase the surplus volatility by introducing a credit risk mismatch between the assets and liabilities.

e) The nature of the leverage in the bond overlay strategy (e.g., modified duration of short/borrowing) is very different to the leverage that was modeled in the asset-liability Study as the bond overlay strategy involves both long and short positions which will result in no net leverage and no net duration. The leverage modeled in the asset-liability study was based on a 3x RRB pooled fund which requires borrowing $2.00 for every $1.00 invested; this resulted in leverage of 3x and a duration of 3x the duration of the underlying securities (assumed to be 15.8 years based upon the duration of the FTSE Canada Real Return Overall Non-Agency Bond Index at December 31, 2021).

The Asset-Liability Study overlay strategy would have a higher financing cost than the proposed long and short overlay strategy. The levered portion would be financed at approximately the Canadian Overnight Repo Rate (CORRA) of 5.0%. Hence, the expected return of a 3X RRB Overlay Pooled Fund would be expected to be 3 X FTSE Canada Real Return Federal Non-Agency Bond Index minus 2 X CORRA.

As mentioned in the response to part c), the financing cost of the long-short overlay strategy would be approximately 15 basis points. For a total exposure of $600M, the annual financing cost of a 3X RRB Overlay Pooled Fund would be approximately 333 basis points or $20M / year at the current CORRA (i.e., $400M X 5% / $600M), while the financing cost of the proposed long and short overlay strategy is approximately 15 basis points or $900,000 / year, irrespective of the level of CORRA.

f) The use of "physicals" to implement the RRB strategy results in a **LOWER** discount rate than the portfolio implemented with the bond overlay strategy due to the necessary changes to the composition of the bond portfolio. The strategy implemented with "physical" bonds will have a lower allocation to Provincial bonds and a higher allocation to Federal Bonds; because Provincial bonds have a higher yield than Federal bonds the weighted average yield of the Basic Claims investment portfolio will be lower when implemented with "physical" bonds rather than through the bond overlay strategy.

g) MPI could have chosen another method for constructing the discount rate curve that would have been independent of the constituents of the asset portfolio. Such methods are permitted, but the trade-off is a potentially large mismatch between the discount rate curve and the assets, which would increase the volatility of the surplus. The "bottom-up" approach would be an example. Even the "top-down" approach in its original form does not necessarily reflect the composition of the assets. Like many Canadian insurers, MPI has elected a Hybrid approach whereby the reference portfolio takes into consideration the composition of the assets and the liquidity of the liabilities.

<u>CAC (MPI) 2-35</u>

Part and Chapter:	PUB Order 4/23 Part V - Nova	Page No.:	P 99 P 7-11
PUB Approved Issue No:	15. Information Technology 20. Project Nova		
Topic:	External oversight and industry experts		
Sub Topic:			

Preamble to IR:

PUB Order 4/23 quotes (at page 99) minutes from a February 10, 2022 meeting of the Technology Committee of MPI's Board of Directors. The excerpt states that MPI

> *"recognized that it did not have the internal expertise and that no single external consultant had the expertise to successfully implement a transformational project of the complexity presented by [Project Nova]. [MPI] has engaged the services of industry experts to assist in providing advice on how best to carry out this project."*

Since the beginning of the Project, MPI has relied on multiple external parties to support project planning, management, oversight and governance (for example, see Part V – Nova, p 7-11).

Question:

a) In the form of a list, please identify all external service providers engaged on Project Nova providing services to MPI relating to project planning, management, oversight and governance. The list should include, at minimum, Deloitte, Avasant, McKinsey, PricewaterhouseCoopers, and MNP. For each service provider, please identify their role/title and start and end dates for their engagement, as well as fees paid to each service provider.

b) Please confirm whether or not MPI's past major IT projects were implemented with the support of external service providers in project planning, management, oversight or governance. Please include in the response the following projects: implementation of CARS software, Lawson software, the Physical Damage Re-engineering project, and the BI3 project.

c) Please provide a narrative description of the reasons MPI has relied on external service providers in planning, management, oversight and governance of Project Nova and past major IT projects. Please comment on these external service providers' roles and include clarification of the "internal expertise" MPI "recognized that it did not have" regarding Project Nova specifically, as well as commentary on the value received by MPI through the contributions of these external service providers.

Rationale for Question:

To inform an assessment of the prudence of MPI's project management and reliance on external contractors.

RESPONSE:

a) Please see *Appendix 1 - External Service Providers – Confidential*.

b) Yes, past major projects at MPI were implemented with the support of external service providers in project planning, management, oversight, or governance. MPI did so because of lack of internal skills, expertise and availability, as the projects required specific skills and additional resources to manage and deliver them successfully.

The following projects at MPI used external services:

CARS Software

- The CARS project was a Y2K project running from 1997 - 1999. Systemhouse was the System Integrator responsible for the design, development and implementation of CARS. MPI was primarily responsible for providing business expertise and accepting the completed system.

Lawson Software

- The last major Lawson project was the upgrade and rollout of the HR components. This project was led by MPI's internal Business Transformation Office and relied heavy on external contractors such as EDS. A firm with certified Lawson professionals, in additional to Lawson themselves, were also contracted to assist in the Lawson project. MPI was responsible for the overall delivery, business architecture, testing and implementation duties.

Physical Damage Re-engineering (PDR):

- The PDR project was led by MPI's Business Transformation Office with a heavy reliance on external contractors. EDS/HP had a significant role in the overall program. MPI was responsible for the overall delivery, business architecture, testing and implementation duties.

Bodily Injury (BI3)

- The initial BI3 project was led by Pricewaterhouse Coopers (PwC) with design and development services being provided by EDS. MPI was primarily responsible for providing business expertise and accepting the completed system.

c) The reasons that MPI had relied on external service providers in program oversight are the following:

- Deloitte/Avasant – hired to validate MPI's legacy system modernization objectives and business case as well as provide industry best practices in finalizing a transformation business case. Having external expertise validate the business case before proceeding was a critical step endorsed by MPI's Executives and the Board of Directors. Both vendors were selected through a competitive RFP process.

- PWC – hired as the program governance vendor and reporting to the Technology Committee of the Board of Directors. The purpose of this service was to have an independent third-party to provide MPI's Executive team and Technology Committee of the Board of Directors an on-going risks assessment of the program and recommend areas of focus to proactively address risks and issues to maintain program schedule and budget. PWC was selected through a competitive RFP process.
- McKinsey – hired to perform a program diagnostic service which included validating MPI's 2022 Re-baseline recommendation. This external service was meant to support MPI's own internal assessment with expert external review and advise. McKinsey was then extended under a separate SOW to perform value assurance services in support of the program over a 12-month period. McKinsey was selected through a waiver of tender process endorsed by the previous President & CEO and approved by Technology Committee of the Board of Directors.
- MNP - hired as the program governance vendor and reporting to the Technology Committee of the Board of Directors. The purpose of this service is to have an independent third-party to provide MPI's Executive team and Technology Committee of the Board of Directors an on-going risks assessment of the program and recommend areas of focus to proactively address risks and issues to maintain program schedule and budget. MNP was selected through a competitive RFP process.

Appendix 1:
External Service Providers

This material is the subject of a confidential motion.

CAC (MPI) 2-36

Part and Chapter:	**Part VIII Product Enhancements BIM Basic Insurance Model**	**Page No.:**	**13-15**
PUB Approved Issue No:	**13. Driver Safety Rating**		
Topic:	**Customer and stakeholder engagement**		
Sub Topic:			

Preamble to IR:

In the 2024 GRA, in Part VIII, Basic Insurance Model, MPI explains its plan for customer and stakeholder engagement on the Basic Insurance Model.

In PUB (MPI) 1-74, MPI indicates that the online survey is not yet available and will be launched in October 2023 following the provincial elections.

Question:

a) For the record, please file the 2019 Public Consultation Report on Driver Safety Rating.

b) Please comment on why MPI decided to conduct customer engagement "smaller in scope than the 2019 public consultation" considering the future Basic Insurance Model options have changed since the 2019 engagement.

c) What format of customer engagement is contemplated for the second stage, estimated to begin in January 2026? Please comment on whether MPI will seek both quantitative and qualitative data from customer engagement.

d) What methodology/format of engagement is MPI contemplating for the stakeholder engagement?

e) Please comment on MPI's views whether there would be value in additional stages of consultation with customers and stakeholders, for example regarding implementation once a model has been selected.

f) Please comment on whether and how MPI will continue customer and stakeholder consultation on the Basic Insurance Model once it has been implemented to receive feedback on how the model is working.

g) Please comment on how MPI will report back to customers and stakeholders regarding the results of the multiple phases of consultation and regarding whether and how results from consultation are being implemented.

Rationale for Question:

To better understand MPI's workplan for the Basic Insurance Model and how customer and stakeholder engagement will be undertaken.

RESPONSE:

a) Please see *Appendix 1 - DSR Public Consultation Detailed Report of Findings – July 16, 2019,* filed in 2020 GRA as DSR Appendix 2.

b) MPI believes that, at this point in life of the Basic Insurance Model (BIM) project, a consultation shorter in duration and focused on key topics will provide a sufficient quantity and quality of responses.

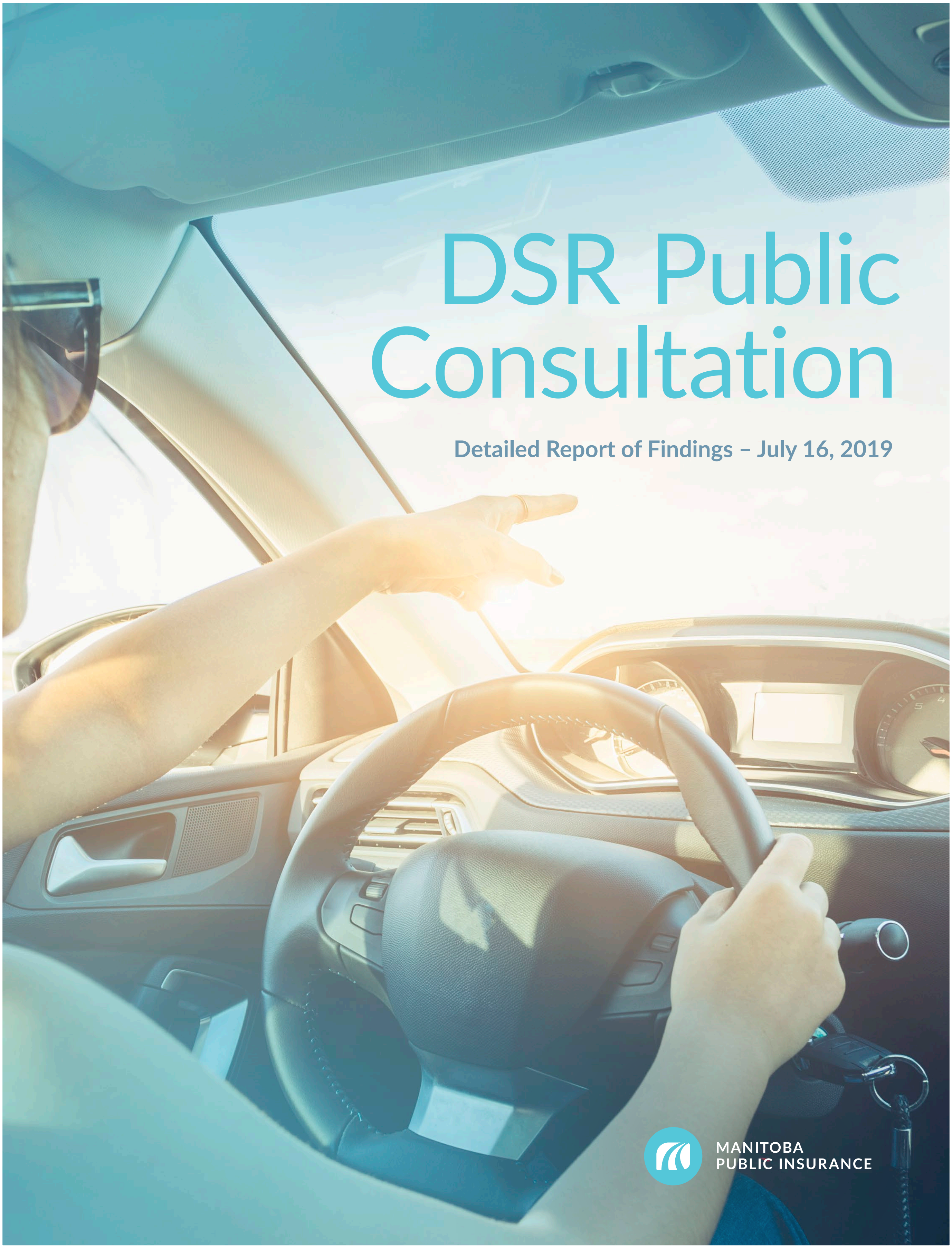
c) It is too early to speculate on the format of a customer engagement initiative that would occur more than three years from now. MPI will consider various formats and will seek both quantitative and qualitative data from this engagement.

d) MPI plans to host sessions with stakeholders following the conclusion of GRA hearings, the aim of which will be collaborative, where MPI will present information on various key topics surrounding the BIM evolution to stakeholders and have open discussions to gather their opinions, perspectives and any questions they may have.

e) As the BIM project progresses, MPI will continually evaluate the opportunity for additional value-add consultation and execute where pertinent.

f) MPI submits that it is too early in the project to specify how to best continue consultation but does confirm its intention to seek ongoing feedback. MPI engages with its customers as part of regular business operations through the Customer Insight process, which MPI uses to seek opportunities for ongoing feedback, among other channels. Once BIM is closer to implementation, MPI will be able to consider post-implementation customer and stakeholder consultation.

g) MPI has yet to determine how and when it will share the results of the consultation with customers. At the conclusion of each phase of consultation, MPI intends to create a document that outlines the discussion on a per topic basis, to be shared with stakeholders.



DSR Public Consultation

Detailed Report of Findings – July 16, 2019

DSR Public Consultation

Detailed Report of Findings – July 16, 2019

Contents

Executive Summary

Key Highlights

Manitoba Public Insurance (MPI) has completed a public consultation process that explored Manitobans' opinions and preferences about how driving records, as defined by the Driver Safety Rating (DSR) scale, should be applied to vehicle insurance policies, particularly in cases where more than one driver uses a vehicle.

Over the eight week period of this public consultation (April 1, 2019 to May 22, 2019), more than 2,900 responses were provided by the general public and stakeholders. This report represents the opinions of the general public in Manitoba with a high degree of confidence and can be projected to the full adult population in the province.

In analyzing the feedback from these responses, we found that:

- Manitobans chose the current Registered Owner Model as their preferred model for setting vehicle and driver premiums.
    - About half of Manitobans said that this model works; they see no reason to replace it.
    - The Primary Driver Model was selected second most often. It was chosen by about half as many Manitobans as the Registered Owner Model.
- Manitobans do not view any single model as "perfect".
    - If a model is selected or developed to replace the current one, most Manitobans believe insurance premiums should be based on the driving record of the person who drives a vehicle most often, or the primary driver.
    - They also believe that driver's licence premiums should be influenced by an individual's driving record.
- Overall, Manitobans say that good driving should be rewarded with lower premiums, and that paying the right price (what they consider to be fair) is of paramount concern.

Communicating how insurance premiums are set in a way that is easily understood by customers is also very important.

- Making rates affordable for less experienced drivers, making the purchasing process easy, and limiting the amount of personal information that has to be shared with MPI during the purchase process are much less important when determining which insurance model should be used.

Please note: The content of this report is presented as the results of the public consultation process. All opinions expressed are summarizations of the feedback received and should not be viewed as representing the opinion or position of Manitoba Public Insurance.

Background Overview

In 2018, The Manitoba Public Utilities Board (PUB) ordered that MPI review the DSR and the Autopac premium rating system, to ensure the rates charged to our customers reflect their driving risk as best as possible. MPI committed to two tasks prior to the current General Rate Application (GRA):

- Begin consultations with the public regarding how driving records, as defined by the DSR scale, should be applied to vehicle and driver premiums.
- Explore some alternative models for pricing risk.

This report details the findings of the public consultation with Manitobans undertaken in the spring of 2019 as part of the PUB Order 159/18, Directive 11.9[1]. The objectives of the public consultation were:

- To measure customer awareness of the current Registered Owner Model;
- To measure overall support for changing the current model;
- To measure customers' overall acceptance and desire for a model that more closely aligns driver risk and driver/vehicle premiums than the current model; and,
- To gain insight into potential issues or concerns of changing to an alternative model including the collection of additional household and driver data required to conduct the associated analysis.

Methodology Overview

MPI completed a comprehensive public consultation, which employed a variety of channels to inform and educate Manitobans, as well as qualitative and quantitative research methodologies to gather feedback. These included:

- A public discussion paper made available on a dedicated page on MPI's public website;
- Print and digital advertising to let Manitobans know that the consultation was underway, that we value their feedback, and how they could participate;
- A random representative telephone survey of Manitobans;
- An open link opportunity sample survey (or open link survey) that could be accessed via a link on the same dedicated web page as the discussion paper;
- *Voice of the Customer (VoC) ePanel* surveys;
- Stakeholder engagement, where regular participants in the PUB hearings were sent the discussion paper and invited to submit written feedback.

1 *PUB Order 159/18, Directive 11.9 states: "In the 2020 GRA, with respect to the Driver Safety Rating system, the Corporation shall report on the progress of its public consultation efforts, its preliminary research on the no or low cost options for rating models, as well as on its decision on whether to proceed with data collection for the higher cost options."*

Brief Model Descriptions

Respondents to all consultation mediums were asked for their opinions of five models that could be used to set vehicle and driver premiums in Manitoba. In brief, these models were described as follows:

Registered Owner Model:

"Under the Registered Owner Model, the current model used in Manitoba, a vehicle's premium is based on the Driver Safety Rating of the registered owner of the vehicle regardless of how many other drivers drive the vehicle or the driving records of the other drivers."

Primary Driver Model:

"Under the Primary Driver Model, a vehicle's premium would be based on the Driver Safety Rating of the primary driver of the vehicle, the one who drives the vehicle the most."

All Household Drivers Model:

"Under the All Household Drivers Model, the vehicle's insurance premium would be based on the Driver Safety Rating of all the drivers in the household."

Declared Drivers Model:

"Under the Declared Drivers Model, the vehicle's insurance premium would be based on the Driver Safety Ratings of all the declared drivers listed on the vehicle's policy."

Driver Premium Model:

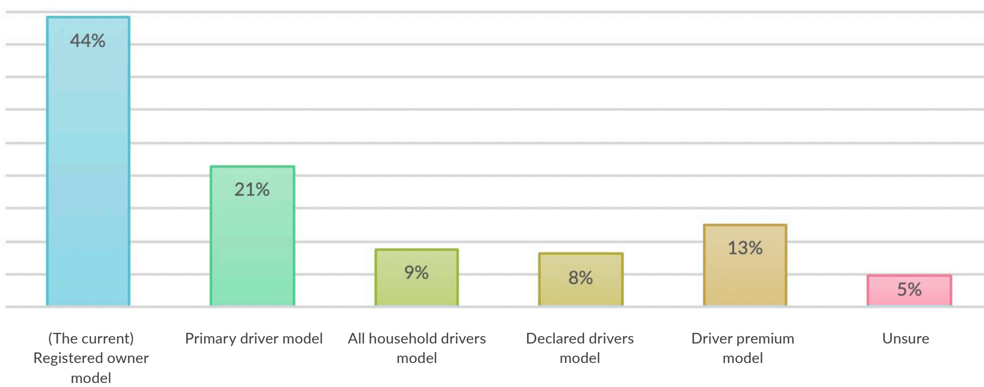
"Under the Driver Premium Model, people who hold a driver's licence but do not register or insure a vehicle in their name would pay an additional "non-owner" driver premium, based on their Driver Safety Rating. The driver premium collected from these "non-owners" would be used to lower vehicle premiums for the pool of insured vehicles."

Detailed Findings

Preferred Model for Setting Vehicle and Driver Premiums

- Manitobans chose the current Registered Owner Model as their preference for setting vehicle and driver premiums.

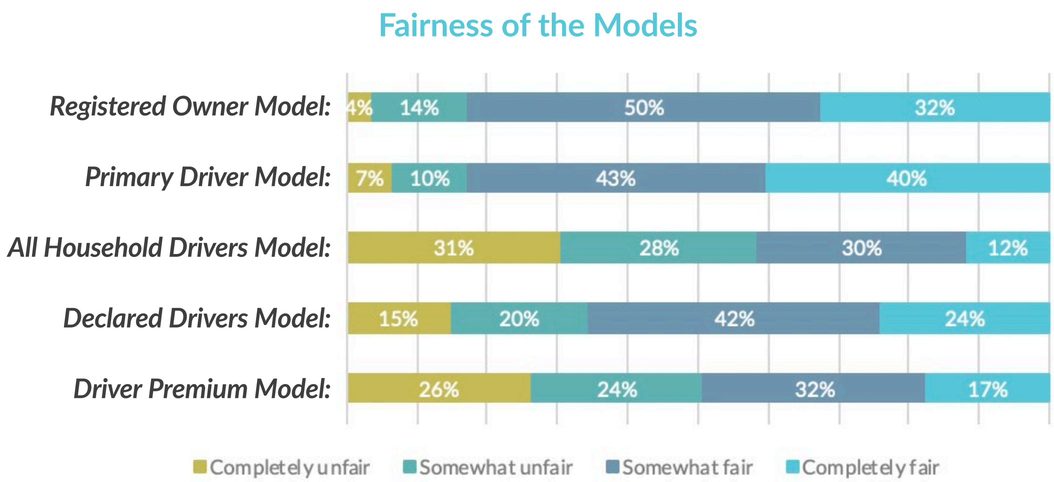
If you were to choose one of these models to use for setting vehicle and driver premiums in Manitoba, which would you choose?



- The results on the previous page are specifically cited from the telephone survey, and were also mirrored in the open link survey results.
- No single model that was viewed as perfect. Many Manitobans took a view that the current Registered Owner Model was the best; that it works, so they see no reason to replace it. If a model is selected or developed to replace the current one, the strongest sentiment is to base vehicle premiums on the primary driver of the vehicle and to base driver licence premiums on the individual's driving record.'

Evaluation of the Five Models

Manitobans were asked if they felt each of the five models was fair to use to set Autopac premiums.



The above results are specifically cited from the telephone survey, and were also mirrored by the open link survey results.

Registered Owner Model:

- A majority of Manitobans told us that they view the current Registered Owner Model as being fair (82%).
- Primary strengths of this model include that it works now, that it rewards good driving behaviour with premium discounts, and that it gives people the freedom to choose who registers the vehicle.
- Primary weaknesses or concerns were that this model is subject to people "gaming" the system (or using the system to their own advantage); that is, registering a vehicle in the name of a driver with the better driving record resulting in a premium discount, even though they may not be the primary driver of the vehicle – if they drive it at all.

Primary Driver Model:

- A majority of Manitobans told us that they view the Primary Driver Model as being fair (83%).
- Primary strengths of this model were that it rewards good driving behaviour, would be easy to administer, and that it makes sense to base vehicle premium on the person who drives the vehicle the most.
- Weaknesses of the model include that it may still be open to people using the system to their own advantage, that it would be inconvenient to have to keep track of who the primary driver is, or that it would be difficult to make that determination (of a primary driver) in some situations.

All Household Drivers Model:

- Only four in ten (41%) Manitobans evaluated the All Household Drivers Model as fair; the majority (59%) said that they thought this model would be unfair.
- Primary strengths of this model were difficult to identify for many Manitobans. However, having some form of blended rate for the household was seen as beneficial because it would make all drivers take responsibility for their actions behind the wheel. Some also identify that it would be good for new or less experienced drivers to benefit from more experienced drivers' discounts.
- Weaknesses of the model focused heavily on the belief that this model would penalize the drivers in a household who had a good driving record, and possibly a higher DSR, by bringing them down to the level of the "bad" (or less experienced) drivers in the household, who may have a lower DSR.

Declared Drivers Model:

- Two-thirds (66%) of Manitobans said that it would be fair to use the Declared Drivers Model to set Autopac premiums.
- Primary strengths of this model were that it would hold all drivers accountable for their driving behaviours, and allow vehicle owners a say in who could and could not drive their vehicles.
- Weaknesses of this model revolved around it being difficult to administer and enforce, that it would be inconvenient to have to declare all the potential drivers, and that it may not allow for one-time or emergency driving situations.

Driver Premium Model:

- Manitobans are divided on whether they see it as fair to use the Driver Premium Model to set Autopac rates in Manitoba. Half (49%) said it would be fair, while half (51%) said it would be unfair.
- Strengths of this model included that it shifts more of the risk based premiums onto all drivers and in turn lowers the vehicle insurance for owners. Manitobans were positive about the benefits this would bring to making all drivers responsible for insurance premiums, regardless of vehicle ownership.
- Weaknesses revolved around the belief that this model would penalize those who have a licence, but don't drive often or at all. Some people interpreted this as a "cash grab".

Household Registration Practices

In the telephone survey, Manitobans were asked a series of questions about the drivers and vehicles in their home. This provided a high level overview of how the vehicles in the household are registered and driven.

- Three in ten households have a single vehicle registered by the only driver in the household. Any change to the rate making model will likely have little effect on these households as the current primary driver is the registrant of the only vehicle.
- Four in ten households have multiple vehicles, registered by multiple drivers. All models explored would be relevant to these households and affect their registration practices.
- Two in ten households have a single individual registering multiple vehicles (all the vehicles in the household). Any changes to the current model would affect these individuals and their current registration practices.
- Of the remaining households, a fairly equal number have: a single vehicle driven by someone not the vehicle owner; no vehicles registered; or, did not provide enough detail to classify the household.

Guiding Principles

The telephone survey, the open link survey, and the *VoC ePanel* were used to explore how Manitobans responded to the underlying philosophy at work in Manitoba's Autopac system.

- Overall, Manitobans accept the guiding principles that:
  - Drivers should be encouraged to act responsibly behind the wheel.
  - Drivers with a poor driving record and more at-fault claims should pay higher premiums.
  - No one should be denied insurance.
- Manitobans are generally split regarding whether:
  - All drivers should share the financial risk of accidents.
  - Less experienced drivers should pay higher insurance premiums.
- It appears that less experienced drivers, who speculatively may have lower DSRs, are less likely to agree with changes to the current system that either restrict access to insurance products or increase the penalties applied to poor driving.
- Drivers with a good DSR appear more open to guiding principles that reward good driving and hold drivers with poor driving records and less experienced drivers responsible for their actions with higher insurance premiums.

Value Prioritization

The telephone survey and the open link survey explored how Manitobans prioritize a set of concepts, or values, when implementing an auto insurance model.

- "*Rewarding having a good driving record*" is the top priority for Manitobans by a significant margin.
- *"Accurately pricing risk, that is, paying the right price or rate"* and *"Fairness"* are essentially tied for second place in terms of top priorities.
- *"Ease of understanding, that is, knowing how the rate is set"* is fourth and rounds out top level priorities.
- *"Affordability for less experienced drivers"* and *"Ease of use, that is, easy to purchase"* are lower level priorities, while *"The amount of personal information required to get vehicle insurance"* does not appear to be much of a priority for Manitobans when considering auto insurance.
- It appears that Manitobans embrace some of the overall concepts or values that could be used for implementing an auto insurance model much more than others.
  - Overall, Manitobans say that good driving should be rewarded and that paying the right price (what they consider to be fair) is of paramount concern.
  - Communicating how the rate is set in a way that is easily understood by customers is also very important.
  - Making rates affordable for less experienced drivers, making the purchase process easy, and limiting the amount of personal information that has to be shared to purchase insurance are much less important when determining which insurance model should be used.

Background

As part of the 2019 GRA process, the PUB ordered that MPI review the DSR model and parts of the Autopac premium rating system to ensure the rates charged to our customers reflect their risk as best as possible. Consequently, the PUB directed that a DSR Technical Conference, facilitated by the PUB, be held to discuss the availability and practicality of other analytical tools and ratemaking methodologies to better determine DSR rates and the application of vehicle premium discounts based on primary driver rating rather than simply the registered owner rating. The conference was held on March 20, 2018 and four alternatives to the registered owner rating model were introduced and discussed.

Including the current model, there are five models under consideration. In brief, these models can be summarized as follows:

Registered Owner Model:

"Under the Registered Owner Model, the current model used in Manitoba, a vehicle's premium is based on the Driver Safety Rating of the registered owner of the vehicle regardless of how many other drivers drive the vehicle or the driving records of the other drivers."

Primary Driver Model:

"Under the Primary Driver Model, a vehicle's premium would be based on the Driver Safety Rating of the primary driver of the vehicle, the one who drives the vehicle the most."

All Household Drivers Model:

"Under the All Household Drivers Model, the vehicle's insurance premium would be based on the Driver Safety Rating of all the drivers in the household."

Declared Drivers Model:

"Under the Declared Drivers Model, the vehicle's insurance premium would be based on the Driver Safety Ratings of all the declared drivers listed on the vehicle's policy."

Driver Premium Model:

"Under the Driver Premium Model, people who hold a driver's licence but do not register or insure a vehicle in their name would pay an additional "non-owner" driver premium, based on their Driver Safety Rating. The driver premium collected from these "non-owners" would be used to lower vehicle premiums for the pool of insured vehicles."

At the conclusion of the technical conference, MPI indicated to the PUB that changes to the current premium rating model should be thoroughly considered and analyzed prior to transitioning from the current Registered Owner Model to any other model. While the review of DSR models and the Autopac rating system is expected to involve multiple phases over the longer term, MPI committed to two tasks immediately:

1. Begin consultations with the public regarding how driving records, as defined by the DSR scale, should be applied to vehicle and driver premiums.
2. Explore some alternative models for pricing risk.

This report details the findings of the public consultation with Manitobans undertaken in the spring of 2019 as part of the PUB order (PUB Order 159/18, Directive 11.9[2]). As outlined in the previous GRA, the objectives of the public consultation included:

- To measure customer awareness of the current Registered Owner Model;
- To measure overall support for changing the current model;
- To measure customers' overall acceptance/desire for a model that more closely aligns driver risk and driver/vehicle premiums; and,
- To gain insight into potential issues or concerns of changing to an alternative model including the collection of household and driver data required to conduct the analysis.

This report provides details and analysis regarding the public consultation completed in the spring of 2019.

2 PUB Order 159/18, Directive 11.9 states: "In the 2020 GRA, with respect to the Driver Safety Rating system, the Corporation shall report on the progress of its public consultation efforts, its preliminary research on the no or low cost options for rating models, as well as on its decision on whether to proceed with data collection for the higher cost options."

Public Consultation Methodology

As part of this comprehensive public consultation approach, MPI used a variety of channels to inform Manitobans about the current vehicle insurance and rate setting system and the public consultation activities, as well as qualitative and quantitative research methodologies to gather and tabulate feedback regarding the rate setting system. These included:

- A public discussion paper
- Web page on the MPI public website dedicated to the public consultation
- Advertising letting Manitobans how to participate in the consultation
- Internal employee and business partner engagement
- General public random representative telephone surveys
- Open link opportunity sample (or open link) surveys
- *Voice of the Customer (VoC) ePanel* surveys
- Stakeholder engagement

Over the eight week period of this public consultation (April 1, 2019 to May 22, 2019), a total of 2,912 responses were provided by the general public and stakeholders.

Public Awareness

Discussion paper

The discussion paper was the starting point for all public and stakeholder discussions. It presented the current state and inputs regarding the potential future state of the DSR in plain language that could be understood by members of the general public. It included presenting and explaining the current model and the four proposed alternative models for how to apply a DSR rating to determine insurance premiums. The discussion paper was made publicly available on April 1, 2019, prior to the start of all other research activities.

This discussion paper has been included in full in the Appendices of this report.

Dedicated public web page

A web page was created specifically to be the public hub of the consultation. It contained background on why MPI was holding this consultation, links to the discussion paper and the open link survey for easy reference and access as well as contact information for providing additional feedback.

Internal employee and business partner engagement

Designed to both inform staff of the reason for the consultation and encourage them to participate, an intranet news item was published on April 1, 2019. As a follow-up, there was also an internal newsletter article published on April 2, 2019 with additional details on how MPI was letting Manitobans know how they could participate and why it was important for them to do so.

The Insurance Brokers Association of Manitoba (IBAM) was also notified of this public consultation. This ensured that this key business partner was aware of the consultation, was aware of how they and their broker network could participate, and gave them information so they could respond to any customer enquiries about the process.

Advertising to let Manitobans know how to participate in the consultation

To ensure that Manitobans were aware of the consultation and their options to share their views, MPI ran a number of print and online ads. These ads are included in the Appendices of this report.

Our online ads ran for three weeks, from April 1 until April 21, 2019, on Facebook and Instagram.

Our print ads ran as follows:

Daily newspapers	
Winnipeg Free Press	Sat. April 6 & 13, 2019
Winnipeg Sun	Sun. April 7 & 14, 2019
Brandon Sun	Sat. April 6 & 13, 2019
Weekly/Bi-weekly Newspapers	
La Liberté	Wed. April 3 & 10, 2019
Manitoba Cooperator	Thurs. April 4 & 11, 2019
Shilo Stag - e/o Thurs.	Thurs. April 4, 2019
Winnipeg River Advocate - bi-weekly	Fri. April 12, 2019
Dawson Trail Dispatch (Mon. 1st Wed)	Wed. April 3, 2019
Thompson Citizen	Wed. April 3 & 10, 2019
Thompson Nickel Belt News	Fri. April 5 & 12, 2019
Grassroots News	Wed. April 3, 2019

Feedback Methods

Survey creation

A master survey was created to be used for several audiences and data collection methodologies, including the general public over the phone, the general public via an open link on the MPI public website, and as the basis for discussion guides to be used with MPI's *VoC ePanel*. The survey was altered as necessary to fit each distinct data collection method.

The master survey has been included in the Appendices of this report.

Random Representative Telephone Survey

Using the master survey as a base, a survey was developed and fielded over the phone (using an external research provider, NRG Research Group) with a random representative sample of the general public, adult Manitobans age 18 and older.
The primary objectives of the telephone survey were to:

- Gauge the current understanding among Manitobans of the DSR and auto insurance model currently in place.
- Explore understanding of and preference for various potential new DSR and auto insurance models, as presented in the discussion paper.
- Understand the potential demographic breakdown of the Manitoba Basic auto insurance market by household.

Utilizing both landline and cellular phone samples, a total of 1,500 surveys were completed from April 2 to 25, 2019, allowing for a detailed quota structure[3] to be in place by age, gender, and household type. A random representative sample of 1,500 Manitoban adults carries a margin of error of plus or minus 2.5%, 19 times out of 20. Each telephone survey took an average of 22 minutes to complete.

Primary quotas for the general public survey included:

- Age and gender according to the Statistics Canada distribution of the Manitoba population.
- Type of household, such as:
    - drivers with no vehicle insured in their name
    - single insurer, single vehicle
    - single insurer, multiple vehicles
    - single insurer, multiple vehicles, multiple drivers
    - multiple insurers, multiple vehicles, multiple drivers

Results from the telephone survey are a key component of this report of findings from the public consultation process.

Open Link Opportunity Sample Survey

The master survey was modified as necessary to enable it to be deployed via an open link on MPI's public website. Members of the general public and any other interested party were able to access the survey and provide their feedback online.

A dedicated web page was developed to facilitate the public consultation. The open link survey was made available online April 1, 2019, on this web page (linked on the same web page as the discussion paper). Advertising of the public consultation process directed the general public to this location and invited them to review the discussion paper and complete the survey at their convenience. The open link survey was deactivated on May 22, 2019.

Responses to this open link survey create an opportunity sample that provides a quantitative depth of understanding for the survey questions, but is not considered representative of the general public or any other specific population, other than interested individuals who made the effort to provide their feedback. The open link survey captured 633 completed surveys. All completed surveys were analyzed for this report. The open link surveys took respondents an average of 26 minutes to complete.

Results of this open link survey are incorporated into this report of findings from the public consultation process and provide complementary depth to, or a deeper understanding of, the results of the telephone survey.

Voice of the Customer *(VoC) ePanel* Discussion

MPI currently maintains the *VoC ePanel* for use in gaining customer feedback regarding various topics of interest. The ePanel consists of MPI customers who have agreed to provide their regular, ad hoc feedback to the Corporation via email invitations to electronic surveys. Results from the ePanel are considered qualitative.

Discussion guides were prepared for our ePanelists to gauge the current understanding of the DSR and auto insurance model and to explore their understanding of and preference for various potential new DSR and auto insurance models in an iterative (or phased) approach. ePanelists were presented with information from the discussion paper in a similar form to the open link survey and asked to respond to questions about that information. Responses were compiled and presented back to the ePanelists, with further follow-up questions posed to generate a discussion where ePanelists were able to leverage others' response to the questions and concepts presented.

3 A "quota structure" is used ensure a minimum number of surveys are completed for specific demographic sub-groups so that the survey results can be projected to the population of interest, in this case adult Manitobans, and examined by those demographic sub-groups.

Three iterations, or phases, were completed with ePanel members, including:

- A modified version of the open link survey; launched on April 4, 2019.
- A survey exploring the understanding and meaning of specific concepts and values from the discussion paper; launched on April 18, 2019.
- A survey expanding on the strengths and weakness of the potential alternative models identified in the discussion paper; launched on May 2, 2019.
- All three survey links were deactivated on May 22, 2019.

The first iteration of the ePanel discussion captured feedback from 381 ePanelists. The second iteration captured feedback from an overlapping sample of 226 ePanelists (that is, ePanel members completing a survey in the first iteration were the only members invited to the second and third iterations), while the third iteration captured feedback from an overlapping sample of 170 ePanelists. Over the three iterations, ePanelists spent a combined average of 51 minutes providing feedback.

Results from the ePanel iterative discussions formed a key component of this report of findings from the public consultation process.

Stakeholder Feedback

In addition to the public consultations, stakeholders including the PUB, Consumers' Association of Canada (CAC) Manitoba, Canadian Automobile Association (CAA), and the Coalition of Manitoba Motorcycle Groups (CMMG) were invited to review the discussion paper and provide a formal written response to the proposals within the discussion paper.

Two submissions were received and have been included in full in the Appendices of this report.

Notes for Reading and Interpreting Report

Please find the following notes and advice for reading and interpreting the findings of this public consultation:

- *The content of this report is presented as the results of the public consultation process. All opinions expressed are summarizations of the feedback received and should not be viewed as representing the opinion or position of Manitoba Public Insurance. As such, the views and opinions expressed by participants and presented in direct quotations (including language, terms, opinions and assumptions) do not reflect those of Manitoba Public Insurance nor imply any factual accuracy nor position.*
- *Results from the random representative telephone survey can be projected to represent the entire population of adult Manitobans. The results of that survey are presented in this report with statistically significant demographic differences highlighted. Where appropriate, results are provided from the open link survey and the* VoC ePanel*, in a comparative format, to complement the representative findings from the telephone survey.*
- *Demographic differences are examined and highlighted for the random representative telephone survey of adult Manitobans. Tests of statistical significance are applied and only differences between groups that are significant at the 0.05 confidence level are noted in this report.*
- *Due to rounding, not all proportions reported in this document will add exactly. For example, the report may show that 51% of the population views something as fair, which includes 27% who view it as completely fair and 25% as somewhat fair. Rounding in each of the two fair categories makes it appear that 52% would be in the overall summary when it is only 51%.*
- *When reviewing qualitative data, including results from the open link survey and the* VoC ePanel *surveys, it is important to remember that results are not statistically based, like for the telephone survey, but rather are anecdotal and more subjective in nature, given that only the views of those who chose to participate are represented. For this reason, any specific percentage proportions should not be viewed as representing any particular population other than the group of respondents in each survey. Language such as 'many', 'some', and 'few' is used to give an indication of the magnitude of the opinion expressed, but should not be interpreted as representing any specific proportional representation.*

Household Vehicle-Driver Demographics

Manitobans responding to the telephone survey were asked a series of questions about the drivers and vehicles in their household in an attempt to build a simple view of how Manitobans in general currently register and insure their vehicles.

Number of Regular Drivers

Most Manitoba households have at least two people aged 16 and older. There is an average of 2.3 people aged 16 and older in the household.

Three in ten households have a single vehicle registered by the primary. Any change to the rate making model will likely have little effect on these households as the current primary driver is the registrant of the only vehicle.

Four in ten households have multiple vehicles, registered by multiple drivers. All models explored would be relevant to these households and affect their registration practices.

Two in ten households have a single individual registering multiple vehicles (all the vehicles in the household). Changes to the current model would affect these individuals and their current registration practices.

How many people age 16 or older live in your household?

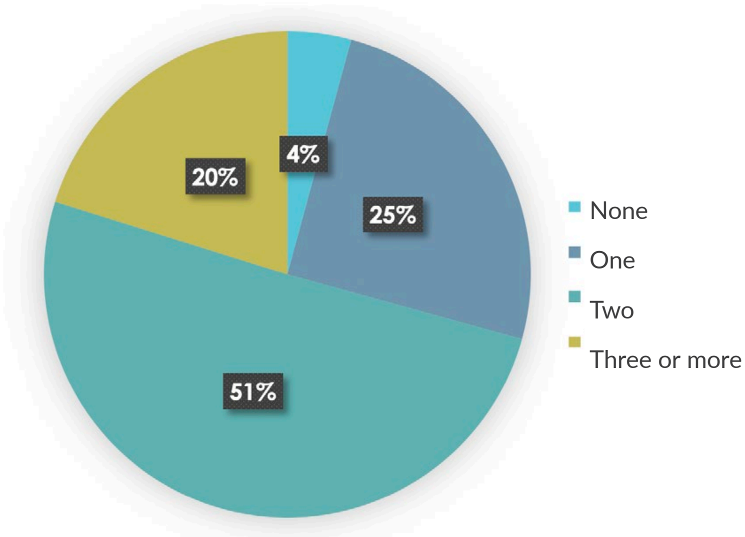
	Total	Age			Gender		Education				Region	
		18-34	35-54	55+	Male	Female	<HS	HS Grad	Some PS	PS Grad	Winnipeg	non-Winnipeg
1	17%	13%	12%	26%	16%	19%	29%	20%	14%	16%	17%	18%
2	54%	48%	53%	59%	56%	52%	49%	48%	53%	57%	52%	56%
3+	28%	38%	35%	15%	28%	29%	22%	33%	33%	26%	30%	26%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Mean	2.3	2.6	2.4	2.0	2.3	2.3	2.1	2.3	2.4	2.3	2.3	2.2

Most Manitobans aged 16 and older have a licence.

- One-quarter (23%) of Manitoba households have one licence holder.
- Half (52%) of Manitoba households have two licence holders.
- One-quarter (23%) of Manitoba households have three or more licence holders.
- Only 2% of households report having no one with a licence.

Nearly all Manitoba households have at least one person aged 16 or older with a licence who regularly drives, that is, drives a vehicle at least once per week.

Number of Regular Drivers in Household



The average Manitoba household has 1.9 regular drivers.

- Households with people aged 55 and older have the lowest average number of regular drivers.
- The number of regular drivers in the household increases with education.
- The number of regular drivers in the household is higher outside of Winnipeg than in Winnipeg.

Number of Regular Drivers (i.e., Drive at Least Once per Week) in Household

	Total	Age			Gender		Education				Region	
		18-34	35-54	55+	Male	Female	<HS	HS Grad	Some PS	PS Grad	Winnipeg	non-Winnipeg
None	4%	5%	3%	5%	4%	5%	12%	5%	<1%	4%	6%	2%
1	25%	20%	20%	33%	23%	27%	41%	27%	22%	23%	25%	24%
2+	71%	75%	76%	62%	73%	68%	47%	68%	78%	73%	68%	73%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Mean	1.9	2.1	2.1	1.7	2.0	1.9	1.5	1.9	2.1	2.0	1.9	2.0

A very small number of respondents in the telephone survey (0.2%) refused to provide enough information to develop a profile of the number of regular drivers in the household.

Number of Vehicles Registered

Most Manitoba households have at least two vehicles owned or leased. There is an average of 2.2 vehicles owned or leased in the household.

- Significantly more vehicles are owned/leased in households outside of Winnipeg.
- Significantly more vehicles are owned/leased in homes with 35 to 54 year olds.

Number of Vehicles Owned/Leased in Household

	Total	Age			Gender		Education				Region	
		18-34	35-54	55+	Male	Female	<HS	HS Grad	Some PS	PS Grad	Winnipeg	non-Winnipeg
None	3%	6%	2%	2%	2%	4%	6%	5%	%	3%	4%	2%
1	30%	30%	24%	37%	27%	34%	43%	30%	31%	29%	35%	24%
2	37%	35%	40%	36%	39%	36%	23%	32%	37%	41%	38%	36%
3+	29%	29%	34%	25%	32%	27%	27%	32%	32%	27%	22%	38%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Mean	2.2	2.1	2.3	2.0	2.3	2.0	2.0	2.2	2.4	2.1	1.9	2.5

A very small number of households in Manitoba do not have a vehicle registered.

Number of Vehicles Registered in Household

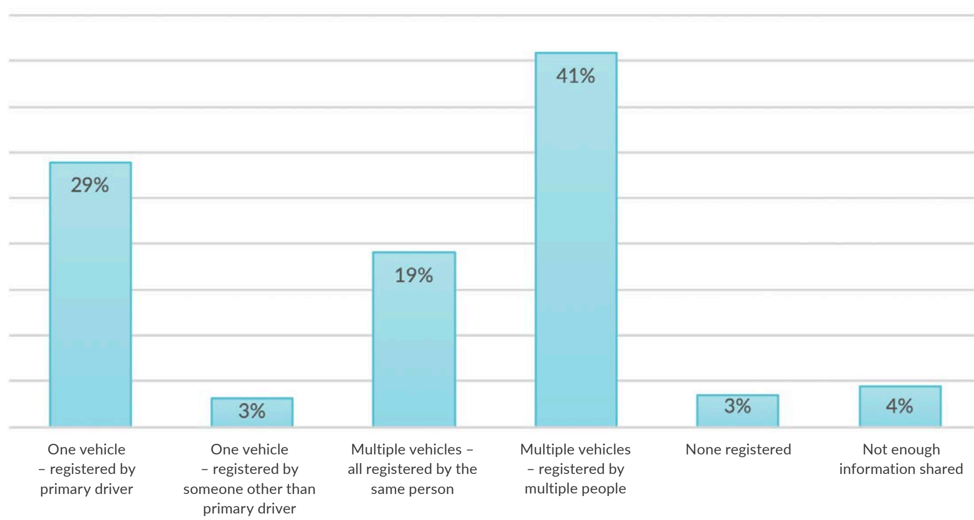
	Total	Age			Gender		Education				Region	
		18-34	35-54	55+	Male	Female	<HS	HS Grad	Some PS	PS Grad	Winnipeg	non-Winnipeg
None	3%	6%	2%	3%	3%	4%	6%	6%	0%	3%	5%	2%
1	33%	32%	26%	39%	30%	35%	48%	33%	34%	31%	37%	27%
2	39%	36%	43%	37%	41%	37%	25%	34%	37%	43%	39%	39%
3+	25%	25%	29%	21%	26%	24%	20%	28%	29%	23%	19%	32%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

How Vehicles in the Household are Currently Registered

Manitobans were asked if the vehicles registered in their household were registered by the person who drives the vehicle most often, or by someone else. Based on these responses, combined with the number of vehicles and regular drivers in the home, a simple profile of how vehicles in the household are currently registered was developed.

Three in ten (29%) households in Manitoba appear to have a single vehicle in the home and it is registered by the primary driver. A very small number (3%) of households are single vehicle households where the vehicle is registered by someone other than the primary driver. One in five households (19%) have multiple vehicles that are all registered by the same person. By far, the largest proportion of households in Manitoba have multiple vehicles registered and multiple individuals registering those vehicles; 41% of households fall in this category.

How Vehicles in the Household are Registered



Respondents in the open link survey mirror these results[4]. One-quarter (25%) of these respondents had a single vehicle registered to a primary driver. One-quarter (24%) had multiple vehicles all registered to the same individual, and half (50%) had multiple vehicles registered to multiple individuals.

It could be expected that for households with a single vehicle registered by the primary driver, any change to the rate making model will likely have little effect on these households; whatever model is used, there is only one vehicle and driver.

For households with multiple vehicles registered by multiple drivers, all models explored would be relevant to these households and affect their registration practices.

For the households where a single individual registers all the vehicles, changes to the current model would definitely affect their current registration practices.

4 *While the open link opportunity sample survey did not ask all of the detailed household vehicle and driver demographic questions, respondents were asked how many registered vehicles there are in the household and if all the vehicles are registered by a single person of if there were multiple people registering the vehicles.*

Guiding Principles of Auto Insurance Premium Setting

Manitobans were read the following statement:

"In Manitoba, the costs of the auto insurance plan are covered by driver insurance premiums and vehicle insurance premiums. The driver insurance premium is charged on every Manitoban's driver's licence and ensures that all Manitoba drivers share some of the financial risk of accidents. Vehicle insurance premiums cover most of the costs of the auto insurance plan and are paid for by the registered owner of the vehicle."

Manitobans were asked how much they agreed or disagreed with a set of six guiding principles which could be used to determine how auto insurance premiums should be set in Manitoba. Survey participants were asked to respond to the following series of statements:

It appears that less experienced drivers, who may have lower DSRs, are less likely to agree with changes to the system that either restrict access to insurance products or increase the penalties applied to poor driving.

Drivers with a good DSR appear more open to guiding principles that reward good driving and hold drivers with poor driving records or less experienced drivers responsible for their actions with higher insurance premiums.

"No one should be denied insurance, that is, everyone should have access to coverage."

"Drivers should be encouraged to act responsibly behind the wheel."

"All drivers should share the financial risk of accidents, regardless of whether they own a vehicle."

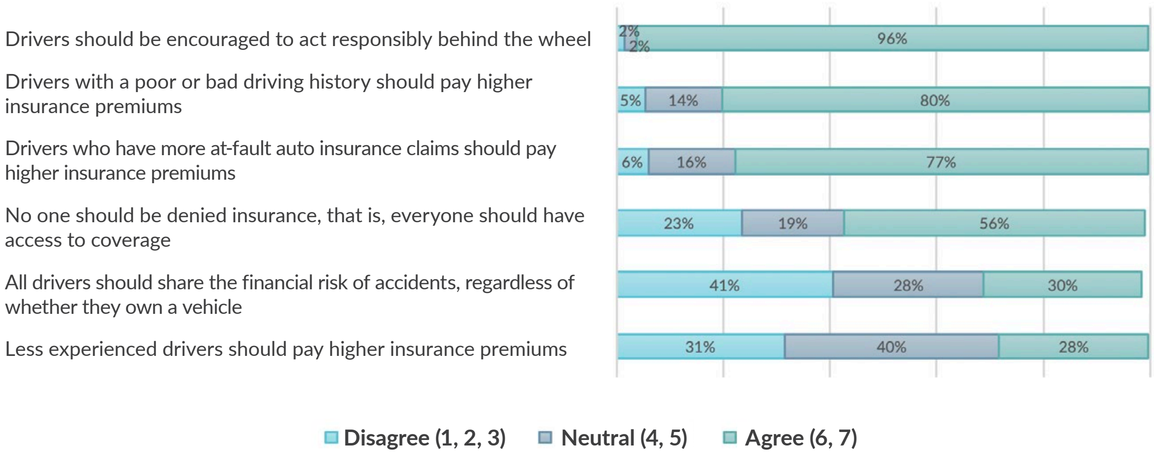
"Drivers who have more at-fault auto insurance claims should pay higher insurance premiums."

"Drivers with a poor or bad driving history should pay higher insurance premiums."

"Less experienced drivers should pay higher insurance premiums."

Agreement with guiding principles behind how auto insurance premiums could be set

(Scale: 1 = Strongly disagree ... 7 = Strongly agree)



Nearly all (96%) Manitobans agree (rating of 6 or 7 on a 7-point scale) that *"drivers should be encouraged to act responsibly behind the wheel."* Respondents in the open link survey mirrored these results, with nine in ten agreeing with this guiding principle.

- There are no demographic differences in this response, with one exception. Men are slightly more likely than women to disagree (Males 2%; Females 1%) or to take a neutral stance (Males 3%; Females 2%).

Eight in ten (80%) Manitobans agree that *"drivers with a poor or bad driving history should pay higher insurance premiums."* Respondents in the open link survey mirrored these results, with eight in ten agreeing with this guiding principle.

- Younger Manitobans, those age 18 to 34, are more likely than those age 35 and older to take a neutral stance (Neutral: 18-34 – 21%; 35-54 – 13%; 55 and older – 11%).
- The youngest age group are the least likely to agree, although a strong majority still does (Agree: 18-34 – 72%; 35-54 – 82%; 55 and older – 85%).

Nearly eight in ten (77%) Manitobans agree that *"drivers who have more at-fault auto insurance claims should pay higher insurance premiums"*. Respondents in the open link survey mirrored these results, with eight in ten agreeing with this guiding principle.

- Younger Manitobans, those age 18 to 34, are more likely than those age 35 and older to take a neutral stance(Neutral: 18-34 – 22%; 35-54 – 14%; 55 and older – 14%).
- The youngest age group are the least likely to agree, although a strong majority still does (Agree: 18-34 – 70%; 35-54 – 79%; 55 and older – 82%).

The principle that "*no one should be denied insurance, that is, everyone should have access to coverage*" garnered agreement from just over half (56%) of Manitobans. Respondents in the open link survey mirrored these results, with half agreeing with this guiding principle and three in ten disagreeing.

- One-quarter (23%) of Manitobans disagreed with this principle. Younger Manitobans, aged 18 to 34, have the highest level of agreement with this (Agree: 18-34 – 67%; 35-54 – 56%; 55 and older – 48%), while older age groups have higher proportions who disagree (Agree: 18-34 – 12%; 35-54 – 25%; 55 and older – 31%).

When responding to the guiding principle that "*all drivers should share the financial risk of accidents, regardless of whether they own a vehicle*", Manitobans are somewhat split. While three in ten (30%) agree, four in ten (41%) disagree. Respondents in the open link survey mirrored these results, with fairly equal proportions (just over a third) agreeing and disagreeing with this guiding principle.

- Younger Manitobans (age 18 to 34) have fairly equal proportions in each of the agree (34%), neutral (30%), and disagree categories (36%), while Manitobans age 35 and older have higher proportions who disagree (35-54 – 42%; 55 and older – 43%) than agree (35-54 – 27%; 55 and older – 28%).

The guiding principle that "*less experienced drivers should pay higher insurance premiums*" divides Manitobans; many appear to be "*on the fence*" about it. A nearly equal proportion of Manitobans agree (28%) and disagree (31%), with the highest proportion (40%) maintaining a neutral stance. Respondents in the open link survey mirrored these results, with about three in ten agreeing, one in three disagreeing, and four in ten remaining neutral regarding this guiding principle.

- Younger Manitobans have a higher proportion who disagree with this principle than older Manitobans (18-34 – 42%; 35-54 – 32%; 55 and older – 23%).
- Conversely, older Manitobans have a higher proportion who agree (18-34 – 23%; 35-54 – 28%; 55 and older – 32%).

In summary, it appears that less experienced drivers, who may have lower DSRs, are less likely to agree with changes to the system that either restrict access to insurance products or increase the penalties applied to poor driving. Drivers with a good DSR appear more open to guiding principles that reward good driving and hold drivers with poor driving records or less experienced drivers responsible for their actions with higher insurance premiums.

Underlying Values of the Auto Insurance Model

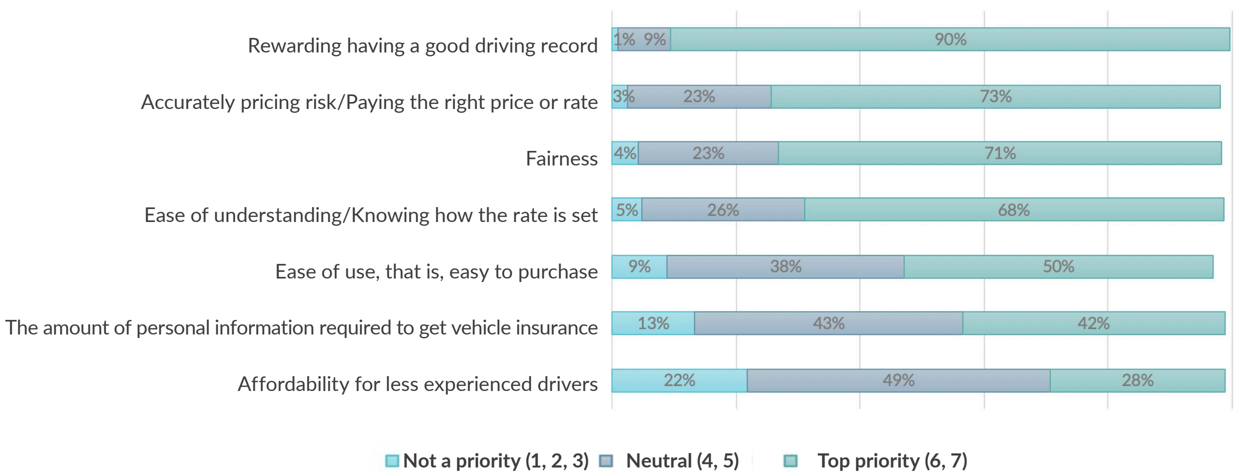
Manitobans were asked how much priority should be given to each of a series of specific concepts, or values, when implementing an auto insurance model for Manitoba. The list of seven concepts presented was as follows:

> *"Fairness."*
>
> *"Affordability for less experienced drivers."*
>
> *"Ease of use, that is, easy to purchase."*
>
> *"Ease of understanding, that is, knowing how the rate is set."*
>
> *"Rewarding having a good driving record."*
>
> *"Accurately pricing risk, that is, paying the right price or rate."*
>
> *"The amount of personal information required to get vehicle insurance."*

Overall, Manitobans say that good driving should be rewarded and that paying the right price (what they consider to be fair) is of paramount concern.

How much priority should be given to specifc concepts, or values, when implementing an auto insurance model

(Scale: 1 = Strongly disagree ... 7 = Strongly agree)



"*Rewarding having a good driving record*" was rated as a top priority by the highest proportion of Manitobans overall. Nine in ten (90%) said this is a top priority, with most of the remainder of the population falling into the neutral category (9%). Respondents in the open link survey mirrored these results, with more than nine in ten saying this is a top priority.

- Manitobans age 35 and older consider this a top priority more often than those under age 35 (18-34 – 84%; 35-54 – 92%; 55 and older – 94%).
- Manitobans age 18 to 34 have a larger proportion to take a neutral stance than those age 35 and older (18-34 – 15%; 35-54 – 7%; 55 and older – 5%).

Three-quarters (73%) of Manitobans consider "*accurately pricing risk, that is, paying the right price or rate*" to be a top priority. Respondents in the open link survey mirrored these results, with three-quarters rating this a top priority.

- Manitobans age 35 and older consider this a top priority more often than those under age 35 (18-34 – 68%; 35-54 – 76%; 55 and older – 73%).
- Manitobans age 18 to 34 have a larger proportion to take a neutral stance than those age 35 and older (18-34 – 29%; 35-54 – 22%; 55 and older – 20%).

"*Fairness*" is a top priority for seven in ten (71%) Manitobans. Respondents in the open link survey mirrored these results, with three-quarters who rated this a top priority.

- A higher proportion of those age 55 and older consider this a top priority than those under age 55 (18-34 – 70%; 35-54 – 68%; 55 and older – 75%).

"*Ease of understanding, that is, knowing how the rate is set*" is a top priority for seven in ten (68%) Manitobans. Another one in four (26%) Manitobans took a neutral stance regarding this concept. Respondents in the open link survey mirrored these results; seven in ten rated this a top priority.

Half (50%) of Manitobans said that "*ease of use, that is, easy to purchase*" was a top priority. Four in ten (38%) took a neutral stance, while one in ten (9%) said this was not a priority. Respondents in the open link survey had a very similar opinion, with two-thirds who rated this a top priority and one-quarter who took a neutral stance.

- Younger Manitobans, those age 18 to 34, have the highest proportion who said that this is a top priority
  (18-34 – 58%; 35-54 – 45%; 55 and older – 47%).
- While equal proportions of men and women say this is a top priority (50% in each), men have a higher proportion who said this was not a priority (Male – 11%; Female 7%).

"*The amount of personal information required to get vehicle insurance*" is a top priority for four in ten (42%) Manitobans, while an equal proportion (43%) took a neutral stance. Just over one in ten (13%) said this is not a priority for themselves. Respondents in the open link survey mirrored these results; four in ten rated this a top priority, while nearly half took a neutral stance.

- This appears to be more a priority for Manitobans in the oldest age group and for women. Those age 55 and older have the highest proportion to rate this a top priority (18-34 – 43%; 35-54 – 37%; 55 and older – 47%).
- Women have a higher proportion rating this as a top priority than men (Male – 40%; Female 45%).

How the system addresses "*affordability for less experienced drivers*" is a top priority for three in ten (28%) Manitobans. Half (49%) of Manitobans took a neutral stance regarding this concept, while nearly one in four (22%) said this is not a priority. Respondents in the open link survey mirrored these results; three in ten rated this a top priority and three in ten said it was not a priority.

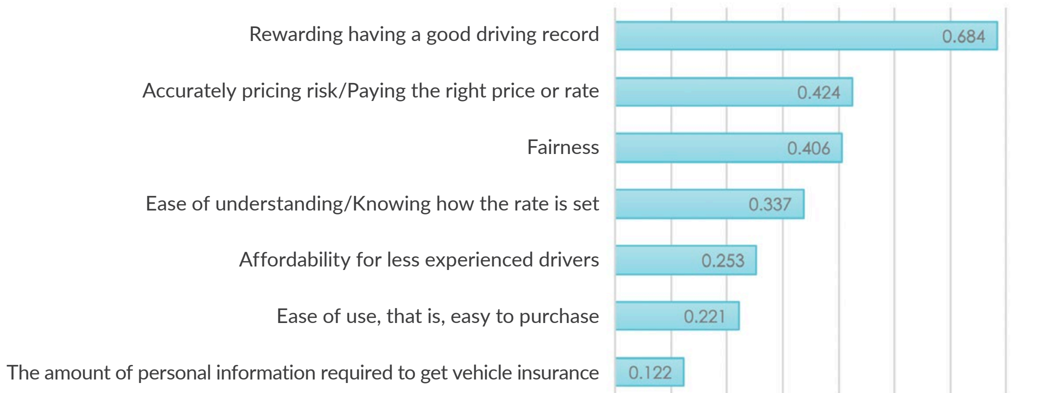
- Younger Manitobans, those age 18 to 34, have the highest proportion to rate this as a top priority(18-34 – 32%; 35-54 – 27%; 55 and older – 26%), while Manitobans age 35 and older have higher proportions to rate this as not a priority (18-34 – 15%; 35-54 – 24%; 55 and older – 25%).
- Manitobans who live in Winnipeg have a higher proportion who said this is not a priority than those who live outside of Winnipeg (Winnipeg – 25%; outside Winnipeg – 18%).

Priority Ranking of Underlying Values

Manitobans were asked to rank the top priorities given the same list of seven specific concepts, or values, when implementing an auto insurance model for Manitoba. Respondents in the telephone survey were asked to indicate which of these concepts would be their first (top), second, and third priority. A priority rank score was calculated[5], yielding an aggregate rank score between zero and one for each concept. A rank score of zero would indicate that no one included the concept as a priority; a rank score of one would indicate that everyone chose the concept as the number one priority.

Priority Rank Score

(Range 0 to 1)



"Rewarding having a good driving record" is the top ranked priority among Manitobans when evaluating concepts and values that should be considered for how auto insurance premiums could be set in Manitoba, receiving a total score of 0.684, or 68% of the best possible score. Respondents in the open link survey also ranked this concept as the first overall priority, where they gave it a rank score over seventy percent of the best possible.

"Accurately pricing risk, that is, paying the right price or rate" (rank score 0.424) and *"fairness"* (rank score 0.406) rank fairly closely as the second and third priorities, respectively, but could be considered as virtually tied among all Manitobans. Both of these concepts/values received just over 40% of the best possible score. Respondents in the open link survey also have these two concepts as second and third, where they ranked "accurately pricing risk, that is, paying the right price or rate" with nearly sixty percent of the best possible score and "fairness" with nearly fifty percent of the best possible score.

5 *Given that there were seven concepts to be ranked, the first ranked concept is considered to have a score of seven, the second ranked concept a score of six, etc. The priority rank score is then calculated by taking the count of people ranking a concept as first multiplied by seven, plus the count of people ranking it second multiplied by six, plus the count of people raking it third multiplied by five, divided by the total sample of people multiplied by seven. This yields a score that can be considered a proportion of the best possible total if everyone in the population ranked the concept in first position. For example: Among a total sample of 1,500 people, "Fairness" received a first ordinal rank from 257, a second ordinal rank from 218, and a third ordinal rank from 231 people. Therefore, ((257*7)+(218*6)+(231*5)) / (1500*7) = ((1799)+(1308)+(1155)) / (10500) = 0.406*

"Ease of understanding, that is, knowing how the rate is set" (rank score 0.337) claims fourth position among all Manitobans. This concept receives 34% of the best possible score, setting it in position to round out the top ranked values overall. Respondents in the open link survey also ranked this in fourth spot, with this concept receiving nearly twenty-five percent of the best possible score.

"Affordability for less experienced drivers" (rank score 0.253) is ranked fifth by Manitobans among the concepts explored, receiving 25% of the best possible score, while *"ease of use, that is, easy to purchase"* (rank score 0.221) is ranked sixth by Manitobans, receiving 22% of the best possible score. "Affordability for less experienced drivers" and "ease of use, that is, easy to purchase" are close enough in rank to be considered tied among Manitobans overall. Respondents in the open link survey also ranked these two concepts very close with one another. While each of these concepts received nearly twenty percent of the best possible score, the actual rank order between the two concepts is reversed when compared to the telephone survey.

Given that *"the amount of personal information required to get vehicle insurance"* (rank score 0.122) achieves the lowest priority ranking score among all the concepts examined, it is evident that Manitobans understand that some level of personal information must be shared with their insurer when it comes to auto insurance and driver licensing.

Demographically, there is very little that distinguishes the rank order of the concepts and values explored. There are two exceptions.

- Younger Manitobans, those age 18 to 34, ranked *"ease of understanding, that is, knowing how the rate is set"* as their second overall priority and *"fairness"* as third, with *"accurately pricing risk, that is, paying the right price or rate"* falling into fourth position.
- Manitobans with a high school grad education ranked *"fairness"* in second spot and *"ease of understanding, that is, knowing how the rate is set"* in third, with accurately pricing risk, that is, paying the right price or rate" falling into fourth position.

In summary, it appears that Manitobans embrace some of the overall concepts or values that could be used when implementing an auto insurance model much more than others. Overall, Manitobans say that good driving should be rewarded and that paying the right price (what they consider to be fair) is of paramount concern. Communicating how the rate is set in a fashion easily understood by customers is also very important. Making rates affordable for less experienced drivers, making the purchase process easy, and limiting the amount of personal information that has to be shared are much less important when determining which insurance model should be used.

Interpretation of Specific Underlying Values (*VoC ePanel* Results)

MPI maintains the *VoC ePanel* that allows for customers to share their thoughts and opinions when it comes to customer service and program and policy issues relevant to them. This ePanel was engaged to find out more about how MPI's customers envision and interpret the guiding principles behind how auto insurance premiums could be set in Manitoba. In consideration of the time spent by respondents to the telephone survey and the open link survey, these specific discussions were not completed within those survey respondents and instead were only presented only to *VoC ePanel* members for their feedback.

Registering all vehicles under a single person

ePanel members were provided with the following statement and asked if they felt this practice is fair.

> *"Some Manitobans choose to have a single person register all of the vehicles in their household while others choose to have different people register different vehicles."*

Reasons for being fair:

More than two-thirds evaluated this as fair, with nearly half saying it was completely fair. It should be noted that while most selected this current practice as being fair, many still provided reasons why it is perceived to be not entirely fair.

The most common theme around why this is a fair practice revolved around the idea that it provides people with the liberty and freedom of choice to declare who a vehicle will be registered to. Along these lines, it was also often noted that each household has its own reasons for choosing who the registered owner of a vehicle will be. These sentiments are seen in the following selection of responses:

> *"We already have no choice but to deal with MPI. We should at least have the choice of how to register our vehicles."*

> *"It should be up to the individual who registers a vehicle or not, if I want all register in my name or to have my wife register, our choice."*

> *"Because we live in a free country."*

> *"Every household is made up of different dynamics."*

> *"It depends on a lot of things. To suggest a few, family dynamics, family finances, individual finances. I think it is up to the family."*

The second most common response for why this practice is considered fair is that it allows a household to maximize the savings on vehicle premiums (by registering vehicle(s) to the person with the highest DSR), and that it is fair to be able to save as much money as possible by maximizing discounts. For instance:

> *"They are trying to save money just because they have an accident shouldn't right away mean they have to pay more for car insurance."*

> *"Well I can definitely see why they would do it if that one person has a good driving record and can save some money… everything is so expensive these days and if one can cut corners!"*

> *"If that is how Manitobans have to do it to save money, I agree."*

Some stated the practice is fair since drivers with a poor driving record are penalized on the cost of their licence based on their DSR. This was expressed in the following selection of comments:

> *"Drivers who operate Dad's vehicle, and who have accidents, pay for that accident on their licenses."*

> *"Bad drivers already pay an extra premium on their license."*

The registered owner being ultimately responsible for situations the vehicle is involved in, and giving the owner authority to decide who can drive the vehicle was mentioned by several respondents as a reason for this practice being fair. For example:

> *"Some drivers are not adults and parents or primary adults may want that control."*

> *"A person who own[s] the vehicle is responsible for all matters."*

> *"Single person registers and takes all responsibility for the vehicle whether the person driving it or not."*

Convenience of having one person as the registrant for all vehicles (particularly to make premium payments convenient) was cited by several respondents as a reason for this being fair. This was expressed in the following selection of responses:

> *"One person maybe makes all the money in the household and it would be an unnecessary inconvenience for that person to have to give everybody that has to insure a vehicle the money."*

> *"Allows for convenience when renewing as all vehicles can be updated and paid by one person in one visit."*

Both fair and unfair:

That owners should keep their property in their name was perceived as a reason for this practice being both fair and unfair. It is likely that some viewed the portion of the statement "choose to have a single person register all the vehicles" in terms of their individual ownership of multiple vehicles, and since they consider multiple vehicles as their personal property, they should all remain under their name. Meanwhile, other respondents perhaps considered the aspect of the statement "choose to have different people register different vehicles" in that those "other people" may not be the individual owners of those "different vehicles" and therefore the vehicle is not under the owner's name. This sentiment of keeping the vehicle(s) owned under the owner's name was mentioned by respondents ranging from those who indicated the model as being *completely fair* to *completely unfair*, and was expressed in the following sample of responses:

> *"Registering a vehicle indicates ownership. If I purchased a vehicle, I need to be identified as the legal owner and from what I understand, that is through the registration of the vehicle in my name."*

> *"The owner of the vehicle should be the one to register it: if one person in a household owns all the vehicles, they should register them; if multiple people own the vehicles in the same household, each individual should register the vehicle they own."*

> *"I like to have my own name registered on my car, as a woman and a wife. Don't have to worry about transfer of ownership if husband dies or divorced."*

> *"The person who owns the car should register it."*

Reasons for being unfair:

The nearly one-third who said this practice was unfair primarily fell into the somewhat unfair category. However, a small number did feel this practice was completely unfair.

The most recurring theme as to why the practice is considered not fair (or why it is not completely fair) is that it allows households to manipulate the system to obtain a lower premium by registering the vehicle(s) under the person with the highest DSR, regardless of their use of the vehicle; to use the system to their own advantage. Some who expressed this sentiment indicated that they consider the practice to be rather dubious and unethical. For example:

> *"The pricing system is meant to charge more for the higher risk drivers. When one person insures all the vehicles they are circumventing this system and are really transferring risk to all insured. That seems unfair."*

> *"Obvious effort to get a cheaper rate. Almost fraud."*

> *"If you have a family with a driver who has many demerits who then continues to drive under a vehicle insured by say a spouse with a better driving record it is indeed 'gaming' the system."*

Similar in nature, several respondents expressed that the person who drives the vehicle the most should be the individual the vehicle is registered to and for whom the insurance premium is based. The following selection of responses express this view:

> *"The principal driver should insure the vehicle."*

> *"Vehicles can and should be insured by the person who uses the vehicle most."*

> *"When drivers own a car, the main driver should register and pay the corresponding fee."*

Related to driver(s) not being a factor in a vehicle's insurance, some also noted that a vehicle registered in only one name does not properly account for the vehicle's combined risk due to multiple drivers. The notion that one individual does not represent the true usage risk can be seen in the following responses:

> *"One person registering multiple vehicles does not adequately cover the risks with young drivers or those with demerit points."*

> *"I think that vehicles driven by less experienced drivers are more likely to be involved in accidents so their registration should reflect the higher risk. This doesn't happen if the person who registers the vehicle is the one with the best driving record."*

Circumstances that would warrant denying someone vehicle insurance

ePanel members were asked their thoughts on when it would be appropriate to deny someone insurance coverage. They were asked to respond to the following question:

> *"While many Manitobans agree that no one should be denied insurance, what do you think would be circumstances that would warrant denying someone vehicle insurance, if any?"*

Respondents had a variety of reasons as to why they believe someone should be denied vehicle insurance. While the subject of the question is the ability to insure a vehicle, respondents often seemed to interpret the question's subject as denying someone the ability to drive.

Nonetheless, the most common responses share a theme of having a history of dangerous driving and being a threat to safety on the roads. This included having a poor driving record, low DSR, or having too many driving infractions in general. This also involved conviction(s) for impaired driving, dangerous operation of a vehicle, and having a history of numerous collisions (often specified as being at-fault). These aforementioned responses can be seen in the following example responses:

Poor driving record/too many driving infractions in general:

> *"Some people should NOT be allowed to insure or operate a motor vehicle. Driving records will support the decision."*
>
> *"Bad driving records need to have consequences."*
>
> *"Prior convictions in this or another jurisdiction which are equivalent to someone in our Manitoba system having -20 points. If you have the equivalent of -20 points, then no driver's licence."*

History of impaired driving:

> *"If they are caught driving impaired, or otherwise driving recklessly they should be removed from the road. Driving is a privilege not a right."*
>
> *"Multiple impaired driving with or without a major accident."*

History of dangerous driving offences:

> *"Repeat dangerous driving offenders."*
>
> *"People who have been convicted of dangerous driving offences."*

History of multiple collisions:

> *"If they cause a lot of accidents they should be removed from the road."*
>
> *"Causing multiple mishaps to their own vehicle or others."*

While not a driving offence, being medically unfit to drive also pertains to the recurring theme of road safety and was stated by several respondents. For example:

> *"Medical issues that would limit ability to drive safety, ie: visual."*
>
> *"Medical circumstances that negatively affect the competency of the driver whether young or old."*

Other than road safety and previous driving history concerns, several respondents specifically indicated a reasonable cause for denying vehicle insurance would be if a person has a suspended licence or no licence whatsoever. The following responses mention this view:

> *"At some point people lose their license for life due to poor driving habits, why should they still be able to insure a vehicle?"*

> *"If you don't have, or are denied a driver's license, or suspended for a length of time, you should not be able to have insurance."*

A history of criminal convictions in general, regardless if the crimes involve driving or a vehicle, was mentioned by a notable number of respondents. The following sample of responses indicate criminal history as justifiable grounds for denying vehicle insurance:

> *"If they are a repeat offender and cannot comply with the law."*

> *"If someone is currently incarcerated."*

Having committed fraud, usually mentioning auto insurance fraud specifically, was cited by several respondents. For instance:

> *"If a person is caught more than once filing a false claim, then MPI should be able to suspend their insurance privileges for a specified period of time."*

> *"Someone who has fraudulently deceived the insurance company should be denied insurance for a penalty time."*

Best way to ensure that drivers who don't register a vehicle share the financial risk of accidents

ePanel members were asked what they saw as the best way to ensure that drivers who don't register a vehicle share the insurance risk that all drivers represent. They were asked to respond to the following statement and question:

> *"Many Manitobans have indicated that they agree that all drivers should share the financial risk of accidents, regardless of whether they own a vehicle. In your opinion, what is the best way to ensure that drivers who don't register a vehicle share this risk?"*

By a wide margin, the most common thought was that a charge or insurance premium be placed on the driver's license of those without vehicles. Some also specified that the premium paid on their licence should be based in part on the driver's risk/DSR. The following selection of responses indicate this widely shared view:

> *"They would have to pay a separate insurance fee with their driver's license."*

> *"Have the registration of insurance be a piece of the licensing component instead of vehicle ownership."*

> *"The only way I see is to charge a premium on their licence. Once the driver registers a vehicle, the premium ceases."*

> *"Add it on to your driver's licence if you are a bad driver pay more for your licence."*

> *"If they don't own a vehicle, their driver's license is higher."*

The second most commonly suggested method was to have additional monetary charges to non-owner drivers who are at-fault for collisions. Some specified that this could be paid at their next licence renewal, or that they get billed to cover the vehicle owner's deductible or all of the damage expenses. The following are responses that offered these concepts:

> *"A surcharge should be meted out to non registered drivers who are involved in accidents."*

> *"At least deductible should be paid by the driver than the registered owner."*

> *"People who do not carry insurance should not be subject to no fault and should be liable for the damages that may occur."*

> *"Have them pay for the accidents on their driver's license."*

It was also mentioned by several respondents that all drivers should pay for coverage or share the risk in general. The concept of "paying" and "sharing risk" is similar to the earlier theme of payment of an insurance premium on the non-owner's licence. For instance:

> *"If they drive a non-registered vehicle they should be able to share financial risk."*

> *"Each driver should carry a portion of the insurance cost."*

Some proposed the concept of having an optional "non-owner insurance product" that could be purchased to provide coverage to those who drive but do not own vehicles, it was further specified by a few that this would be useful for those who do not drive personally or drive company/employer owned vehicles that already have coverage. For instance:

> *"Offer premiums based on the amount of coverage they want to carry and the deductible they are prepared to pay. I think a good model would be the insurance purchased for rental vehicles. The insurance for drivers not owning a vehicle should be accessed fairly for each year and a rebate offered when they keep an upstanding driving record."*

> *"Buy a policy for insurance to drive a vehicle not registered in their name. Unless it is a company vehicle they are driving for work purpose and registered by the company they work for."*

> *"Maybe something like non owner/registered insurance."*

Circumstances where less experienced drivers should pay more

ePanel members were asked to discuss the circumstances that would lead to a less experienced driver having to pay more for insurance premiums. They were asked to respond to the following statement and question:

> *"Manitobans have different views when it comes to whether or not less experienced drivers should pay higher insurance premiums. Under what circumstances, if any, would you say that less experienced drivers should pay more?"*

The two most common responses shared the theme of having a less than ideal driving history. Possessing a poor driving record, low DSR, including having received tickets for (unspecified) driving offences, was the most mentioned circumstance where less experienced drivers should pay more. This was closely followed by the specific mention of having a history of being involved in collisions. The following selections indicate these circumstances that were deemed acceptable to charge more due to a less than ideal driving history:

Having a poor driving record and/or receiving tickets (in general):

> *"If they do not demonstrate a clear driving history for prescribed period of time."*
>
> *"Poor driving record and repeated infractions."*
>
> *"Their driving record going forward should dictate whether they pay more or less."*

Collision history:

> *"Only if they are involved in an at-fault accident just like everyone else."*
>
> *"They should pay more after an accident, whether they cause it or not. Good defensive driving should eliminate most accidents. Adjusters would have some discretion in deciding the penalty."*
>
> *"This can become unfair if charging additional premiums based on lack of experience. Higher premiums should only be charged if a less experienced driver is involved in an accident."*

Driving history was further noted in a few specific responses about having received distracted driving, speeding, or dangerous driving offences.

Some stated that having a licence for only a certain number of probationary years is a justifiable reason for charging less experienced drivers with a higher premium, with a few indicating that their risk needs time to be established. These sentiments can be seen in the following selected responses:

> *"I think they need to have the experience of years of driving under their belt."*
>
> *"Probation period of ~5 years. If good driving record in that time period then insurance should be lessened."*
>
> *"Novice is novice and they should not be awarded any special breaks until they have proven themselves, graduated license for ALL new drivers."*

Several also indicated their belief that less experienced novice drivers should pay more in general, with many stating they are inherently a higher risk. For example:

> *"Less experienced drivers are more likely to have accidents and should pay more."*
>
> *"New drivers are at a higher risk of causing or being in an accident so it is only fair they pay more."*
>
> *"Less experience is less experience and there should be no circumstance where they should not pay more."*

It was also suggested by some that being in a younger age range is a circumstance that warrants paying higher premiums. This was mentioned in the following selection of responses:

> *"Should the existing practice be in place, twenty five years of age is reasonable."*
>
> *"New drivers should have higher rates. Statistics show that they will be in an accident within a couple years. Young drivers are stupid. Kids are fearless and unwise. Mistakes will happen."*

What does "fairness" mean?

ePanel members were asked what fairness means in an auto insurance context. They were asked to respond to the following statement and question:

"A majority of Manitobans agree that fairness is a primary value that needs to be considered when setting insurance premiums. In an auto insurance context, what does fairness mean to you?"

By far, the most common theme was that it is fair to base premiums on driving records. Many of the respondents who espoused this view specifically indicated that it is fair that higher risk drivers pay more and that good drivers pay less. These concepts of it being fair to base on the driving record can be seen in the following responses:

"Safe driving assures fairness. It's only fair if those drivers costing MPI more in payouts/claims pay more in premiums. It is unfair to penalize safe drivers due to the costs (payouts for claims) that becomes the responsibility of MPI for the behaviours of unsafe drivers."

"Fairness needs to be and already is determined by each person's driving record."

"That insurance costs are relative to the driver's history."

"People who have a good record should get a break on their premiums. Seems to me that the points system that you have right now works with people who have been responsible for accidents paying more to get insurance."

"Number of at fault accidents, traffic and parking offenses should be considered when setting insurance rates."

Though not nearly as common a response as "driver history," the second most common theme was to take a vehicle's characteristics and realities into consideration such as its value, age, condition, make, model, and cost to repair. For example:

"Older, cheaper vehicle = less cost on premiums. Newer, expensive vehicle = more cost on premiums."

"Cost of repair for individual vehicles should be taken into account."

"Value and mileage of vehicle."

The notion that fairness means treating and considering all customers equally when setting premiums was also common. Some mentioned equality as a starting point for the individual, with the ability to make adjustments to premiums in the future, depending on vehicle value or driving history. The following selection of responses mention this view:

"All drivers are treated the same and come under the same rules and regulations."

"Fairness - a person sets out on an equal basis - as soon as there is an accident, crime etc. then their rates go up."

"Fairness means everyone pays the same for a certain class of vehicle."

"Treating everyone with the same measuring tape."

Several respondents said that fairness means that there are thorough and proper assessments of fault, and that the percentage of fault is correctly applied to each driver in an incident. The following responses showcase the notion that for rates to be fair, determinations of fault must be fair and ultimately correct:

"Impartial overview of any claims submitted."

"Fairness means that each claim made is looked at in a fair manner where 'the more likely situation' is not always the situation that is chosen as people tend to lie when in an accident to make it look like it wasn't their fault. If the two stories don't make sense, investigate more. Don't penalize the [G]ood Samaritan for telling the truth. The truth isn't always the most logical situation."

"Not being 50/50 at fault when one could not prevent another driver from hitting you."

Best way to reward a good driving record

ePanel members were asked what they felt was the best way to reward a good driving record. They were asked to respond to the following statement and question:

"Rewarding having a good driving record is ranked as a top priority by a majority of Manitobans. In your opinion, what is the best way for an insurance system to reward a good driving record?"

When asked what could be done within an insurance system to reward those with a good driving record, by far the most common theme was to provide cost savings and discounts, often indicated via premium and licence cost reductions. Most respondents indicated this method of reward; all other concepts for rewarding good driving records paled by comparison. The following is a selection of responses indicating premium reductions and/or cost savings:

"Reduce rates and fees based on driving record."

"Lower cost to the driver based on driving history."

"Cheaper premiums."

"Decrease the cost of the driver's license and insuring a vehicle."

"The only tangible way to reward a good driving record is with lower premiums."

"Significant discounts."

The second most common response is that the current system of rewards works as it is now. This could be interpreted as one in the same with the aforementioned "cost savings on premiums," given that the current system does provide discounts on vehicle and licence costs based on the DSR. However, these respondents did not specifically refer to cost savings or premium discounts; it is theoretically possible they were referring to some other aspect of the current system. Nonetheless, the following comments illustrate the *'current system works'* responses:

"Seems the present system is working fairly well."

"The current way is certainly doing a good job unless there are more ideas out there."

"The way it is done now."

Similar in nature to both the "cost savings" and "current system works" responses, several respondents stated that the amount or value of discounts for having a good driving record should be increased from the value amount in its present form. In essence, maintaining the current system of rewards but having more lucrative discounts. For instance:

"Provide tangible discounts instead of the peanuts on the driver rating scale."

"Increase the deduction for good driving records. Don't have such a granular system as today."

"Raise the percentage on the discount."

Along the lines of increasing the discounts offered in the current system, some mentioned that the current DSR scale should either have no ceiling or a higher ceiling. The following selection of responses indicates the opinion that it would be ideal to surpass +15 (33% discount) on the DSR scale to ensure good drivers are rewarded:

"Don't cap the merits."

"The system should not be capped at +15. For example a driver with a +25 should only pay $1.00 for a driver's license."

"Remove the 15 merit maximum, let it increase as the good driving history increases."

Outside of cost savings and discounts, it was commonly suggested that an *"accident forgiveness"* policy be introduced, which some private insurers in other jurisdictions have been advertising. It was proposed by some that a driver with a high DSR and/or no at-fault claims for a certain period of time should not be penalized if they have a single, and rare, at-fault accident. This concept was mentioned in the following selection of comments:

> *"Not get nailed to a cross for getting a once in a lifetime ticket or having a once in a lifetime accident......if you have ticket or accident within a six month window then you should lose credits but not for a one-time event."*

> *"A single 'grace' accident if you have not had an accident or ticket for several years, you pay a one-time premium vs dropping 5 point on the DSR."*

> *"A driver, who has had a good driving record for some time, should be given a 'break' by not having to pay their deductible when they are involved in an accident, especially when it does not involve alcohol, cannabis or any other illegal drug. Accidents do happen!"*

How do you know you are paying the right price for your auto insurance premium?

ePanel members were asked to discuss how they know they are paying the right price for an auto insurance premium. They were asked to respond to the following statement and question:

> *"Paying the right price or rate is a priority for a majority of Manitobans. How do you know you are paying the right price for your auto insurance premium?"*

A substantial number of respondents indicated that they simply do not know if they are paying the right price for their auto insurance premium, or that they could not comprehend a process to determine if they are paying the right price. However, many did provide a method or rationale of how they know they are paying the correct price for their premium.

The most common theme expressed was that they know they are paying the right price based on their driving record, including that good drivers pay less and poor drivers pay more for their premium. The relationship between DSR and their premium seems to instill the notion that the system indeed produces the correct price. For example:

> *"Based on my merits in my license, I know my rate reflects my performance as a driver."*

> *"I guess my premium is fair as it is based on my driving record and I am in the process of driving more carefully in order to earn points that will allow me to pay less for insurance."*

> *"The premium you pay at least reflects the risk you pose on the roads, depending on your driving record."*

> *"You pay according to your merit points."*

The second most common response, with nearly as many mentions as the aforementioned "due to driving record," was to compare to what people pay in other provinces in Canada. For example:

> *"I always compare insurance premiums from different provinces. I try and find prices that would reflect the same size area that I travel in."*

> *"Compare to other provinces especially privately insured ones. MPI should be giving examples of other rate structures."*

> *"By comparing what your friends pay in other provinces."*

Making comparisons was a recurring theme in several response types. Comparing the rates one pays to what others pay was mentioned by some, for instance:

> *"By comparing rates of other drivers in same age group and same records."*

> *"I don't know ever what the "right price" is but I do check with other people."*

Additionally, using comparisons as a method was also indicated by some respondents who stated they compare against what private insurers may advertise or quote, for example:

> *"I've compared to private carriers for interest."*

> *"I find it is cheaper with private insurance but do not have a choice."*

Several respondents indicated that they use information provided by MPI to ascertain that they are paying the right price for their premium, with some mentioning that they trust MPI and its information. The following selection of responses illustrates this perspective:

> *"You don't know. You just have to take MPI's word that you are paying the right mount."*

> *"MPI financial reporting."*

> *"The chart released by MPI suggests that my rates are lower because of my driving record."*

Some respondents also stated that they know they are paying the correct price (or not) due to their vehicle(s) age/make/model/mileage/condition/value. For instance:

> *"Based on the value of the vehicle you are registering, and the value you will receive for that vehicle if it is damaged in an accident. If you drive a vehicle for 10 years and it is depreciated when it is written off the insurance premium should reflect that too."*

> *"Age of car, how long you have had same car, honest depreciation value."*

> *"I know I am not. I own a 28 year old truck and paying as much now as when it was new."*

Registered Owner Model Assessment

A majority of Manitobans view the current Registered Owner Model as being fair.

Primary strengths: It works now; it rewards good driving behaviour with premium discounts; and, it gives people the freedom to choose who registers the vehicle.

Primary weaknesses/concerns: Subject to people using the system to their own advantage by registering a vehicle in the name of a driver with the better driving record, even though they may not be the primary driver of the vehicle, if they drive it at all.

Quantitative Assessment

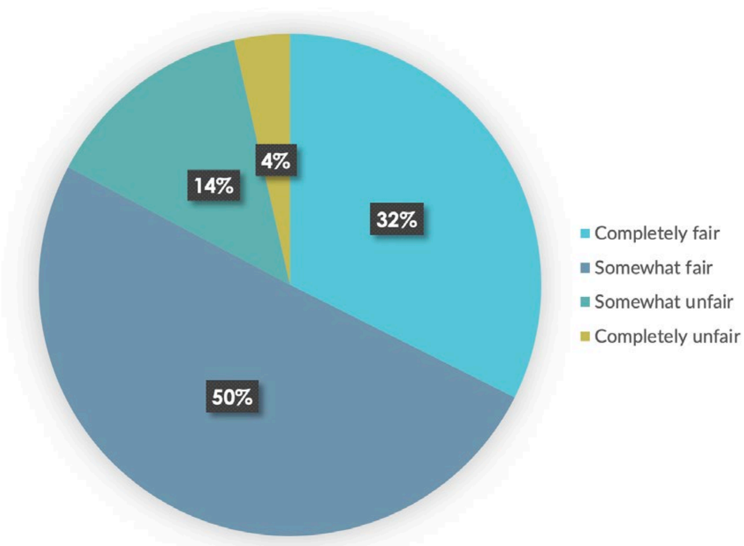
Manitobans were presented the following description of the Registered Owner Model:

> *"Under the Registered Owner Model, the current model used in Manitoba, a vehicle's premium is based on the Driver Safety Rating of the registered owner of the vehicle regardless of how many other drivers drive the vehicle or the driving records of the other drivers."*

A majority of Manitobans said that they view the current Registered Owner Model as being fair. More than eight in ten Manitobans in the random telephone survey said it was either *completely fair* (32%) or *somewhat fair* (50%). Respondents in the open link survey mirrored these sentiments, with one-third (33%) saying it was *completely fair* and just less than half (43%) saying it was *somewhat fair.*

While nearly one in five Manitobans rated the current Registered Owner Model as unfair, most of these were in the *somewhat unfair* category (14%), while a few fell into the *completely unfair* category (4%). A slightly higher proportion of respondents in the open link survey rated the model as unfair, but the majority of those still gave a rating of *somewhat unfair* (17%) rather than the *completely unfair* (7%).

Registered Owner Model (current model) – How fair do you believe it is to use this model?



Registered Owner Model Assessment

Younger Manitobans and those outside of Winnipeg gave higher ratings for the fairness of the current Registered Owner Model.

- Nearly nine in ten (86%) Manitobans under age 35 rate the model as fair; those aged 55 and older have the highest proportion to rate the model as unfair (21%).
- Outside Winnipeg residents are more likely than Winnipeggers to say this would be a fair model (85% vs. 81%, respectively). Conversely, Winnipeggers are more likely than outside Winnipeg residents to say that this model would be unfair (19% vs. 15%, respectively).

There appears to be a strong belief among Manitobans that the owner of the vehicle has a responsibility to make decisions about who drives their vehicle.

- *"Owners should be held responsible for who they allow to use their vehicles."*

It appears that many Manitobans agree that using the owner's DSR is a fair way to set vehicle premiums. Part of this is the assumption that the owner is likely to be the person most often driving the vehicle. It extends from there that owners with
a good driving record deserve to be rewarded for that record with lower vehicle premiums, while owners with a poor DSR will be penalized by paying more in vehicle premiums.

- *"Based on the owner's driver record is fair."*
- *"Owners are likely to drive the vehicle most often."*

There is also a strong belief that the driver needs to take responsibility for their actions behind the wheel. This appears to go hand-in-hand with the idea that drivers should be rewarded for their good driving record. While these themes are strongly prevalent among those who view the model as unfair, many Manitobans who view the current Registered Owner Model as fair mention these themes in justifying their stance.

- *"Drivers should be held responsible for accidents, not registered owners."*
- *"Owners with a good, safe driving record are rewarded/pay less in premiums."*
- *"Bad owners with a poor driving record penalized/pay more in premiums."*

There appears to be some concern that the current Registered Owner Model allows for some people to "game the system," that is, to have someone with a good DSR insure the vehicle, and be rewarded with lower vehicle premiums, while allowing drivers with a poorer record to drive the vehicle.

- *"System is manipulated by owner/register vehicles for less for young or bad drivers."*
- *"Not factoring in the risk for everyone who is driving the vehicle."*
- *"Skill/experience gaps/every driver is different."*

Registered Owner Model Assessment

Overall Qualitative Feedback

The following is a detailed discussion of the qualitative feedback received from the open link survey and the *VoC ePanel* surveys.

The Registered Owner Model is the current model being used for Autopac, as such respondents are quite familiar with how it functions. The majority of respondents indicated that the Registered Owner Model is either *somewhat* or *completely fair*. Nonetheless, many who indicated the model as being fair (particularly those that selected *somewhat fair*) expressed some concerns with the model and its perceived shortcomings.

Of the feedback that indicated why the model is considered fair, the most common themes were that owners are held accountable for the actions of who they allow to drive their vehicles, and that it is acceptable to base the insurance premium on the owner's DSR regardless of who may most commonly drive the vehicle. This sentiment was expressed in the following comments:

> *"Owning a vehicle is a privilege not a right so I feel that some onus should be on the registered owner to be accountable for those drivers they lend their vehicle to."*

> *"It is their vehicle and they have to approve who drives the vehicle. They are the one responsible for the vehicle and other drivers should not affect their premiums. A claim affects the driver's licence and DSR rating but doesn't affect the owner of the vehicle. The owner and primary driver should not be affected because they let their spouse, child, friend use the vehicle.*

Some also stated that the registered owner is the person most likely to primarily drive the vehicle, so it makes sense for the vehicle's premium to be calculated using the owner's DSR.

The most common feedback regarding why the model is considered unfair was that households often deliberately manipulate the system for lower premiums by registering their vehicle(s) under the name of the person with the highest DSR, even though that person may seldom or never drive the vehicle(s) in question. The following responses represent this opinion:

> *"Insurance fraud is conducted by those who register their vehicle with Mom or Dad (who get additional savings as they are more 'experienced') and then drive it full time. The kids get a ton of demerits on their license and don't end up paying for the additional risk when it comes to insuring their vehicle (of course they still pay on their license). There is a very high rate of this."*

> *"Most households register vehicles to the person who has best DSR rating. Many parents have vehicles in their names but they are driven by their children - not always living at home. In some cases they are adults living in a separate residence."*

The second most common reason for not considering the Registered Owner Model to be fair is that the risk is not being factored in for all (potential or actual) drivers of a particular vehicle as it is based on only one person's DSR. Several respondents also mentioned that the premium should be based on the driver's DSR (if the usual driver is not the owner). These lines of feedback share the theme that the Registered Owner Model does not properly account for the actual drivers of a vehicle. The following are a selection of responses that conveyed these perspectives:

> *"It doesn't accurately assess the risk, since the registered owner of a certain vehicle could never drive it and a 'bad' driver could be the sole driver."*

> *"Insurance should be a cost under the licence. Only a small portion should be based on the type of car."*

Registered Owner Model Assessment

The Registered Owner Model was the model most often selected as the best model for setting driver and vehicle premiums in Manitoba. Compared to the other models presented, the Registered Owner Model may be perceived as rather straightforward given it does not require as much information sharing between a customer and MPI or insurance brokers. As a result, the most common reasons for selecting this model were that it is simple to use and easy to understand. Some specifically mentioned this ease in comparison to the other models presented. Several respondents also noted the minimal amount of information sharing and less personal information required. The following responses expressed these sentiments:

> *"Because it is the easiest to administer and for the consumer to understand."*
>
> *"It is the easiest to operate and the most non-intrusive."*
>
> *"It seems a lot less intrusive, less personal information given."*
>
> *"This is the most straight-forward method, and I believe the easiest to understand."*
>
> *"The other methods seem too difficult to manage - too many moving parts."*
>
> *"Because I understand it the best, and I am used to it, and I think it is OK."*
>
> *"All the other models are more complex to administer, thereby adding more costs to customers."*

As it is the current model in use, familiarity was an influencing factor. The second most common response was that the current model seems to work ("So why change it?"). Several also outright indicated that it is the system they are familiar with and it is the only system they are accustomed to. A few mentioned that it would either be costly or complicated to change the current system. A selection of responses indicating such are:

> *"It seems like it works so stop trying to fix things that aren't broken."*
>
> *"It works, everyone knows it, a change will be costly."*
>
> *"Although I find it more and more expensive each year even though I am at top level for discount, I believe it works and it's basically affordable. Changes would just increase premiums."*
>
> *"Just stay with the current model and do not make any changes. What is not broken don't fix."*

Notably, many respondents stated that the Registered Owner Model is fair because it is the best model either for them or their household in comparison to the other models presented. The following responses expressed these notions:

> *"Seems to be a fair way to provide coverage. Makes me accountable for my own rates."*
>
> *"The alternatives really suck. Maybe hire a person off the street to come up with a better model. Too many ridiculous ideas and none is a good alternative."*
>
> *"This model works OK now. Why change something that works?"*
>
> *"It seems to be the most fair of the choices."*
>
> *"Fair for me with maximum good driving points."*

Registered Owner Model Assessment

Several mentioned that the Registered Owner Model is preferred as it ensures that the vehicle owner is ultimately responsible for their vehicle, including giving owners the ability to determine who may drive it. This was expressed in the following responses:

> *"It's my car. I get to say who drives it."*

> *"The owner of the vehicle is responsible for the vehicle. If an allowed family member or allowed driver is involved in an accident I believe it is the owner's prerogative to allow that driver access, or not, to the vehicle in future. It is the owner who is presently "on the hook" for deductible and any increase in insurance costs as a result. The decision should be theirs then, as to who drives the vehicle and who pays the deductible and the insurance increase. The owner owns the car, not MPI."*

Cost was also a recurring theme, with numerous mentions of it being the less expensive model. The Registered Owner Model is often viewed as affordable, in particular for households with novice drivers (given that premiums will not increase simply by having a novice driver with a lower DSR using a vehicle). This was expressed in these responses:

> *"We have one of the most affordable auto insurance costs in the country, and I'd like to keep it that way."*

> *"I'm thinking of kids getting their license; we can't "assume" they will be bad drivers because they are in a high risk group...I feel that the majority of the other models may end up costing a new responsible driver more or rather the family more."*

> *"The others create some unfairness such as a large family with teenagers living at home and driving the family vehicle and each having to pay an insurance premium on their licence."*

> *"This is the most cost effective one for my family of four drivers, two of which have limited experience driving as they are new drivers. The other models mean we will pay more money, despite everyone having good driving records."*

Primary Driver Model Assessment

Majority of Manitobans view the Primary Driver Model as being fair.

Primary strengths: Rewards good driving behaviour; Easy to administer; and, Makes sense to base vehicle premium on the person who drives the vehicle the most.

Weaknesses: May still be open to people using the system to their own advantage; Inconvenient to have to keep track of who the primary driver is; and, Difficult to make a primary driver determination in some situations.

Quantitative Assessment

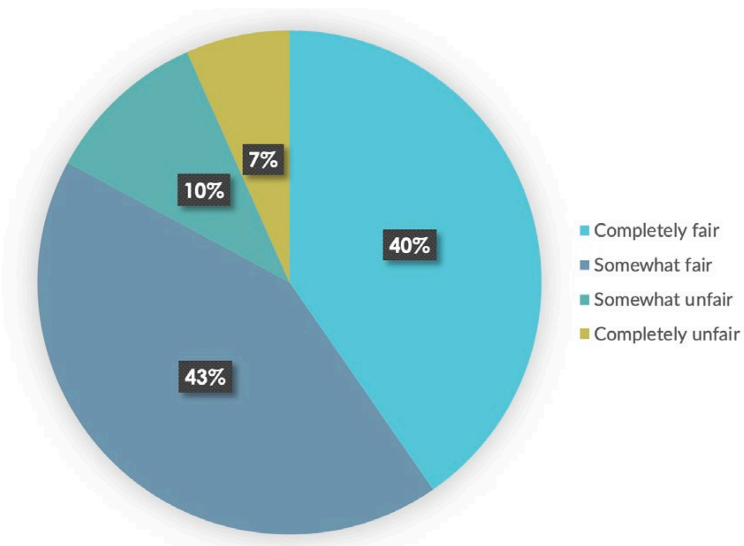
Manitobans were presented the following description of the Primary Driver Model:

> *"Under the Primary Driver Model, a vehicle's premium would be based on the Driver Safety Rating of the primary driver of the vehicle, the one who drives the vehicle the most."*

The Primary Driver Model is viewed as fair by a strong majority of Manitobans (83%). Equal proportions of Manitobans in the random telephone survey view this model as *completely fair* (40%) and *somewhat fair* (43%). Respondents in the survey generally mirror these sentiments, with one-quarter (23%) saying it was *completely fair* and just less than half (45%) saying it was *somewhat fair.*

Among the nearly one in five Manitobans who say this model would be unfair, most feel it would be *somewhat unfair* (10%), while many feel it is *completely unfair* (7%). Again, these sentiments are mirrored by the open link survey, where 21% said the model would be *somewhat unfair* and 11% said it would be *completely unfair.*

Primary Driver Model
How fair do you believe it is to use this model?



Primary Driver Model Assessment

Manitobans' education level appears to have an impact on how they evaluate the potential fairness of the Primary Driver Model. Those with the highest level of education (i.e., post-secondary graduates) are least likely to say that this model would be fair (79%), while those with a less than high school education are most likely to say it is fair (92%).

Outside Winnipeg residents are more likely than Winnipeggers to say this would be a fair model (86% vs. 81%, respectively). Conversely, Winnipeggers are more likely than outside Winnipeg residents to say that this model would be unfair (20% vs. 14%, respectively).

Those who rate the model as fair appear to focus heavily on the primary driver aspect. They assume that the primary driver is likely to also be the vehicle owner. There is a strong continuing sentiment that good driving behaviour should be rewarded and that this model would do so.

- *"Primary driver should be responsible/puts the vehicle at most risk."*
- *"Owner is most likely the primary driver."*
- *"Should be based on the primary driver's record/ rewards good drivers."*
- *"Should be based on the owners driving record."*

There appears to be some level of concern that this model does not adequately assess and account for the risk of other drivers who may use the vehicle. Some Manitobans said that the responsibility for vehicle premiums should be shared among all drivers of the vehicle.

- *"Responsibility should be shared."*
- *"Should not penalize one for the actions of another."*

Many Manitobans, including both those who view this model as fair and as unfair, are concerned that this model will have difficulty with identifying who the primary driver is. They also say that there could be problems with assigning a primary driver if driving is co-shared.

- *"More than one driver uses the vehicle equally/ how do you decide?"*
- "Hard to know who is/will be driving."

There appears to be some concern for how to account for multiple drivers in the household and that the Primary Driver Model may not be fair for families who have to assign a primary driver who may have a lower DSR than others. This seems to coincide with the concern that this model is open to using the system to their own advantage, as with the Registered Owner Model, leading to some concern for fraud within the system if this model is adopted.

- *"Bad/new drivers benefit from drivers with good records."*
- *"Not fair to other drivers in the family."*
- *"Would cost some families more."*
- *"Very hard to monitor/ unable to enforce/ potential for fraud."*

Even among those who view the model as fair, some state that the vehicle owner should bear responsibility for the vehicle insurance.

- *"Owner should be responsible, not primary driver."*

Primary Driver Model Assessment

Strengths and Weaknesses

VoC ePanel members were asked what they felt were the strengths of the Primary Driver Model. They were presented a list of seven guiding principles and concepts behind how auto insurance premiums could be set in Manitoba and asked if they thought each was a strength of the model. The principles and concept statements presented were that:

"It is fair for all Manitobans."

"It would be affordable for less experienced drivers."

"It would be easy to use, that is, easy to purchase."

"It is easy to understand, that is, to know how the rate is set."

"It rewards good driving behaviour."

"It ensures that you pay the right price or rate."

"It requires sharing an acceptable amount of personal information to get vehicle insurance."

While more ePanel respondents saw each of these statements as strengths, there were opinions on both sides, with many respondents seeing them as weaknesses as well.

That it rewards good driving behaviour was seen as the biggest strength of the Primary Driver Model; noted by half of ePanel respondents. Four in ten ePanel respondents said the model would be easy to understand or know how the rate is set, and that it would be fair for all Manitobans.

- Three in ten said it ensures that you pay the right price or rate, and that it requires sharing an acceptable amount of personal information to get vehicle insurance.
- One in four indicated it would be affordable for less experienced drivers, and one in five that it would be easy to use.
- One in five ePanel respondents said that none of these were a strength.

When the same list of principles and concepts was presented to ePanel members (in reverse) as possible weaknesses of the model, one in five ePanel respondents felt that none of the statements represented a weakness. One in three, however, felt that the model would not ensure that you are paying the right price or rate and a nearly equal number thought that it would not be affordable for less experienced drivers.

- One in five said it would not be fair for all Manitobans, that it would not be easy to understand, and that it would not be easy to use.
- More than one in ten said that it would not reward good driving behaviour.

ePanel members were asked to discuss any other strengths and weaknesses of the model. Some ePanel respondents believe that a key strength of the Primary Driver Model is that insurance premiums should be based on the primary driver's record and that this would reward good and safe drivers, while poor and unsafe drivers would pay more for their insurance. This is captured in the following respondent comments:

"Basing rates to reward good driving would be an incentive to continue good driving habits."

"The principal driver of the vehicle pays the appropriate amount, stopping the registration of the vehicle to the person with the best driving record."

"Poor drivers have to pay more."

Primary Driver Model Assessment

A few ePanel respondents also said that the Primary Driver Model would be easy to understand and administer. A few respondents also felt that the model would be less prone to "gaming" or "cheating" the system by registering the vehicle in another driver's name to benefit from another individual's driving record. Some respondents also commented that the model was generally good and fair. These responses are provided below:

> *"It would be simple to use and understand."*

> *"Too many people are taking advantage of someone else's good driving record."*

> *"It is fair to everyone."*

Some ePanel respondents expressed a general negative sentiment towards the model:

> *"I do not agree with this model so I do not see any strengths."*

When discussing weaknesses of the Primary Driver Model, some ePanel respondents believe that this system can be manipulated, where vehicles are registered under a different primary driver, to the benefit of young or "bad" drivers. This also related to another weakness, that it could be difficult to determine the primary driver of the vehicle, and that the model would not be amenable to instances where a vehicle is shared, as it may be difficult to determine how much the vehicle is used by each driver. These concerns are reflected in the following statements:

> *"Customers will use this to selectively reduce premiums. It is not an equitable method of sharing risks with all MPI customers."*

> *"In family situations it may be difficult to determine who is the primary driver. What are the consequences if this info is incorrect??"*

Some respondents identified that this model would not be fair to some primary drivers members of the household; that the model would penalize good drivers, and that "bad" or new drivers would benefit from someone else's good driving record and status as primary drivers. Other comments related to how this model would cost more for certain drivers and/or that this is a "cash grab" by MPI. These comments highlight respondent concerns with this model:

> *"It is potentially unfair to the primary driver or car owner."*

> *"The primary driver could be a good driver and the others may be bad drivers, hence the rate of insurance is not reflective of all drivers."*

> *"Just another money grab from MPI."*

Primary Driver Model Assessment

Overall Qualitative Feedback

The following is a detailed discussion of the qualitative feedback received from the open link survey and the *VoC ePanel* surveys.

A majority of respondents indicated that the Primary Driver Model was either *somewhat* or *completely fair.* By far, the most common reason given for why the model is considered fair was that vehicle premiums should be based on the person who drives the vehicle most (regardless of who actually owns the vehicle). It was often stated that doing so would be an effective way to reward good drivers and penalize those at-fault for collisions through savings or increased cost on the premium. Along these lines, it was often mentioned that it is fair for the primary driver to be declared as it is their driving that creates the risk level, as opposed to the owner who may seldom or never drive the vehicle. These perspectives were mentioned in comments such as:

> *"If I am the registered owner but not the one who will be the driver on a regular basis than the premiums should be based on the driving record of who is driving the vehicle the most."*

> *"It is based on the driver who is operating the vehicle. If they are horrible drivers they should pay more. I have max merits and have never been convicted of a violation so I SHOULD pay next to nothing."*

As with all other models, those who indicated that it is fair often provided feedback pertaining to the model's shortcomings or perceived unfairness. The top theme for the Primary Driver Model being unfair is that it still creates a potential for households to indicate a person as the primary that has the highest DSR, regardless if they are actually the primary driver, and that MPI would be unable to monitor for households employing this tactic. For instance, this theme was evident in the following response:

> *"I feel that it would be tough to enforce when a non-primary driver who was driving regularly. How would MPI know who is really driving the vehicle regularly? I feel that my previous example of an elderly person registering the vehicle and allowing a 16 year old to drive could and would still happen."*

The prospect of having to provide updates if the primary driver changes was considered unfair by some due to it being a hassle, or that they may forget to provide the required updates. The fluid nature of how some households use vehicles (i.e., more than one driver per vehicle and the ever-changing proportion each drive it) was a common theme given the perception that it would be too difficult to track or determine who actually drives the most, and that it is unreasonable to foresee the future use of a vehicle's drivers. This was noted in the following comments:

> *"Locking in a primary owner is cumbersome and likely difficult to change, including adding costs and trips to a broker. If I were able to do this online, that would be great!"*

> *"Because in a family household the primary driver can change many times a month."*

> *"This would be EXTREMELY difficult especially in rural areas where farmers have many vehicles driven by different people at any given time. It would be very time consuming to obtain the necessary information and to update on a regular basis. MPI is trying to make getting insurance easier and I don't know that this would be the right answer."*

> *"The constant update of information may cause some issues as people may forget or not keep up."*

Primary Driver Model Assessment

Some respondents cited a possible increased cost to their household, particularly if a novice driver is a primary driver of a vehicle, and that such an increase in expense would be unfair. It was noted that:

> *"I have seven vehicles and a driver safety rating that is probably a little less than average. This means I would be paying a higher premium on many vehicles I am driving even though I can only drive one at a time."*

> *"A teenager typically has more creases to iron out, and they have the least amount of funds. That impacts the parent's pocket book when paying for insurance."*

Respondents were further invited to share additional questions or concerns about the potential Primary Driver Model. The common themes were quite similar to the feedback as to why the model is considered unfair. Particularly, that MPI would have to rely on an "honour system" and would be unable to monitor if the primary driver is actually the person who drives the vehicle the most. There was also a notable amount of concern that the primary driver for a vehicle may change often and as such it creates an undue hassle to update MPI whenever there is such a change, and the proportion of use by drivers of a certain vehicle would be burdensome for a household to keep track of.

Related to multiple drivers for a vehicle, a common question pertained to what would happen if a non-primary driver is involved in a collision. The following questions were posed:

> *"What if the identified primary driver isn't the one driving the vehicle if it were in an accident? Is it still covered?"*

> *"What if you and your spouse share the vehicle, or if you have a child who uses the vehicle periodically and gets into an accident? How would you prove that they are not the primary driver?"*

About one in five respondents selected the Primary Driver Model as the model they would choose as the best for setting driver and vehicle premiums in Manitoba. The most common theme within the responses is that the model is fair because the premium is based on the main driver (rather than the owner). This included that vehicle premiums should be based on the primary driver as that is the driver who most accurately represents the true risk for most of the time the vehicle is being driven. Some responded generally by stating that the model makes the most sense and that they perceived it to be the fairest model. The following selection of responses illustrate these perceptions:

> *"The person who is using the vehicle needs to assume the risk, doesn't make sense to charge based on someone's good record when the person using it all the time has a bad record. Should be charged based on your own personal driving of your own vehicle."*

> *"Although in our household it would mean slightly higher premiums, it would be the best option for Manitobans to truly represent the risk and make the insurance system fair for all drivers."*

> *"The model accurately captures who is driving the vehicle primarily and basis the rates on that person."*

> *"This creates the clearest possible connection between driving record and insurance rates."*

> *"It seems to me that the most risk is associated with the driver who is the primary driver because they are behind the wheel most often. So, for instance, if a car is registered in a parent's name but the primary driver is an 18 year old university student then the risk of that driver is the one that should be used to assess the premium."*

> *"I think the primary driver of the vehicle should have more of a financial stake rather than just the registered owner."*

> *"Many people with drivers licence do not drive or rarely and should not have to pay for drivers who have accidents."*

Primary Driver Model Assessment

Several specifically mentioned that the model is a benefit to good drivers and/or that poor drivers are duly penalized; that it encourages safe driving. For example:

> *"Responsible for your actions and either pay or are rewarded accordingly."*

> *"Cost of insurance should be determined by good/bad driving record."*

> *"Because this would be based on a good driving record. The better you drive the less you'll pay."*

A few other respondents indicated that the Primary Driver Model gives their fellow customers less ability to manipulate the system, such as to obtain the lowest rate possible. The following comment summarized this notion:

> *"I would choose this one to try to eliminate one person (the one with the best DSR level) from insuring all the vehicle[s] in the household or even outside of the household when the primary driver is not the registered owner."*

All Household Drivers Model Assessment

Most Manitobans evaluated the All Household Drivers Model as unfair.

Primary strengths: Some form of blended rate for the household seen as beneficial because it would make all drivers take responsibility for their actions behind the wheel; and, Good for new or less experienced drivers to benefit from more experienced drivers' discounts.

Weaknesses: Belief that this model would penalize the drivers in a household who had a higher DSR by bringing them down to the level of drivers in the household who have a lower or negative DSR.

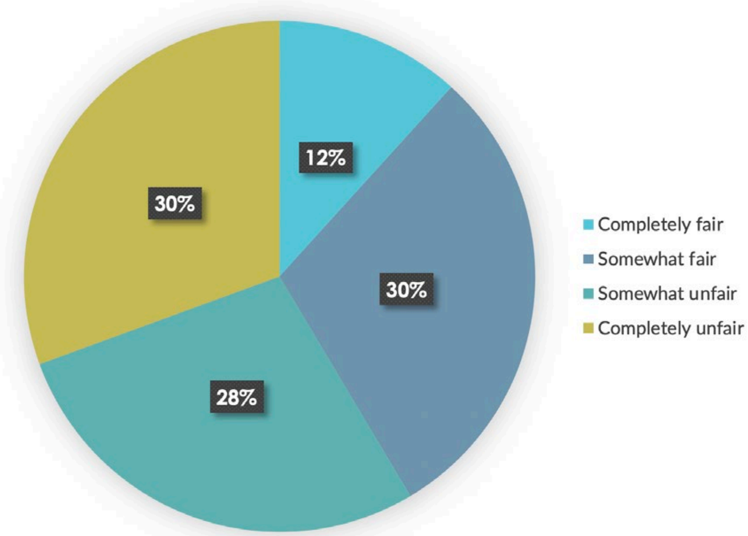
Quantitative Assessment

Manitobans were presented the following description of the All Household Drivers Model:

> *"Under the All Household Drivers Model, the vehicle's insurance premium would be based on the Driver Safety Rating of all the drivers in the household."*

Only four in ten (41%) Manitobans evaluated the All Household Drivers Model as *fair*, with just over one in ten (12%) saying it would be *completely fair* and 30% *somewhat fair*. The majority (59%) said that they thought this model would be *unfair*, with 28% saying it would be *somewhat unfair* and 30% saying it would be *completely unfair*. Respondents in the open link survey mirrored these sentiments, with 37% saying it was *fair* (10% *completely fair*; 27% *somewhat fair)* and two thirds (63%) saying it is *unfair* (29% *somewhat unfair*; 34% *completely unfair*).

All Household Drivers Model – How fair do you believe it is to use this model?



All Household Drivers Model Assessment

Manitobans in the oldest age group, those aged 55 and older, were the only group to see an even split between fair (48%) and unfair (52%) when responding to the All Household Drivers Model.

Manitobans with a high school or less education were more likely than those with post-secondary education to view this model as fair (53% less than high school; 48% high school; 32% some post-secondary; 40% post-secondary graduates).

Manitobans who viewed the All Household Drivers Model as fair focused on the perceived ability of the model to encourage safe driving at the household level. The rewards for good driving would be shared by everyone in the family/household.

- *"All drivers in the family will be sharing responsibility/ based on a household driving record."*
- *"Rewarded for having a good driving record/ household has a good driving record."*
- *"Encourages driving safely/responsibly."*

Some Manitobans who thought this model would be fair said that it wouldn't affect them personally as they are the only driver in the household. Some others said that they thought this model would afford them the opportunity to decide who can and cannot drive their vehicle.

- *"I am the only driver/No affect in my household."*
- *"Flexibility to choose who can/can't drive their vehicle."*

Manitobans who viewed the All Household Drivers Model as unfair focused on the assumption that the model would unduly penalize the good drivers by bringing their rating down to the level of any "bad" drivers in the household. New and young drivers in the household are also viewed as penalizing to the experienced drivers under this model. These concerns were also mentioned by those who viewed the model as fair.

- *"Not fair to other drivers in the family/Penalizing one for actions of another."*
- *"Skill/experience gaps/every driver is different."*
- *"Hard to control others in family."*

There are many Manitobans who question how this model would be implemented. They mention concerns about differential driving of the vehicles by the household members and the difficulty in knowing who would be driving most often, or at all.

- *"Some household members might not drive the vehicle at all/not all drive equally."*
- *"Difficult to determine how much a vehicle is driven (i.e. seldom driven, borrowed vehicle)."*

Some people mention that they think this model misses the mark and that vehicle premiums should be based on who owns the vehicle or who drives it most often.

- *"Registered owner should pay."*
- *"It should be based on the main driver/individual's record."*

There is also some concern that the All Household Drivers Model would not produce better or safer drivers. Instead, poor drivers would be discouraged from becoming better by not having to bear the full cost of their poor driving; that is, drivers with a higher DSR in the household would insulate the drivers with a lower DSR.

- *"Not curtailing poor driving/Unsafe drivers should have higher premiums."*

There is some level of concern that the All Household Drivers Model would increase vehicle premiums over their current levels.

- *"Would cost more/Trying to make more money."*

All Household Drivers Model Assessment

Strengths and Weaknesses

VoC ePanel members were asked what they felt were the strengths of the All Household Drivers Model. They were presented a list of seven guiding principles and concepts behind how auto insurance premiums could be set in Manitoba and asked if they thought each was a strength of the model. The principles and concept statements presented were that:

"It is fair for all Manitobans."

"It would be affordable for less experienced drivers."

"It would be easy to use, that is, easy to purchase."

"It is easy to understand, that is, to know how the rate is set."

"It rewards good driving behaviour."

"It ensures that you pay the right price or rate."

"It requires sharing an acceptable amount of personal information to get vehicle insurance."

ePanel respondents were much more likely to see these statements as weaknesses of the All Household Drivers Model than to see them as strengths.

Nearly half of ePanel respondents thought that none of the statements was a strength of the All Household Drivers Model. One in four did say that the model would reward good driving behaviour, which was the biggest strength of the All Household Drivers Model.

- One in five thought it would be fair for all Manitobans and that it requires sharing an acceptable amount of personal information to get vehicle insurance.
- More than one in ten said the model would be affordable for less experienced drivers, and would ensure that you pay the right price or rate.
- One in ten said the model would be easy to understand or know how the rate is set.
- Very few said that it would be easy to use.

When the same list of principles and concepts was presented to ePanel members (in reverse) as possible weaknesses of the model, half said that the All Household Drivers Model is not fair for all Manitobans.

- More than four in ten said that it would not be easy to understand or know how the rate is set, and that it would not ensure you were paying the right price or rate
- Four in ten said that it would not be easy to use, and that it requires sharing too much personal information to get vehicle insurance.
- One in three said that it would not reward good driving behaviour.
- More than one in four said that it would not be affordable for less experienced drivers.

ePanel members were asked to discuss any other strengths and weaknesses of the All Household Drivers Model. Despite being asked to discuss the strengths of the model, some respondents still had generally negative things to say, such as it's a poor system, not fair, or that a different system is needed. It was noted that:

"I do not agree with this model."

"Again a bad choice; not fair for most people."

All Household Drivers Model Assessment

Nearly as common, ePanel respondents did reiterate that a key strength of the model is that all drivers in a family share responsibility for the use of their vehicle(s) and/or that premiums would be based on the records of the entire household. This sentiment was expressed in the following comments:

"It would be based on all drivers of the vehicles driving behaviour."

"Models risks of all drivers."

Some respondents mentioned that another strength of the model is that it rewards those drivers and households with good driving records, whereas it makes "bad" drivers pay more. These perspectives were mentioned in comments such as:

"Good household of drivers get rewarded with lower premiums."

"Better chance at spreading the appropriate cost over an entire family."

A few respondents insisted that the model was not fair to other household members and/or that it penalized one for the actions of others.

When asked about the weaknesses *of the model, the most commonly cited response was that* the model was not fair to other household members and/or that it penalized one for the actions of others. A few respondents provided the same response to the previous question, which asked about the *strengths* of the model. These were noted in the following comments:

"The good drivers in the group would feel victimized by any driver in the group having multiple demerits."

"It penalizes households that have new drivers."

"This system would penalize good drivers. Not right."

"This system punishes all! Not fair to the others that do not have issues."

Another common theme and concern of respondents was that "bad" drivers or new drivers could benefit from drivers with good records, while good drivers would not benefit in return. These perspectives were mentioned in comments such as:

"The rate would be highly influenced by the driver with the worst record. Does not reward good drivers."

"It would allow bad drivers to slip under the protection of the vehicle's owner, and thus, aiding their bad driving habits."

"Better drivers will have to absorb the cost for drivers with poor safety ratings."

Nearly as common, respondents took issue with the complexity of the All Household Drivers Model, and said that this would lead to difficulties in administration and enforcement, have implications for individuals using the model fraudulently, and would ultimately cost more money for the customer. The following responses expressed these opinions:

"Very complicated to compile info and have an average rating. Could lead to divorce!!"

"Too much depends on the honesty of the purchaser. How would it be monitored?"

"People are going to lie about who is in household."

"It is money driven."

All Household Drivers Model Assessment

Overall Qualitative Feedback

The following is a detailed discussion of the qualitative feedback received from the open link survey and the *VoC ePanel* surveys follows.

Respondent sentiment towards the All Household Drivers Model was generally negative, as the majority of respondents believe that this model is *somewhat* or *completely unfair*. Regardless of respondents' perceptions of the model as fair or unfair, a number of distinct themes emerged from participant responses.

The single most frequently cited theme is that respondents believe this model is not fair to other drivers in a family/household and/or penalizes persons in the household based on the actions of another. Participant responses generally focus on "bad" drivers affecting premiums of good drivers, or the impact that new teenager drivers would have on household premiums. These concerns are expressed in the following comments:

> *"By this, if I have 3 teenagers (children), I primarily driver the vehicle, have a +15 on the scale but occasionally let my kids driver the vehicle to go to the store, school or see a friend, my rate will go significantly down and I am the primary driver of the vehicle?"*

> *"Good drivers sacrifice discounts because of a new driver with no merits who has not had a chance to establish a driving record. Insurance premiums potentially rise for all vehicles even though the less experienced driver may not use them all."*

While still prominent, other negative comments from respondents focus on how the All Household Drivers Model is too complex and difficult to understand/administer and that this model would result in ratepayers paying more money. Some participants also indicate that this model would negatively affect household members who don't drive the vehicle at all, or may lead to difficulties in determining how vehicle-use is split within the household. This sentiment was expressed in the following comments:

> *"Certainly more complex to administer, and life being as complicated as sometimes it can be, I don't expect it would end up working as designed in many cases."*

> *"Again this seems like MPI is trying to make more unfair profits off the backs of Manitobans."*

> *"I don't believe this system fairly shows who is using what vehicle. Just because there are multiple vehicles registered to a household doesn't mean everyone in the house is driving all of them."*

Less frequently cited negative themes included that the All Household Drivers Model would be subject to potential fraud as it would be very hard to monitor and enforce. Respondents also believe that premiums should be based on the primary driver's record. These perspectives were mentioned in comments such as:

> *"I think it would make applying for insurance very time-consuming. I don't get how MPI could rely on owners to tell the truth about who drives the vehicle."*

> *"This model is unfair because it should be based on an individual driver, not the combined DSR levels of all other drivers in the same household, who may be driving different vehicles."*

Despite mostly negative comments, respondents also had positive things to say about this model. Some believe that the All Household Drivers Model shares responsibility among all drivers in the family. They acknowledge that premiums would be based on the entire household's records. While less common, some respondents believe that the model makes sense and is reasonable/fair. The following response expressed this opinion:

> *"I like this model - I think it provides owners/drivers with responsibility. If the driver abstract reflects poor driving habits on the roads then this should be reflected in their insurance premiums."*

All Household Drivers Model Assessment

Some respondents opted to share additional questions and concerns about the All Household Drivers Model, which were similar in nature to reasons given of why the model is or is not fair. The most commonly cited questions and concerns are that this model is complicated, hard to understand, and may be difficult to administer by MPI. Cited at nearly the same frequency, the second most common questions or concerns relate to the model being perceived as unfair to other drivers in the family or that the model penalizes a member of the household due to the actions of another.

While less common, some respondents expressed a general dislike towards the All Household Drivers Model, whereas others had questions or comments about the difficulties associated with determining how much a vehicle is driven and/or what would occur in situations where a vehicle was loaned to a driver from outside the household. Respondents had similar questions or comments about situations where some household members don't actually drive the vehicle at all or where a vehicle(s) is not shared equally by the household.

A few respondents drew attention to how this model may not be fair to households where roommates are present or where accommodations are shared, but its members are not related. Similarly, a few respondents indicated that they don't like the amount of information sharing and collection required for this model.

While a number of other respondents had some other type of question or concern about the All Household Drivers Model, the only other discernable issues noted were about how MPI would address situations where "guest drivers" are operating the vehicle or how MPI would calculate a driver's DSR and premiums under this new model.

The All Household Drivers Model was one of the least often selected models as the preferred for setting driver and vehicle premiums in Manitoba. Due to the model's lack of popularity, there were comparatively few responses explaining why the model was selected. The most common reasons were that it ensures that everyone in the household shares responsibility for its vehicles, and that it is perceived to be the fairest model in general. A few indicated that the All Household Drivers Model would promote safe driving behaviours since the actions of one would affect all other drivers in the household. This was mentioned in the following sample of responses:

> *"This will allow all drivers [in] the same household to share financial responsibility of the insurance premium. Also, this will encourage all drivers to be a better driver to keep the vehicle insurance premium low."*

> *"The All Household Drivers Model seems to be the best for encouraging fair driving while staying very fair and affordable for Manitobans. It ensures that families will discuss safe driving, and practice it, as well as lessen the insurance premiums for safe drivers who own a vehicle that nobody else drives. It is the most fair out of all the options. It also does not allow any unsafe drivers who do not own a car to escape paying any penalties."*

Declared Drivers Model Assessment

Most Manitobans said it would be fair to use the Declared Drivers Model.

Primary strengths: Would hold all drivers accountable for their driving behaviours; and; Allows vehicle owner a say in who could and could not drive their vehicles.

Weaknesses: Difficult to administer and enforce; Inconvenient to have to declare all the potential drivers; and, May not allow for one-time or emergency driving situations.

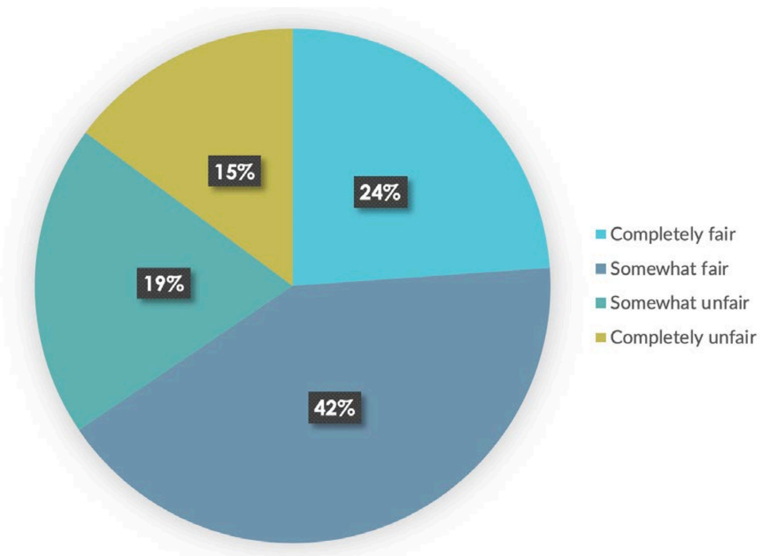
Quantitative Assessment

Manitobans were presented the following description of the Declared Drivers Model:

> *"Under the Declared Drivers Model, the vehicle's insurance premium would be based on the Driver Safety Ratings of all the declared drivers listed on the vehicle's policy."*

Two-thirds (66%) of Manitobans said that it would be fair to use the Declared Drivers Model to set Autopac premiums, including 24% saying *completely fair* and 42% *somewhat fair.* The one in three (35%) who said it would be *unfair* to use this model are split between it being *somewhat unfair* (19%) and *completely unfair* (15%). Respondents in the open link survey had similar sentiments, but were more evenly split about the fairness of this model overall, with 51% saying it was *fair* (14% *completely fair*; 38% *somewhat fair*) and 49% saying it is *unfair* (25% *somewhat unfair*; 24% *completely unfair*).

Declared Drivers Model – How fair do you believe it is to use this model?



Declared Drivers Model Assessment

Younger Manitobans, aged 18 to 34, are much more likely than older age groups to say that the Declared Drivers Model would be fair. Conversely, Manitobans age 35 and older are much more likely than those aged 18 to 34 to say that the model would be unfair. (18-34: 73% fair – 27% unfair; 35-54: 61% fair – 39% unfair; 55+: 63% fair – 37% unfair)

Among Manitobans who said it would be fair to use the Declared Drivers Model, the primary focus was on the shared responsibility of those who are driving the vehicle. Having the vehicle premiums based on their driving records is seen as providing rewards to good drivers, and giving flexibility to vehicle owners to choose who can and cannot drive their vehicles. This was positively viewed as encouraging safe and responsible driving.

- *"All drivers will be sharing responsibility/Based on declared driver's records."*
- *"Flexibility to choose who can/can't drive their vehicle."*
- *"It rewards good drivers."*
- *"Encourages safe/responsible driving."*

For some, using this model would not have any effect on them as they are the only driver in the household.

- *"I am the only driver/No affect in my household."*

The primary concern among Manitobans who said that the Declared Drivers Model would be unfair is the belief that this model would penalize good drivers by bringing them down to the level of the poor or new, less experienced drivers in the household (those with a lower DSR). Many people who viewed the model as fair also mentioned this concern.

- *"Not fair to other drivers in the family/Penalizing one for actions of another."*

There are some strong concerns and questions about how this model would be implemented and managed. Manitobans mentioned that it would be difficult to declare all drivers in advance, and question how emergency situations (e.g., someone needs to drive, but are not declared on the policy) would be handled. There is also some concern for the amount of driving that each declared individual would be doing and how that would be accounted for under this model.

- *"Difficult to know (keep track of) who will be or is driving the vehicle/amount people drive the vehicle (including in what proportion)."*
- *"Hard to declare drivers in advance/ What happens in emergencies."*
- *"Seems complicated/How would it be implemented/Too many variables/Difficult to administer."*

There is some level of concern that this model's focus on declared drivers would not account for all potential drivers. This leads some to question if the model would restrict drivers to only those declared on the policy.

- *"Should be based on everyone driving the vehicle (i.e., not just declared drivers)."*
- *"Non-declared drivers are restricted from driving the vehicle/owner should be able to allow people to drive."*

Some Manitobans are concerned that this model would be subject to people manipulating it and not declaring all the drivers, or that some people may be misleading or dishonest about how much driving is actually done by individuals declared on the policy.

- *"System can be manipulated/purposely not declare drivers."*

Declared Drivers Model Assessment

Some Manitobans went on to say that the premium charged should be based on the primary driver of the vehicle, while others said that it should come down to who owns the vehicle.

- *"Should be based on the main driver/individual's record."*
- *"Only registered owner should pay."*

There is some level of concern that the Declared Drivers Model would increase vehicle premiums over their current levels.

- *"Would cost more/Trying to make more money."*

Declared Drivers Model Assessment

Strengths and Weaknesses

VoC ePanel members were asked what they felt were the strengths of the Declared Drivers Model. They were presented a list of seven guiding principles and concepts behind how auto insurance premiums could be set in Manitoba and asked if they thought each was a strength of the model. The principles and concept statements presented were that:

"It is fair for all Manitobans."

"It would be affordable for less experienced drivers."

"It would be easy to use, that is, easy to purchase."

"It is easy to understand, that is, to know how the rate is set."

"It rewards good driving behaviour."

"It ensures that you pay the right price or rate."

"It requires sharing an acceptable amount of personal information to get vehicle insurance."

About half of ePanel respondents said none of these statements were strengths, while fairly large proportions saw each as a weakness of the Declared Drivers Model.

That it rewards good driving behaviour was seen as the biggest strength of the Declared Drivers Model; noted by one in four ePanel respondents.

- One in five said it would be fair for all Manitobans, and that it ensures that you pay the right price or rate.
- Just less than one in five said that it requires sharing an acceptable amount of personal information to get vehicle insurance.
- One in ten said that it would be affordable for less experienced drivers, and that the model would be easy to understand or know how the rate is set.
- A few said that it would be easy to use.

When the same list of principles and concepts was presented to ePanel members (in reverse) as possible weaknesses of the model, nearly half said that the Declared Drivers Model would not be easy to use, would not be easy to understand how the rate is set, and that it would not be fair for all Manitobans.

- Four in ten said that it requires sharing too much personal information to get vehicle insurance.
- One in three felt that the model would not ensure that you are paying the right price or rate, and a nearly equal number said it does not reward good driving behaviour.
- One in five said that it would not be affordable for less experienced drivers.

ePanel members were asked to discuss any other strengths and weaknesses of the Declared Drivers Model. Despite being asked about any additional strengths, the most commonly cited response is a general dislike of the model and/or that it is not fair. For instance, this was mentioned in the following responses:

"No strengths."

"I do not agree with this model."

"This is unfair approach."

Declared Drivers Model Assessment

Some respondents had positive things to say about the Declared Drivers Model. In particular, respondents felt that this model was good because all drivers will share responsibility or that Autopac premiums will be based on declared drivers' records. Some comments that capture this sentiment include:

> *"It doesn't allow a person to side step the assessment on their driving behavior."*

> *"It puts the onus on the actual drivers to pay for the use and adds a pressure on them to improve their driving or risk loss of use."*

Respondents provided additional comments related to both positive and negative themes. A few respondents believed that the model was generally positive, in that it made sense and was reasonable/fair. However, just as many respondents said that this model is too complicated, raising questions about how the model would be implemented, with too many variables that could be difficult to administer. The following comments highlight these concerns:

> *"It would make it fair to most drivers."*

> *"Need more info as to how MPI would determine rate based upon driver sounds complex and very unclear."*

> *"Complicated and difficult to maintain."*

When asked about the weaknesses of the model, the most common response was that this model was too complicated, difficult to implement, and has too many variables that would be difficult to administer. This sentiment is captured in the following remarks:

> *"It is too complicated. If a driver was missed it could void your insurance. You would have to update more frequently."*

> *"Unnecessarily complex and would require more administrative work on the part of MPIC and the owner."*

> *"Too hard to implement and claims would be difficult to prove."*

Other negative themes included that the Declared Drivers Model had some shortcomings: it would be difficult to monitor and enforce; and that it isn't fair to certain drivers in the household, as the actions of one driver could penalize another. Other issues included concerns that this model could cost more money for Manitobans, and that the model restricts an owner's ability to allow other non-declared drivers to use their vehicle. These issues are provided as follows:

> *"This model is begging the customer to provide false information to achieve a lower premium. I think the administration would be impossible."*

> *"It would penalize drivers who have worked to have a good driving record as soon as they have an inexperienced driver in the house."*

> *"Too costly to administer."*

> *"With the declaring of drivers for this vehicle, no one else can legally drive this vehicle."*

Declared Drivers Model Assessment

Overall Qualitative Feedback

The following is a detailed discussion of the qualitative feedback received from the open link survey and the *VoC ePanel* surveys.

A slight majority of respondents indicated the Declared Drivers Model to be either *somewhat* or *completely unfair*. Respondents provided ample feedback as to why they consider the Declared Drivers Model to be unfair, with the most common theme being the perceived complex nature of the system and the administration required to maintain the model's system. Speculatively, and given the nature of the opportunity sample created by the open link survey, it is possible that those with a greater knowledge of how auto insurance works, such as those who work in the insurance industry, were more inclined than others to complete the survey, which could explain in part the prevalence of responses related to the Declared Drivers Model being *"difficult to administer."*

Nonetheless, the model's complexity that leads to confusion and administrative difficulty was the most recurrent theme for the model being unfair. For example, these responses indicate the perception of the difficulty to understand and to administer:

> *"I had to read this three or four times to somewhat understand what it said. This is definitely too complex for the average client to understand."*

> *"It would be a very complex model to administer which in turn would cost drivers more."*

> *"This is even more complicated for the consumer. There are people who still believe their driver licence gets renewed the same month of their birth. That change happened over 15 years ago!!"*

Other recurring reasons pertaining to complexity were that it would be difficult for households to keep track of (or be able to list in advance) everyone who would be driving a certain vehicle, that it would be problematic or impossible to be adequately enforced by authorities and/or MPI, and that it would be burdensome to have to make changes to the declared driver list for a vehicle (e.g., frequently adding and removing declared drivers). These responses are seen in the following comments:

> *"People need to hop in and drive, not be worried about who they declared and when. Things can easily come up that would lead to a non-declared driver needing to drive."*

> *"We don't always know who in household might need to use a vehicle, I have never driven my partner's truck but in an emergency I would."*

> *"It would be too hard to monitor."*

> *"This model appears to be too admin heavy for both the consumer and insurance company."*

> *"What a pain that would be to have to indicate every time someone may borrow my car for a few hours."*

The Declared Drivers Model was also cited as being unfair due to the perception that it penalizes some in the household for the actions of another, such as one individual with a lower DSR 'pulling down' the average DSR based on all the vehicle's drivers. Similar to this reason, some respondents mentioned that the "cost of risk" should instead be charged on an individual's licence and not affect the premium of a vehicle that may be used by more than one driver. It was stated that:

> *"I don't want to see my premiums effected by someone other than me. I understand the concept and don't necessarily disagree with why this would be looked at but I maintain a good DSR level and that should not be affected by someone else."*

> *"Put the risk on the driver's license of the drivers with less experience or a bad driving record. The vehicle is not at fault, but the driver. If I have a good record and someone with a poor driving record drives my car occasionally the premium on their licence should reflect the risk premium. Car insurance should be based on the safety record of the vehicle, not the drivers."*

Declared Drivers Model Assessment

As with other models, a common reason given for it being unfair is that households can manipulate the system to obtain the lowest premium possible, in the case of the Declared Drivers Model, it was indicated that households may not declare drivers who have lower DSRs so as to obtain a higher average DSR to be used for the calculation for the vehicle's premium. For instance:

> *"This would be a good model in a perfect world. People are not truthful and therefore will not list a driver of the vehicle with a bad safety rating. But will still let that person drive the vehicle. The model needs to be cut and dry, and not be able to be manipulated by drivers."*

Similar to the other models where the premium is calculated using drivers' (not the owner's) DSR, the possibility of an increase in cost was often mentioned, particularly so for households with novice drivers with a lower DSR. It was noted that:

> *"If I declare my teenage daughter the average would increase my premium a lot. I understand how the system works. It sounds fair on the surface but under any of these programs except the current model I am going to end up paying more for insurance when I am a good driver. Shouldn't those who aren't get charged more?"*

> *"Appears designed to extract maximum premiums from vehicle owners."*

However, in contrast to other models, the amount of mentions about privacy (i.e., not wanting to share personal information such as who drives what vehicles) was a notably more common response in the Declared Drivers Model. This is seen in the following selection of responses:

> *"I am getting uncomfortable with the amount of info sharing and how MPI may analyze that information as we go through these scenarios."*

> *"Slight invasion of privacy, potential for abuse."*

> *"None of your business who drives the vehicle."*

Some respondents provided their reasoning for considering the Declared Drivers Model to be fair. Here, the most common response was that all drivers of a vehicle share responsibility for its use and as such it takes all of their DSRs/risk into account for the premium. As well, a few indicated that it allows an owner flexibility and control of who can and cannot drive the vehicle. These responses were indicated in the following comments:

> *"The insurance rate is based upon everyone who drives the vehicle and not just one person."*

> *"I like this model the best. Premiums should be based on who drives the vehicle."*

> *"As a registered owner I will decide that more risky drivers [in] my family would not drive my vehicles or they would have to take more driver education if they want to drive or they would actually have to contribute to the increased premiums."*

Some respondents opted to share additional questions and concerns about the Declared Drivers Model, which were similar in nature to reasons given of why the model is or is not fair. The most common concern pertained to the perceived complicated nature of the Declared Drivers Model's system such as its implementation, administration, and ability to monitor and enforce. This theme was followed by the concern of households deliberately manipulating the system to obtain a lower premium by strategically not declaring certain drivers (i.e., with a lower DSR).

A common question was of the nature of consequences if a driver is "caught" driving a vehicle they were not on the declared list for. This was expressed in the following selection of comments:

> *"My only concern is whether my insurance is still valid if someone happens to be driving who isn't listed."*

> *"What were to happen if someone other than a declared driver was driving and had an accident? How would this impact the policy holders claim? Would coverage be in question?"*

Declared Drivers Model Assessment

Other common questions and concerns related to people not on a vehicle's declared list being unable to drive it (e.g., houseguests, emergency situations, designated drivers/Operation Red Nose). It was indicated that:

"It could complicate insurance matters when relatives are visiting or the owner's ability to be helpful and kind when needed."

"Situations happen when you may need to borrow someone's car for a week or two. It would be a pain to technically have to be added as a driver of their vehicle for such a short period of time."

"Could put a damper on services such as Red Nose, depending on exemptions for such one-time uses."

"This could definitely lead to people who drive impaired because a designated driver isn't on my insurance."

The Declared Drivers Model was one of the least chosen models for being the best to use when setting vehicle and driver premiums in Manitoba. Among the reasons provided by those who did select it as their model of preference, the model being perceived as fair in general was the most cited reason. A more accurate reflection of risk was a theme among several responses, including several who stated that it is better to assess risk by incorporating all of a vehicle's drivers' DSRs. Some responses that conveyed these perspectives include:

"This idea makes the most sense. You want to drive the car? You need to be on the insurance policy, and if you are a bad driver, then that needs to be reflected in the cost of the insurance."

"It seems to be the best option to estimate the rates according to the risk we actually face on the roads."

"The fairest of proposed models."

"Appears to be the most fair."

Some also mentioned that the Declared Drivers Model would do more to ensure that drivers make safe driving choices given their DSR is used in part in the premium calculation, with a few stating that it rewards good drives and penalizes poor drivers. For instance, it was noted:

"Might make other drivers listed watch how others in the group drive and be more vocal if they objected to their driving habits because they would all have to pay extra because of one bad driver."

"It accurately assesses the risk and so good drivers enjoy the maximum benefit while poor drivers are adequately penalized and unable to mask their driving habits."

"Rates would be based on Drivers' record for the vehicle registered regardless of who registers it."

"I like this one as it reflects how many deferent drivers may be actually be using one vehicle. All drivers are contributing to the vehicles use and ultimately the possibility of an accident."

A few also wrote that there would be less ability to manipulate the system since all drivers have to be listed, not just the one(s) with a high DSR. For example:

"Does not allow one person in the household who has a good driving record to register vehicles in order to save money for another household member who does not have as good of a rating."

"It would rule out someone with a good driving record registering a vehicle for another driver which would lower the premiums."

"Would prevent the best rated driver from being the one to insure the vehicle."

Driver Premium Model Assessment

Manitobans are divided on whether they see it as fair to use the Driver Premium Model.

Strengths: Shifts more of the risk based premiums onto all drivers and lowers the vehicle insurance premiums; and, Makes all drivers responsible for insurance premiums, regardless of vehicle ownership.

Weaknesses: Belief that this model would penalize those who have a licence, but don't drive often or at all

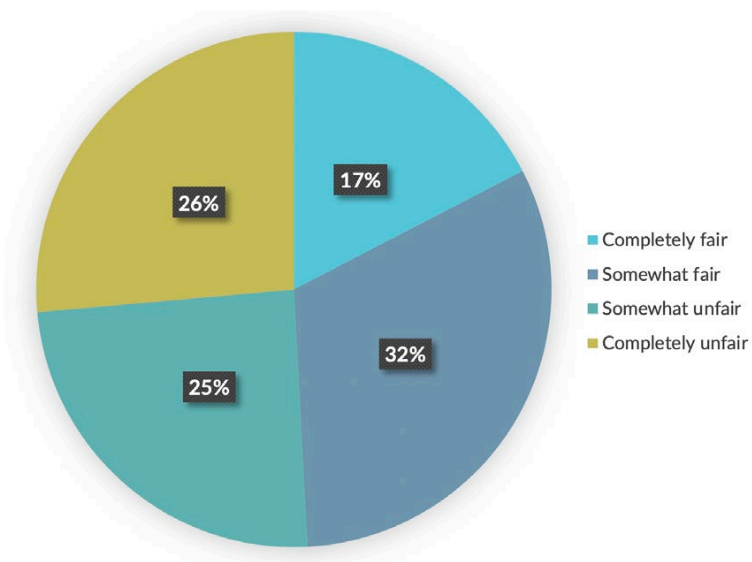
Quantitative Assessment

Manitobans were presented the following description of the Driver Premium Model:

> *"Under the Driver Premium Model, people who hold a driver's licence but do not register or insure a vehicle in their name would pay an additional "non-owner" driver premium, based on their Driver Safety Rating. The driver premium collected from these "non-owners" would be used to lower vehicle premiums for the pool of insured vehicles."*

Manitobans are divided on whether they see it as fair to use the Driver Premium Model to set Autopac rates in Manitoba. Half (49%) said it would be *fair* (including 17% who said it would be *completely fair* and 32% *somewhat fair*), while half (51%) said it would be *unfair* (including 25% who said it would be *somewhat unfair* and 26% *completely unfair*). Respondents in the open link survey mirrored these sentiments, with 57% saying it was *fair* (25% *completely fair*; 33% *somewhat fair*) and 43% saying it is *unfair* (17% *somewhat unfair*; 26% *completely unfair*).

Driver Premium Model –
How fair do you believe it is to use this model?



Driver Premium Model Assessment

Whether this model is considered fair or not appears to differ with age. The youngest age group (those aged 18 to 34) are most likely to view the Driver Premium Model as unfair, while the oldest age group (aged 55 and older) are the most likely to view the model as fair. (Fair: 18-34 – 43%; 35-54 – 49%; 55+ – 55% / Unfair: 18-34 – 57%; 35-54 – 51%; 55+ – 45%)

Men and women differ on how they assess the fairness of this model. Men are more likely to say the model is fair (52% male; 47% female) while women are more likely to say it is unfair (49% male; 53% female).

Those who view the Driver Premium Model as a fair way to set rates primarily focus on the idea that all drivers should bear responsibility in the system, not just vehicle owners. They often say that they believe this model will lower costs.

- *"All users are responsible/Every driver is held responsible."*
- *"Lowers the costs."*

The idea that whatever system is implemented should reward good driving behavior with lower premiums and have drivers with a lower DSR pay more is seen as a positive for the Driver Premium Model. Regardless of whether they saw this model as fair or unfair, many Manitobans use this idea to justify their stance.

- *"Rewards good drivers/based on driving history/bad drivers pay."*

Among Manitobans who view the Driver Premium Model as unfair, the primary concern is that this model penalizes non-owners. Whether they don't own a vehicle because they can't afford one or because they don't drive very much, many people felt this model would treat those particular drivers in an unfair manner. People also point out that it is difficult to determine how much driving a non-owner actually does.

- *"Penalizing people who can't afford a vehicle/No vehicle then no premiums."*
- *"People who don't drive very much shouldn't have to pay."*
- *"Difficult to determine how much vehicle is driven."*
- *"Not fair to other drivers in the family/penalizing one for actions of another."*

Some people wondered how fair this model is for Manitobans who only hold a driver's licence as government issued identification.

- *"Just use licence for identification."*

Some Manitobans expressed concern that the Driver Premium Model can still be manipulated so that poor and less experienced drivers would pay less than their fair share.

- *"System can be manipulated/register vehicles for less for young or bad drivers."*

There is a strong concern that the Driver Premium Model would cost more. This view is shared by Manitobans who see this model as fair and unfair alike.

- *"Would cost more/trying to make money."*

Some Manitobans said that the vehicle premium charged should be based on the primary driver of the vehicle, while others said that it should come down to who owns the vehicle.

- *"Should be based on registered owner only."*
- *"Owner should only be responsible for paying."*

Driver Premium Model Assessment

Strengths and Weaknesses

VoC ePanel members were asked what they felt were the strengths of the Driver Premium Model. They were presented a list of seven guiding principles and concepts behind how auto insurance premiums could be set in Manitoba and asked if they thought each was a strength of the model. The principles and concept statements presented were that:

"It is fair for all Manitobans."

"It would be affordable for less experienced drivers."

"It would be easy to use, that is, easy to purchase."

"It is easy to understand, that is, to know how the rate is set."

"It rewards good driving behaviour."

"It ensures that you pay the right price or rate."

"It requires sharing an acceptable amount of personal information to get vehicle insurance."

ePanel respondents were fairly divided regarding whether each of these statements was a strength or a weakness of the Driver Premium Model. One in three mentioned that none of the statements was a strength, while an equal number said that none was a weakness.

That it would be fair for all Manitobans was seen as the biggest strength of the Driver Premium Model; noted by nearly half of ePanel respondents.

- One in three said the model would reward good driving behaviour, and that it ensures you pay the right price or rate.
- One in four said it would be easy to use, and that it would be easy to understand how the rate is set.
- One in four said that it requires sharing an acceptable amount of personal information to get vehicle insurance.
- One in ten said that it would be affordable for less experienced drivers.

One in three ePanel respondents felt that the Driver Premium Model would not be fair for all Manitobans, making this the biggest weakness of the model. A nearly equal number said that it would not be affordable for less experienced drivers.

- One in four felt that the model would not ensure that you are paying the right price or rate, and that it would not be easy to understand or know how the rate is set.
- One in five said that the model would not reward good driving behaviour.
- More than one in ten said that it requires sharing too much personal information to get vehicle insurance.
- One in ten said that it would not be easy to use.

Driver Premium Model Assessment

ePanel members were asked to discuss any other strengths and weaknesses of the Driver Premium Model. In discussing potential strengths, some ePanel respondents identified that this model would ensure that all drivers more equitably contribute to Autopac costs. A similar number of respondents indicated that they believe the model places greater responsibility on all road-users, whereby every driver is held accountable for their driving behaviour. This is captured in the following remarks:

> *"I like the non-owner premium. Then everyone pays, if they drive."*
>
> *"Why would you have a driver's license if you don't drive? And if you drive, no matter what car, you should have to pay some insurance."*
>
> *"It addresses the issue that drivers are the main source of risk related to auto accidents."*
>
> *"This is my preferred model. People who hold a drivers licence and do not own a car STILL drive on occasion (car co-ops, rentals, borrowing a car). These drivers should help carry the load of insurance premiums."*

Despite being asked to comment on the *strengths* of the model, a few respondents provided generally negative remarks about this model, suggesting that it would not be fair, or that they generally disliked it. For example:

> *"I don't know that there are any strengths to this model."*
>
> *"I do not agree with this model."*

When asked about the potential *weaknesses* of the Driver Premium Model, the most common theme provided by ePanel respondents is that this system would penalize those who can't afford a vehicle and that those who don't own a vehicle shouldn't have to pay Autopac premiums. These views included:

> *"It discriminates against someone who can't afford a vehicle."*
>
> *"It would make having a driver's license more expensive for individuals who choose not to own a vehicle because of necessity and or financial reasons. Some of these people choose to bus to work. They may also have to drive for work or have use of employer vehicle that they have to expense."*
>
> *"Seems unfair to charge more just because you don't have a car registered in your name."*

Some other respondents felt that bringing in the Driver Premium Model would cost Manitobans more, or that doing so would be a 'cash grab'. This sentiment is reflected in the following comments:

> *"The thought of having to pay extra on top of paying for a driver's license could be more that some people are willing to do."*
>
> *"MPI want more money."*

Finally, a few respondents said that this model was unfair to those who don't drive very much and that these individuals shouldn't have to pay a driver premium. A few respondents also expressed a general dislike for this model, citing that it is unfair to Manitobans. This consisted of the following comments:

> *"There are many 'non-owners' with valid driver licenses, who NEVER operate a vehicle anymore, but want to keep their licenses for various reasons. The increased premiums would not be fair to them."*
>
> *"You should only have to pay for this insurance if you require it. If you have your license but don't drive, why should you have to pay extra?*
>
> *"Not fair. That's all I am saying."*
>
> *"It is not fair for all Manitobans."*

Driver Premium Model Assessment

Overall Qualitative Feedback

The following is a detailed discussion of the qualitative feedback received from the open link survey and the *VoC ePanel* surveys.

Respondent sentiment towards the Driver Premium Model was relatively split, with about half of respondents saying the model is *somewhat* or *completely fair*. While there are a number of distinct themes evident a few key themes stand out more than others.

The most commonly cited theme is positive, as respondents cited that the Driver Premium Model should ensure that all drivers, regardless of vehicle ownership, will contribute to the auto insurance pool. For example:

> *"Every driver should share in the costs of the insurance scheme. Just because they don't own a vehicle doesn't mean they can't be in an accident and incur huge costs for the program. This is the most equitable way to share the costs. This is the best of the models presented so far."*

Other common themes included some criticisms. Some believe that the model is not fair and penalizes people with a driver's licence that can't afford or do not own a vehicle. Others believe that those who do not own a vehicle should not pay a driver's premium. Some respondents identified a preference for a particular element or feature of a different model as preferential to the Driver Premium Model. While less common, across some cases respondents indicate that this model was still preferred, so long as certain concerns or features were addressed as part of the model. For example:

> *"Not everyone can afford to own a vehicle, but have access to one to use on a regular basis. Charging them for not owning something expensive is unfair."*

While slightly less prevalent, some respondents have negative concerns with the Driver Premium Model in that it would cost ratepayers more in the long-run. This is accompanied by a concern that people who don't drive very often shouldn't have to pay an additional driver premium. Respondents also identified an issue with this model in that there are some drivers who only use their driver's licence for the purpose of government identification and may be negatively affected. Relevant comments included:

> *"This sounds like a cash grab to me but may need more info."*

> *"Someone who has a licence but doesn't normally drive shouldn't have to pay more."*

> *"It penalizes people who only hold a driver's licence for when they occasionally rent a vehicle or use it as a means of ID."*

On the positive side, some respondents believe that this model is generally positive in that it makes sense, is reasonable and/or is completely fair. Another positive aspect of this model is that respondents believe that it will reward good drivers based on driving history and/or that "bad" drivers will pay more premiums under this model. For example:

> *"It's fair as long as they use a car or have access to a car."*

> *"This is by far the best model. This would [en]sure individual drivers are accountable for their actions instead of vehicle owners being punished."*

> *"Rewards good driving habits and punishes bad driving habits of those who don't own a vehicle."*

Some respondents opted to share additional questions and concerns about the Driver Premium Model which were similar in nature to reasons given for why the model is or is not fair. The most commonly cited questions and concerns, while infrequent, related to respondent beliefs that individuals who possess a driver's licence, but do not drive often, should not have to pay the additional driver's premium associated with this model. Just as common, some respondents had questions or concerns related to how costs may increase under the Driver Premium Model.

Driver Premium Model Assessment

Slightly less common, a few respondents indicated that the favourability of the model would depend on certain factors related to the actual cost of the driver premium. A similar number of respondents also had questions or comments about how this model would not be fair to novice/new drivers, or that they preferred other models, or features from other models, over the Driver Premium Model.

The Driver Premium Model was selected as preferred model slightly less often than the Primary Driver Model, and well behind the Registered Owner Model. By far, the most common reason provided for why the Driver Premium Model is the best for setting driver and vehicle premiums in Manitoba is that drivers should be responsible for their driving history and that this cost should be on the individual and their licence (rather than on a vehicle's premium). Tying into this theme, the second most common response was that the Driver Premium Model most accurately accounts for the risks of all drivers. This was expressed in the following comments:

> *"All drivers should pay towards premiums whether you own a vehicle or not. We are all on the roads and for those that drive but don't have their own vehicle they are getting away scot free. They are just as liable when an accident occurs. This seems to be a much more fair way to assess fees than any of the other models. The other models rely on lots of honesty as to who is driving. This is straight forward... you have a license then you pay."*

> *"Drivers who don't register vehicles because of their poor driving history or lesser discount would now be required to pay their fair share of the costs."*

> *"Everyone who holds a driver's license should be responsible for sharing accident risk, whether or not they own a vehicle."*

> *"The non-vehicle owners have driver's licenses for the purpose of driving, they should pay a portion of the cost for that right."*

> *"This places emphasis on the individual driver's habits/skills and experience, they can have a poor driving record and actually have to pay for that poor rating."*

> *"Everyone who has a driver's license should pay toward vehicle insurance."*

> *"Driver Premium Model puts more responsibility on those who have only paid for a license but could be a potential risk when driving someone else's vehicle."*

> *"This spreads the risk more broadly to all those who drive recognizing that it is the act of driving and the nature of probability that subjects drivers to risk if accidents."*

Road safety was also a common theme within the responses, with many stating that the Driver Premium Model either will encourage better driving in general, or that it is the best model as it rewards good driving behaviour while being a disincentive to drivers with a poor or bad driving history (given the DSR/risk cost is placed on the licence as opposed to the vehicle). For example:

> *"I think this would aid in reducing bad drivers in the province."*

> *"Better and more experienced drivers pay less. Have to earn lower premiums by paying more attention to follow the rules."*

> *"It is only right for good drivers to pay less than bad drivers."*

> *"This places emphasis on the individual drivers habits/skills and experience, they can have a poor driving record and actually have to pay for that poor rating, benefiting those who have good records."*

Driver Premium Model Assessment

Some respondents also wrote that they deem it to be the fairest model, that it will be less expensive or more affordable for them, and that it will reduce other's ability to manipulate the system for lower rates since the owner of the vehicle(s) would not matter in the context of a driver's DSR. These sentiments were noted in the following responses:

> *"It is the most fair and accurate way to determine premiums. It will also have the lowest administration costs which will help keep premiums down."*

> *"Many drivers that I know with low driver safety ratings will insure vehicles under names of family members with better safety ratings. Those family members will never end up driving the vehicle. The driver ends up with a lower insurance price that does not accurately reflect the risk when they are driving. The Driver Premium Model solves most of this problem."*

> *"Balances priorities best resulting in greatest fairness."*

> *"Seems the most fair of the bunch for a group. For an individual person they are all fair."*

Some respondents expressed that the Driver Premium Model leaves less room to manipulate the system, since it would not matter (to such an extent) the DSR of a vehicle's owner. The following selection of responses express this notion:

> *"Because I personally know people who have multiple vehicles registered in their name because they have the highest safety rating [yet] all the people in their family with terrible driving records are the ones actually using these vehicles."*

> *"Applying the DSR on the driver, rather than the owner also reduces 'gaming' of the system, where vehicle ownership is transferred to individuals with better DSRs. It also avoid misleading registrations that are likely to happen if based on multiple drivers (i.e. not accurately listing people with poor DSRs on the vehicle registration)."*

The ease and simplicity of the Driver Premium Model was also indicated by some respondents. For example:

> *"This model of insuring vehicles seems the most user friendly and gives a more level playing field."*

> *"This would be the easiest model to determine actual insurance costs."*

Overall Model Preference

Best Fit with Insurance Concepts

After having responded to how fair they thought each of the five models presented was, Manitobans were asked to consider which of the models they believed would accomplish specific things, including which model:

"Is the easiest for all Manitobans to understand?"

"Is the easiest for all Manitobans to use?"

"Would be the most affordable for all Manitobans?"

"Is the most fair for setting the vehicle and driver premiums?"

"Would ensure that all drivers share the financial risk of accidents?"

"Would best encourage safe driving among drivers?"

"Is the best to accurately determine vehicle and driver premiums based on driver risk?"

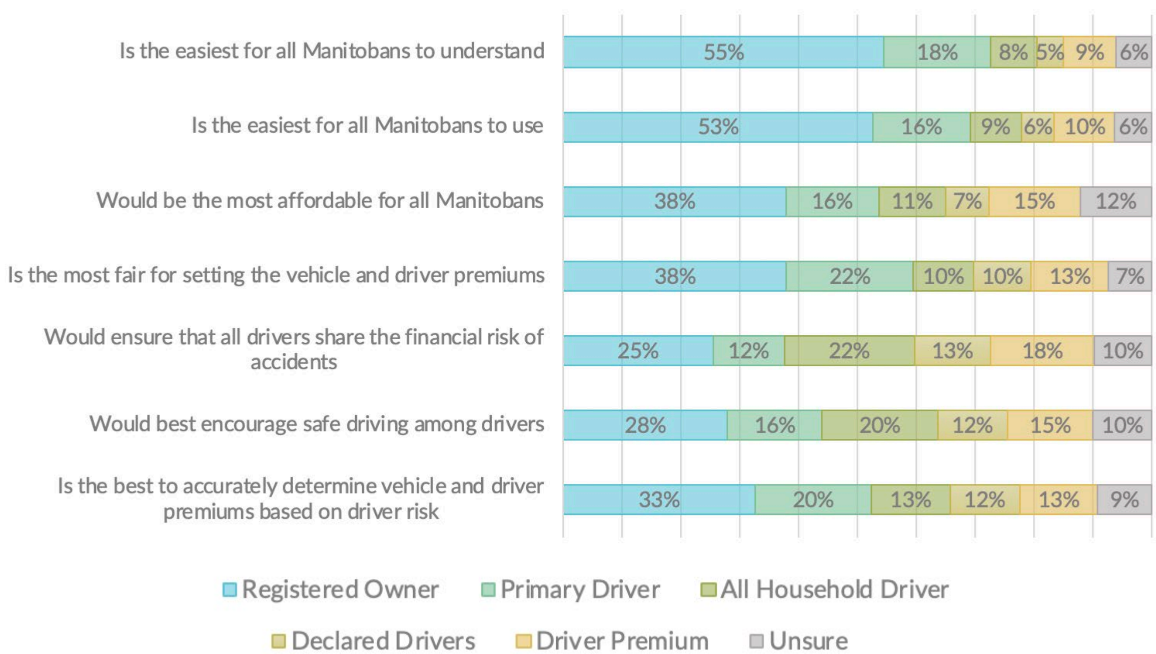
Manitobans chose the current Registered Owner Model as their preference for setting vehicle and driver premiums.

There is no single model that is viewed as "perfect". Many Manitobans took a view that the current Registered Owner Model was the best; that it works, so they see no reason to replace it.

If a model is selected or developed to replace the current one, the strongest sentiment is to base vehicle premiums on the primary driver of the vehicle and to base driver's licence premiums on the driver's record.

Overall, the current Registered Owner Model was chosen most often as the model that would best accomplish each of the concepts explored.

Which model do you believe... ?



Regarding the model that *"is the easiest for all Manitobans to understand,"* more than half (55%) of Manitobans in the telephone survey chose the current Registered Owner Model. One in five (18%) chose the Primary Driver Model, and one in ten chose the Driver Premium Model (9%) or the All Household Drivers Model (8%). Only a small number of Manitobans (5%) chose the Declared Drivers Model.

- Respondents in the open link survey also chose the current Registered Owner Model (six in ten) as best fitting this value, but chose the Driver Premium Model (nearly one in five) next most often, followed by the Primary Driver Model (more than one in ten).

For a model that *"is the easiest for all Manitobans to use,"* more than half (53%) of Manitobans in the telephone survey chose the current Registered Owner Model. Nearly one in five (16%) chose the Primary Driver Model, and one in ten chose the Driver Premium Model (10%) or the All Household Drivers Model (9%). Only a small number of Manitobans (6%) chose the Declared Drivers Model.

- Respondents in the open link survey also chose the current Registered Owner Model (nearly two-thirds) as best fitting this value, but chose the Driver Premium Model (one in five) next most often, followed by the Primary Driver Model (one in ten).

When choosing which model *"would be the most affordable for all Manitobans,"* four in ten (38%) chose the current Registered Owner Model. Nearly one in five (16%) chose the Primary Driver Model or the Driver Premium Model (15%), while one in ten (11%) chose the All Household Drivers Model. Fewer than one in ten (7%) chose the Declared Drivers Model. More than one in then (12%) said they did not know which model would best accomplish this.

- Respondents in the open link survey also chose the current Registered Owner Model (half) as best fitting this value, while one in four chose the Driver Premium Model, and one in ten the Primary Driver Model.

When choosing a model that *"is the most fair for setting the vehicle and driver premiums,"* four in ten (38%) chose the current Registered Owner Model. Nearly one in four (22%) chose the Primary Driver Model, while more than one in ten (13%) chose the Driver Premium Model. One in ten Manitobans chose each the All Household Drivers Model (10%) or the Declared Drivers Model (10%).

- Respondents in the open link survey also chose the current Registered Owner Model (one-third) as best fitting this value, while nearly one in four chose the Driver Premium Model, and one in five the Primary Driver Model.

When it comes to which model *"would ensure that all drivers share the financial risk of accidents,"* Manitobans were more divided in their response. One in four (25%) chose the current Registered Owner Model, while a nearly equal proportion (22%) chose the All Household Drivers Model and almost one in five (18%) chose the Driver Premium Model. Just over one in ten chose either the Declared Drivers Model (13%) or the Primary Driver Model (12%). One in ten (10%) Manitobans said they did not know which model would best accomplish this.

- Respondents in the open link survey were a bit different than the telephone survey, with four in ten choosing the Driver Premium Model and one in five the current Registered Owner Model. Nearly one in five chose either the All Household Drivers Model or the Declared Drivers Model.

Manitobans were divided when it comes to choosing a model that "*would best encourage safe driving among drivers*." Nearly three in ten (28%) chose the current Registered Owner Model, while one in five (20%) chose the All Household Drivers Model. Almost one in five chose either the Primary Driver Model (16%) or the Driver Premium Model (15%). Just over one in ten chose the Declared Drivers Model (12%), while one in ten (10%) Manitobans said they did not know which model would best accomplish this.

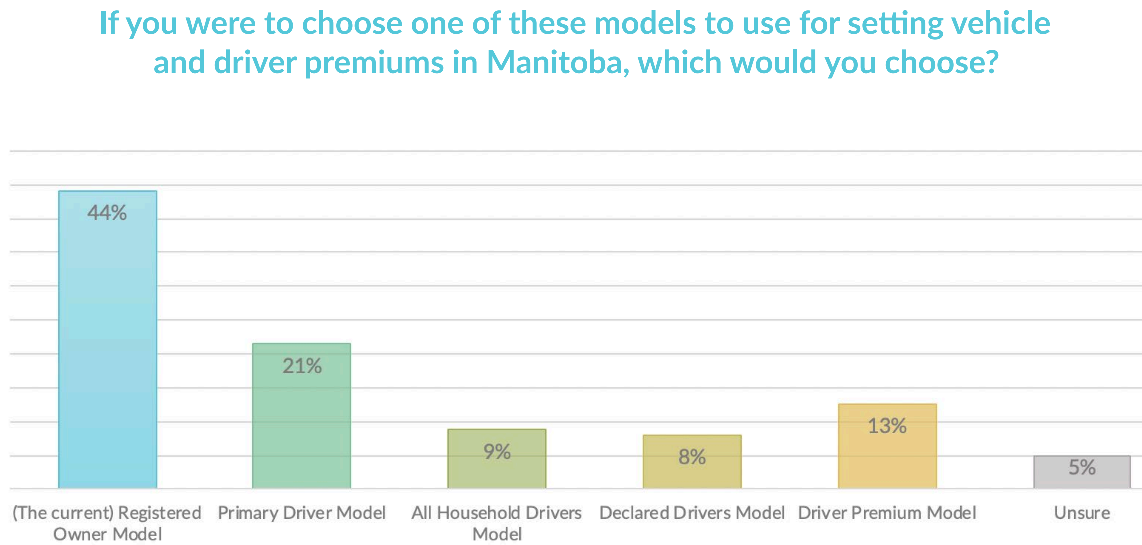
- Respondents in the open link survey were also divided. One in four chose either the Driver Premium Model or the current Registered Owner Model, while nearly one in five chose each of the All Household Drivers Model, the Primary Driver Model, or the Declared Drivers Model.

When asked which model they felt "*is the best to accurately determine vehicle and driver premiums based on driver risk*," one-third (33%) of Manitobans chose the current Registered Owner Model and one in five chose the Primary Driver Model. An equal proportion chose the Driver Premium Model (13%), the All Household Drivers Model (13%), and the Declared Drivers Model (12%). One in ten (9%) Manitobans said they did not know which model would best accomplish this.

- Respondents in the open link survey mirrored these choices. One in three chose the current Registered Owner Model and one in five chose the Primary Driver Model or the Driver Premium Model. Nearly one in five chose the Declared Drivers Model and one in ten the All Household Drivers Model.

Preferred Model for Setting Vehicle and Driver Premiums

Manitobans were asked, "*If you were to choose one of these models to use for setting vehicle and driver premiums in Manitoba, which would you choose?*"



By more than a two-to-one margin over any other model, Manitobans chose the current Registered Owner Model. Nearly half (44%) chose the Registered Owner Model, with the next most popular model being the Primary Driver Model, chosen by 21%. The Driver Premium Model was selected third, by 13%, while the All Household Drivers Model (9%) and the Declared Drivers Model (8%) were well behind the front runners. Five percent of Manitobans did not indicate a preference for any one model.

- The Registered Owner Model was selected as the preferred across all demographic subgroups. There were no significant differences among subgroups.
- The Primary Driver Model was the second selection across all demographic subgroups. There was a small but significant difference by age, with the oldest age group (aged 55 and older) having a smaller proportion choosing this model than the other age groups.
- There were no other significant differences among demographic sub-groups, although the models chosen in third, fourth and fifth spot did shift order and proportional magnitude slightly for some sub-groups.
- Respondents in the open link survey also chose the current Registered Owner Model as the best. More than four in ten respondents chose the Registered Owner Model, while one-quarter chose the Driver Premium Model and one in five chose the Primary Driver Model. One in ten chose the Declared Drivers Model and one in twenty the All Household Drivers Model.

If you were to choose one of these models to use for setting vehicle and driver premiums in Manitoba, which would you choose?						
	All	Age			Gender	
	Manitoba	18-34	35-54	55+	Male	Female
Registered Owner Model	44%	42%	45%	45%	46%	42%
Primary Driver Model	21%	26%	23%	17%	22%	21%
All Household Drivers Model	9%	8%	8%	10%	8%	10%
Declared Drivers Model	8%	11%	7%	7%	7%	9%
Driver Premium Model	13%	10%	13%	14%	14%	11%
Unsure	5%	4%	4%	6%	3%	7%
Total	100%	100%	100%	100%	100%	100%
	Education				Region	
	<High School	High School Grad	Some Post-secondary	Post-secondary Grad	Winnipeg	Outside Winnipeg
Registered Owner Model	54%	45%	49%	42%	44%	44%
Primary Driver Model	13%	22%	26%	21%	21%	22%
All Household Drivers Model	11%	10%	7%	9%	9%	8%
Declared Drivers Model	2%	8%	5%	10%	8%	8%
Driver Premium Model	12%	12%	11%	13%	13%	12%
Unsure	9%	4%	2%	5%	5%	5%
Total	100%	100%	100%	100%	100%	100%

Why the Registered Owner Model?

Manitobans who chose the current Registered Owner Model as their preference to use for setting vehicle and driver premiums appear to believe that this model would be easy to use, understand and implement.

- *"It is the easiest/simplest/easy to understand and implement."*

Familiarity plays strongly among Manitobans when it came to their choice of the current Registered Owner Model as the best to use. Along with overall familiarity with the model goes the sentiment that the model works now, so why make a change to a system that works. As a respondent succinctly put it, *"If it's not broken and is working fine why change it." Common sentiments here included:*

- *"Current model works for me./Never had any problems./If it ain't broke…"*
- *"It is the only one I know./Like it as it is now./Familiar."*

Manitobans also say that this model is the best because they believe it is the fairest model, or the model that makes most sense.

- *"It is the fairest model. /Makes the most sense."*

Several Manitobans felt that this was simply the best model for them and/or their family personally; that it is better for their own situation than other models. Sentiments around this included:

- *"It is the best model for me/Better than others."*
- *"This model would benefit me/my household the most."*
- *"I am the only one who drives my vehicle./I don't let anyone else drive my vehicle."*

Manitobans said that they thought the Registered Owner Model was best because it would yield lower or more affordable rates than the other models.

- *"Less expensive./Affordable."*

Very common among Manitobans who chose the Registered Owner Model as their preference was the thought that the vehicle owner should maintain responsibility for their vehicle. Those who chose this model appear to assume that the vehicle owner and the vehicle driver are most often the same person. Sentiments here included:

- *"Vehicle owner should be responsible for their vehicle."*
- "The driver should be responsible./Based on driver's record."

A small number of Manitobans mentioned that they thought the Registered Owner Model is the best to accurately reflect or mitigate risk, and that the model would promote safe driving. This included:

- *"Better reflects/mitigates the risk involved./More accurate reflection of the risk."*
- *"Does more to promote, encourage safe, responsible driving."*

Why the Primary Driver Model?

Manitobans who chose the Primary Driver Model as their preference to use for setting vehicle and driver premiums believe that the driver should bear responsibility for the vehicle insurance. This was an overwhelmingly common theme among those who chose this model.

- *"The driver should be responsible/Based on driver's record."*

Many who chose the Primary Driver Model as their preference said they thought this model would be the fairest model to use, and that it would be easy to use and understand. These sentiments were second most common among Manitobans choosing this model.

- *"It is the fairest model./Makes the most sense."*
- *"It is the easiest/simplest./Easy to understand and implement."*

Several Manitobans felt that this was simply the best model for them and/or their family personally; that it is better for their own situation than other models. This includes those who viewed this model as one that reflects their current situation (possibly as the only driver or current primary driver in the household). Sentiments around this included:

- *"It is the best model for me./Better than others."*
- *"This model would benefit me/my household the most."*
- *"I am the only one who drives my vehicle./I don't let anyone else drive my vehicle."*
- *"It is the only one I know./Like it as it is now./Familiar."*

Many Manitobans mentioned that they thought the Primary Driver Model is the best to accurately reflect or mitigate risk, and that the model would promote safe driving. Some included the thought that this model would actively share responsibility better. This included:

- *"Better reflects, mitigates the risk involved./More accurate reflection of the risk."*
- *"Does more to promote, encourage safe, responsible driving."*
- *"Everyone shares the responsibility."*

Some told us that they thought the Primary Driver Model was best because it would yield lower or more affordable rates than the other models.

- *"Less expensive./Affordable."*

A small number of people assume that the vehicle's primary driver is the same as the vehicle's owner.

- *"Vehicle owner should be responsible for their vehicle."*

Why the All Household Driver Model?

Manitobans who chose the All Household Drivers Model as their preference to use for setting vehicle and driver premiums believe everyone should share responsibility for vehicle insurance. This was a very common theme among those who chose this model. Since the model takes into account all the household's drivers, it fits well with people who thought that all drivers need to be responsible.

- *"Everyone shares the responsibility."*
- *"The driver should be responsible./Based on driver's record."*

Many who chose the All Household Drivers Model as their preference said they thought this model would be the fairest model to use. These sentiments were second most common among Manitobans choosing this model.

- *"It is the fairest model./Makes the most sense."*

Many Manitobans mentioned that they thought the All Household Drivers Model is the best to accurately reflect or mitigate risk, and that the model would promote safe driving. This included:

- *"Does more to promote, encourage safe, responsible driving."*
- *"Better reflects, mitigates the risk involved./More accurate reflection of the risk."*

Several Manitobans felt that this was simply the best model for them and/or their family personally; that it is better for their own situation than other models. This includes those who viewed this model as one that reflects their current situation anyway. Sentiments around this included:

- *"It is the best model for me./Better than others."*
- *"This model would benefit me/my household the most."*
- *"I am the only one who drives my vehicle./I don't let anyone else drive my vehicle."*

A small number of Manitobans told us that they thought the All Household Drivers Model was best because it would yield lower or more affordable rates than the other models.

- *"Less expensive./Affordable."*

A small number of people assume that the vehicle's primary driver is the same as the vehicle's owner.

- *"Vehicle owner should be responsible for their vehicle."*

A small number of people assume that the All Household Drivers Model would be easy to use and understand.

- *"It is the easiest/simplest./Easy to understand and implement."*

Why the Declared Drivers Model?

Manitobans who chose the Declared Drivers Model as their preference to use for setting vehicle and driver premiums believe that the driver needs to bear responsibility for vehicle insurance. This was a very common theme among those who chose this model. They believe that this model would share the responsibility among all drivers better than other models.

- *"The driver should be responsible./Based on driver's record."*
- *"Vehicle owner should be responsible for their vehicle."*
- *"Everyone shares the responsibility."*

Many who chose the Declared Drivers Model as their preference said they thought this model would be the fairest model to use. These sentiments were second most common among Manitobans choosing this model.

- *'It is the fairest model./Makes the most sense."*

Many Manitobans mentioned that they thought the Declared Drivers Model is the best to accurately reflect or mitigate risk.

- *"Better reflects/mitigates the risk involved./More accurate reflection of the risk."*

A few Manitobans mentioned that they thought the Declared Drivers Model is the best model to promote safe driving.

- *"Does more to promote, encourage safe, responsible driving."*

A few felt that this was simply the best model for them and/or their family personally; that it is better for their own situation than other models. This includes those who viewed this model as one that reflects their current situation. Sentiments around this included:

- *"This model would benefit me/my household the most."*
- *"It is the best model for me./Better than others."*
- *"I am the only one who drives my vehicle/I don't let anyone else drive my vehicle."*

A small number of people assume that the Declared Drivers Model would be easy to use and understand.

- *"It is the easiest/simplest./Easy to understand and implement."*

A small number of Manitobans told us that they thought the Declared Drivers Model was best because it would yield lower or more affordable rates than the other models.

- *"Less expensive./Affordable."*

Why the Driver Premium Model?

Manitobans who chose the Driver Premium Model as their preference to use for setting vehicle and driver premiums believe that all drivers need to share responsibility for vehicle insurance, regardless of vehicle ownership. They feel that this model will best account for the driver's record. This was a very common theme among those who chose this model. They believe that this model would share the responsibility among all drivers better than other models.

- *"The driver should be responsible./Based on driver's record."*
- *"Everyone shares the responsibility."*

Many who chose the Driver Premium Model as their preference said they thought this model would be the fairest model to use.

- *"It is the fairest model./Makes the most sense."*

Many Manitobans who chose the Driver Premium Model felt that this was the best model for them and/or their family personally; that it is better for their own situation than other models. This includes those who viewed this model as one that reflects their current situation (possibly as the only driver or current primary driver in the household). Sentiment around this included:

- *"It is the best model for me./Better than others."*
- *"This model would benefit me/my household the most."*
- *"I am the only one who drives my vehicle./I don't let anyone else drive my vehicle."*
- *"It is the only one I know./Like it as it is now./Familiar."*

Several Manitobans mentioned that they thought the Driver Premium Model is the best to accurately reflect or mitigate risk.

- *"Better reflects, mitigates the risk involved./More accurate reflection of the risk."*

Several Manitobans mentioned that they thought the Driver Premium Model is the best model to promote safe driving.

- *"Does more to promote, encourage safe, responsible driving."*

Several Manitobans told us that they thought the Driver Premium Model was best because it would yield lower or more affordable rates than the other models.

- *"Less expensive./Affordable."*

A few people mentioned that the Driver Premium Model would be easy to use and understand.

- *"It is the easiest,simplest./Easy to understand and implement."*

Other Considerations

Manitobans were given the opportunity to volunteer anything else that they thought should be considered when evaluating possible alternatives to the Autopac premium rating system. Most in the telephone survey (63%) did not have anything to offer, while a few (2%) said there were no changes needed.

There were a number of suggestions around things that the system could or should take into consideration, including:

- Taking the driver's history or record into account, i.e., rewarding "good" drivers and penalizing "bad" drivers.
- Considering the age and condition of vehicle.
- Considering the age of driver.
- Using kilometres driven or the amount of time behind the wheel to calculate premium.
- Considering value of the vehicle.
- Considering where most of the driving is done, such as rural or urban, and highway or city.
- Holding all drivers in the household responsible.
- Considering individual financial situations.
- Making collision insurance optional.

There were a number of suggestions for general improvements, including to:

- Lower the premiums and offer more discounts.
- Improve the merit system.
- Have better driver training.
- Change how fault is determined.
- Provide other insurance options.
- Change the no-fault system.
- Learn from other insurance companies or jurisdictions.
- Have different options for payment.
- Have different services for immigrants.
- Provide more licensing options.
- Explain how rates are determined.

Keep Premiums Low

The most common aspects to consider pertain to the cost of premiums. Lowering the premiums by providing more discounts for high DSRs or generally requesting to keep premiums low were the most common mentions, with some specifically noting their belief that novice drivers should not have to pay more or should be placed at a higher DSR once they obtain their full licence. As seen in the following sample of responses:

"Keep it simple and keep the costs down."

"New drivers aren't necessarily bad drivers, Driver's Ed new drivers are often very good drivers. Unfortunately, they are treated like they are bad drivers, starting at 0 discount for vehicle insurance. Shouldn't they be given some incentive to be good driver's right from the start? Can't they start with a discount and lose it if they prove to not be good drivers?"

"Make a larger discount for clean driving records. Way larger!"

"Costs are too high solely based on types and years of vehicle."

Discounts

Some advocated for special discounts, such as for "green" (environmentally friendlier) vehicles, or for people with multiple vehicles (a bundle discount). Lowering motorcycle rates was also specifically indicated by a few respondents. This was reflected in the following comments:

> *"In the age where people try to become greener, insurance companies should attempt to help people make better choices. For example there could be 3 categories of vehicles (not more) trucks, SUV, and cars. Each category arranged according to emissions. Higher emissions receive a surcharge while greener vehicles receive a discount."*

> *"Discounts for environmentally friendly cars: electric."*

> *"I would like to see a special rate for those who have 6 or more vehicles licensed (as pleasure vehicles) similar to a fleet discount or like the collector car program. As an example I have an older truck that I might use once or twice a month and maybe drive 1,000 km a year but can't afford to license year round. Like a limited use policy."*

> *"Off topic a little maybe but I have two motorcycles insured. I would love to own more motorcycles however the cost of insuring prohibits that. I can only ride one at a time and would like to have one licence plate with multiple bikes registered/insured under one plate. At a greatly reduced rate for each additional motorcycle added to that plate. Just a thought."*

Driving Records

Many respondents cited that a driver's record is an important consideration when evaluating alternative models, in particular that poor drivers should have to pay more and good drivers should be rewarded through increased discounts. It should be noted that this sentiment was a common reason provided throughout the survey as to why certain models are considered "fair" or why some selected certain models as their preference. Similar in nature, some respondents stated that the merit/DSR system should be evaluated when considering models to ensure that it properly assesses risk, with some mentions that there should not be a cap or the ceiling should be higher for how many points (or the discount) one can receive for an exceptional driving record. For instance:

> *"Years of accident free driving should not have a ceiling for reward. More years clear, more discount. This surely would promote safer drivers I feel."*

> *"Rewards should be more pronounced for drivers with no fault claims such as myself and my husband who have been driving for 50 years with no accidents. I don't feel we have been sufficiently rewarded for our driving records but we continue to financially support those who tailgate, drive recklessly, intoxicated/high while driving, leaving unlocked cars running, distracted, multiple claims, etc."*

> *"It is too easy to lose points on the scale, yet agonizingly slow to climb the scale. There needs to be better incentive to climb the scale well past 15, even if it means capping out on discount at that moment."*

> *"Rate the accident. The worse the accident the more deductions from the rating system."*

Vehicle Characteristics and Driving Habits

A recurring theme was the aspects of a driver and/or a vehicle that should be taken into consideration for calculating premiums. While the current model does take some aspects of the vehicle's make/model or the region the customer resides into the equation, respondents many times stated that it should be further considered or modified. For instance, many referred to the condition or the value of the vehicle, as well as the amount of kilometres driven as factors that should be considered for alternative models. This was noted in the following selection of responses:

> *"Age of vehicle. Mileage of vehicle. Why does to cost 1400 a year to insure a vehicle worth 1000."*

> *"DSR should be calculated on kms driven not yearly. That would be a fair system. People who drive more, are more likely to encounter situation that are challenging, against people who hardly drive 10 kms a week or occasionally. It would be more fair to rate someone's safety/risk on the scale of kms driven."*

> *"The driver shouldn't be the sole factor in determining premiums. Territory, purpose/use, and vehicle particulars should always be considered."*

> *"Higher premiums for higher cost cars. If you have a luxury vehicle over $60,000, you SHOULD pay more because it will cost more to fix. I don't want to pay into a system that fixes my neighbors Lamborghini at the same rate I pay for my Escape."*

> *"Location. Outside town in northern location pays higher premium yet we do not have as much incident or risk of incident if we drive in town mostly. There should be a rebate for northern area compared to Winnipeg."*

Other

While not directly related to how alternative models may be evaluated, many respondents provided feedback related to other aspects of MPI. Several stated that more effort needs to be done by MPI when determining who is at fault for a collision. Some referred to driver's education and testing as an area that needs to be improved, including that the tests to obtain a licence should be more difficult to pass. A few respondents also wrote that they desire a private insurance system to provide choice in who they give their auto insurance business to, and/or that they desire an end to the 'no-fault' system so that they may have the ability to litigate against other drivers. Some others mentioned that they are in favour of the current public system and that it should be maintained.

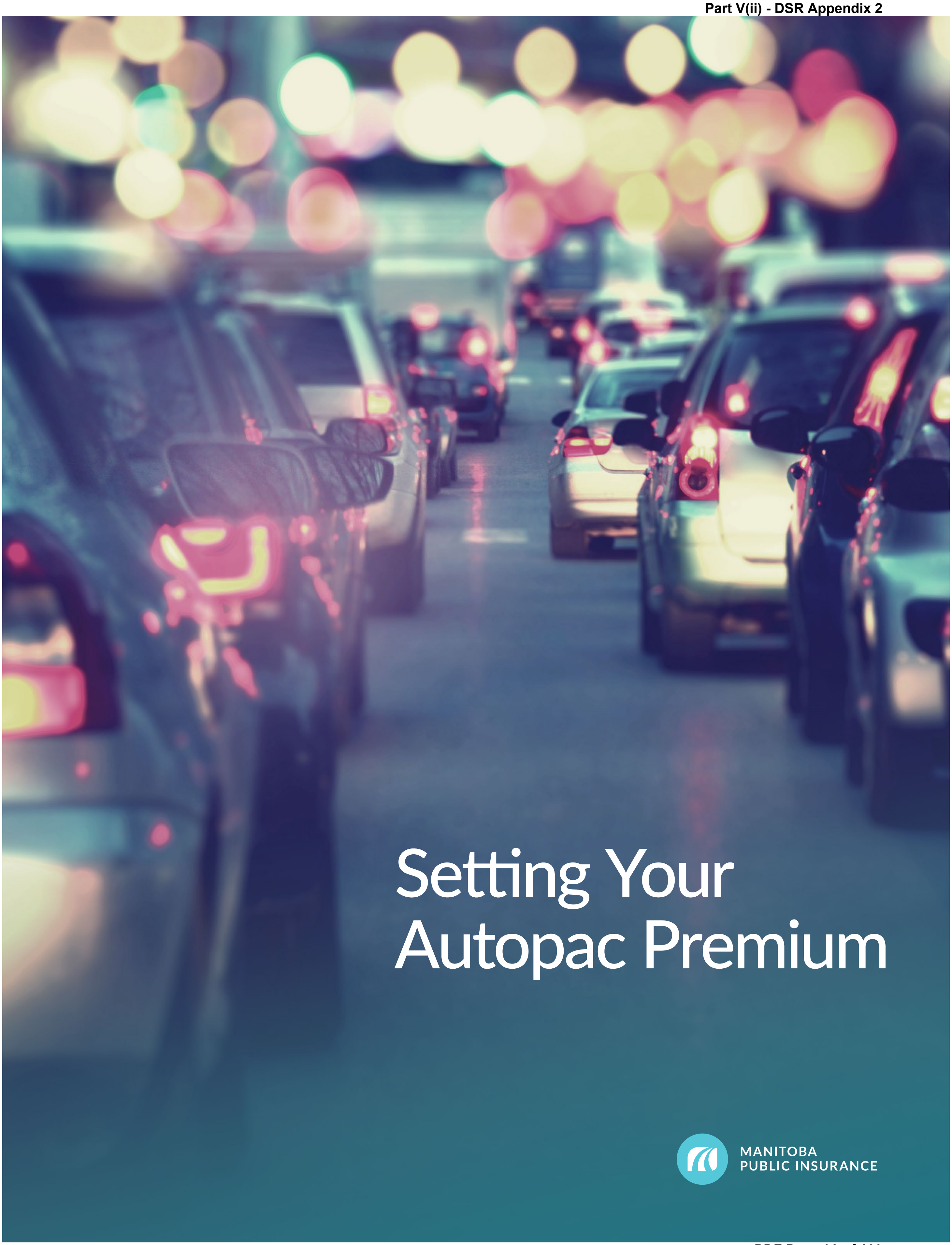
Conclusion

MPI completed a comprehensive public consultation with Manitobans regarding five potential DSR models that could be used to set Autopac rates, including vehicle and driver premiums. Three primary data collection tools were used in this consultation process, including a telephone survey, an open link survey, and MPI's *VoC ePanel*. Four regular PUB contributors were also invited to provide feedback; two did so. Over the eight week period of this public consultation (April 1, 2019 to May 22, 2019), more than 2,900 responses were provided by the general public and stakeholders.

When discussing all of the alternatives, there is no single model that is viewed as perfect. However, analysis of the feedback received finds that almost half of Manitobans indicated a preference for the current Registered Owner Model; it works, so they see no reason to replace it.

With respect to any alternatives, the strongest sentiment to emerge from this consultation is that vehicle premiums be based on the primary driver of the vehicle and that driver licence premiums be based on the individual's driving record.

Appendix A: Setting your Autopac Premium



Setting Your Autopac Premium

MANITOBA
PUBLIC INSURANCE

Contents

This paper

The purpose of this paper is to help you understand the DSR system and how it is currently applied to determine your vehicle insurance rates. We also provide descriptions of four alternative ways that the DSR system could be applied to determine driver and vehicle insurance premiums. These alternatives highlight certain values more than others. We are seeking your feedback on these alternatives.

The paper is part of a broader public consultation process which also includes targeted stakeholder feedback, an online survey, and general phone surveying.

If you require any additional information or clarification about the paper or our public consultation process, please contact us as outlined below.

By email: MPIResearch@mpi.mb.ca

By post: Autopac Premium Consultation
Manitoba Public Insurance
Box 6300
Winnipeg, Manitoba R3C 4A4

Foreword

This is your invitation to share your views on how Basic Autopac insurance rates are determined.

At Manitoba Public Insurance, our mission is to provide "exceptional coverage and service, affordable rates and safer roads through public auto insurance." We want to make sure that we deliver on this mandate now and into the future. This includes obtaining your important views on how insurance rates are determined.

Pricing for your Autopac coverage depends on the following four primary factors:

- Where you live
- How you use your vehicle
- What kind of vehicle you own
- Your driving record (as reflected in your Driver Safety Rating – DSR)

The DSR system is a key factor in how much individual drivers pay for licensing and coverage, and one over which drivers have control. It was introduced in January 2010 to recognize safe driving behaviour for individual drivers in a fair and simple way. Minor changes have been made to the system over the years to ensure that the DSR scale continues to represent the risk of each Manitoba driver.

The Public Utilities Board (PUB) has ordered that we review the DSR model and parts of the Autopac premium rating system to ensure the rates charged to our customers reflect their risk as best as possible. Overall, premiums collected are adequate to cover the costs of auto insurance claims. Our objective today is to determine if there is a more accurate and fair way to allocate or divide premium based on driver risk. As part of the review, we have committed to consult with you – the public – regarding how you believe driving records, as defined by the DSR scale, should be applied to vehicle policies, particularly in cases where more than one driver uses a vehicle.

As part of a public consultation process, we welcome your input on our current method of applying DSR ratings in pricing insurance coverage and on potential alternatives we are considering to ensure fairness to all Manitobans.

We recognize that any changes could impact individual Manitobans, depending on their specific circumstances. As such, we are inviting you to review this paper and encouraging you to share your views with us.

We thank you in advance for your participation in this important initiative. Your feedback is very important to us.

The Driver Safety Rating scale

Introduction

As a not-for-profit Crown corporation, we are accountable to you and committed to:

- Guaranteeing all Manitobans access to Basic automobile insurance.
- Setting rates fairly by matching Autopac premiums to claims risk and submitting Basic Autopac rates to the PUB for independent review and approval.
- Giving you the most complete auto insurance protection in North America.
- Making Autopac services accessible throughout Manitoba.
- Settling claims fairly and promptly.
- Promoting road safety to help prevent traffic collisions and keep insurance costs down.

Founding principles

Manitoba Public Insurance began operations in 1971 to provide basic, compulsory insurance coverage, which became known as Autopac. With the introduction of the Autopac program, both vehicles and drivers have been required to be insured. This reduced the number of uninsured vehicles and drivers on Manitoba roads, kept administrative costs low and increased customer convenience, as it combined two processes (driver licensing and insurance issuance) that had previously been completed separately.

A key founding principle of the Autopac program was guaranteed access to coverage – no one should be denied insurance. Prior to the Autopac program, insurers were able to deny some customers insurance if they felt that the risk was too high, resulting in uninsured drivers.

Another important founding principle of Autopac was fairness. The plan does not use non-driving rating factors such as credit score, gender, or age to determine auto insurance rates. This makes Autopac more accessible and affordable for less experienced drivers.

How your Autopac premium is set

The concept of insurance is based on the fact that it spreads out the cost of claims among many people so no one has to face the cost of a claim alone. For one person, the cost from an accident could cause significant financial hardship, or even bankruptcy. Spread among many people, the cost becomes affordable.

All auto insurance plans, including Autopac, group you with others. You are grouped with others who live in a similar area, own similar vehicles and use their vehicles like you do.

The money collected from everyone in your group covers you if you have a claim. In exchange for that protection, you share your group's costs through your premiums. In part, your premiums depend on how much your group, as a whole, has cost the insurance fund.

Reducing risk on the road

One of the ways that we seek to keep premiums low is to work with Manitobans to reduce risk on the road through the promotion of safe driving. Our DSR system is one of the tools we use for this; it encourages drivers to act responsibly when they are behind the wheel. The benefits of the system include rewarding good driving behaviour, while charging drivers with histories of poor driving behaviour a higher premium, based on their risk, using an easy-to-understand numerical scale (DSR scale).

Pricing risk on the road

Currently, the DSR level of the registered owner of the vehicle has a large impact on the cost of vehicle insurance. If the registered owner has a positive DSR, he or she will be eligible for a discount on their vehicle insurance. On the other hand, if their DSR is negative, they will not be eligible for a discount on their vehicle insurance and may be required to pay a surcharge on their driver's licence.

In many cases, the registered owner is not the only driver of the vehicle. Many people could be driving the same vehicle at different times and the drivers could have different DSR levels.

The PUB has asked us to investigate to see if there is a better way to price vehicle risk, including when more than one driver uses a vehicle. The goal of any change is to allow us to more accurately determine vehicle and driver premiums based on the risk associated with all drivers of a vehicle and to continue to encourage safe driving.

Driver premium and vehicle premium

In Manitoba, the costs of the auto insurance plan (which includes coverage for physical damage, property damage and bodily injury claims) are covered through two sources: driver insurance premiums and vehicle insurance premiums. The driver insurance premium (ranging from $15 to $3,000, depending on the licence holder's DSR level) is charged on every Manitoban's driver's licence. Collecting this premium ensures that all Manitoba drivers share some of the risk of accidents, regardless of whether they own a vehicle or not.

Vehicle insurance premiums cover most of the costs of the auto insurance plan. Pricing for vehicle premiums depends on where you live, how the vehicle is used, the kind of vehicle you own, and the registered owner's DSR level.

The DSR system and current Autopac premium pricing model

Your position on the DSR scale depends on your driving record, which reflects your years of safe driving, and your accident and traffic conviction history. Driving safely moves you up the scale, which can lower the costs of your driver's licence and your vehicle insurance. Your DSR level and resulting premiums can change based on your driving record over the past year, including any traffic convictions, at-fault claims or alcohol- or drug-related administrative suspensions.

The main goal of the DSR system is to charge drivers an appropriate premium based on their risk level. A customer's DSR level is a rating indicator and MPI does not intend to charge any more than necessary to cover the expected risk.

It is important to note that the DSR risk scale has been proven to be very accurate in predicting driver risk. That is, the probability of being involved in an at-fault collision increases as a driver's position on the DSR scale decreases. Most people believe drivers who have more auto insurance claims should pay a greater share of the plan costs (through higher insurance premiums).

Today, we use what is referred to as the Registered Owner Model to determine a vehicle's premium discount (between 0 and 33 per cent). Under this model, we use the DSR level of the registered owner of the vehicle to calculate the vehicle insurance premium discount, regardless of how many other drivers drive the vehicle or the driving records of the other drivers.

What this means

A vehicle could be insured by a driver with a DSR of +15, but driven by drivers with lower DSR levels (who present a higher risk). The Registered Owner Model is flexible when multiple drivers use a vehicle. For instance, there is no requirement to list all the drivers when insuring the vehicle. Other benefits of this model include the relative ease of administration and ease of customer understanding. However, risk may not be as accurately priced as it could be under other models. For instance, drivers who have more auto insurance claims are not paying a fair share of the plan costs (through higher insurance premiums) if they are not the registered owner of the vehicle.

Proposed alternatives

Insurance can be a complicated topic and our intent at this time is to make you aware of some different alternatives. Manitoba Public Insurance is reviewing four proposed alternative concepts to determine whether there are any clear advantages to changing the way we determine auto insurance premiums in Manitoba.

Overall, the premiums collected today are adequate to cover the costs of auto insurance claims. As mentioned earlier, the DSR risk scale has been proven to be very accurate in predicting driver risk (i.e., at-fault accidents). The validity of the risk scale is not in question. We are not evaluating the other rating factors that comprise your insurance rates (where you live, how you use the vehicle, or the vehicle type). Our objective is to determine if there is a more accurate and fair way to charge premium based on driver risk.

The PUB has instructed MPI to determine rates in a more “actuarially sound” way. This might seem complicated. Essentially, it refers to applying statistical methods and risk theory to calculate insurance premiums. The closer the price of insurance to the risk, the more actuarially sound the price. Or, in other words, under an actuarially sound model, riskier drivers should pay more than safe drivers.

The following alternative concepts to the Registered Owner Model have been identified and we are inviting Manitobans to share their views on them. There are different ways of applying each concept and your feedback will help us develop definitions and rules.

Primary Driver Model

Under the Primary Driver Model, a vehicle’s premium discount would be based on the DSR level of the primary driver of the vehicle (the one who drives the vehicle the most) rather than the registered owner. The vehicle owner would be required to identify the primary driver for the vehicle, and ensure that this information (who the primary driver is) is updated every time it changes.

What this means

The owner of the vehicle would pay vehicle premiums based on the risk presented by the primary driver of the vehicle, rather than the owner of the vehicle. This could mean that the owner would be paying more or less for insurance for their vehicle than if they were insuring it based on their own DSR level if they are the registered owner.

We currently do not require Manitobans to identify the primary drivers of the vehicle when they apply for insurance in Manitoba, and therefore there will be added effort required by both customers and MPI in terms of obtaining information, and ensuring it is updated regularly.

This model requires more information sharing between customers and MPI compared to the current model, but less than the following two models. The model is flexible when multiple drivers use a vehicle as there is no requirement to list all the drivers when insuring the vehicle. Other benefits include ease of customer understanding and ease of administration.

All Household Drivers Model

Under the All Household Drivers model, the vehicle's insurance premium would be based on the DSR levels of all the drivers in the household who use the vehicle.

What this means

There are many different ways a vehicle's insurance premiums can be determined under this model.

Vehicle insurance premiums could be based on the combined or average DSR level of all drivers in the household, based on the assumption that all vehicles in the household are being driven equally by all drivers in the household.

Another option under this alternative is to assign vehicles to specific drivers. For example, the vehicle with the highest insurance premium could be assigned to the driver with the highest vehicle discount; the vehicle with the second highest insurance premium could be assigned to the driver with the second highest vehicle discount and so forth.

This model prioritizes fairness by more closely aligning driver risk and insurance premiums. Adopting this model would improve the actuarial soundness of our system. This model would require more information sharing between customers and MPI. Some people may find this model to be more complicated to understand and more complex to administer.

Declared Drivers Model

Under the Declared Drivers model, the vehicle owner insuring the vehicle would be required to declare all of the regular drivers of their vehicle on their insurance policy. While we have not defined "regular driver" yet, a regular driver could be someone who drives the vehicle a certain number of times in a defined period of time.

What this means

Just like the previous model, there are different ways a vehicle's insurance premiums can be determined under this model.

Vehicle insurance premiums could be determined based on the average DSR level of the declared drivers, on the DSR level of the lowest rated driver or on some other basis.

This model has similar benefits as the previous model: increased fairness by more closely aligning driver risk and insurance premiums. Adopting this model would improve the actuarial soundness of our system. However, this model will require more information sharing between customers and MPI compared to the current model. Some people may find this model to be more complicated to understand and more complex to administer.

Driver Premium Model

Today, all drivers pay a driver insurance premium when they pay for their driver's licence – even those who do not register a vehicle. When considering this model, it is important to remember that drivers who do not register a vehicle do not pay vehicle insurance premiums through an Autopac policy. The driver insurance premium is usually quite low ($15 to $45 for anyone with a DSR of zero or higher) compared to vehicle insurance premiums.

Under the Driver Premium Model, people who hold a driver's licence but do not register or insure a vehicle in their name would pay an additional "non-owner" driver premium, based on their DSR level. The concept is for the driver premium collected from these "non-owners" be used to lower vehicle premiums for the pool of insured vehicles. This, in turn, would improve the actuarial soundness (and fairness) of the Autopac rating system by placing more financial responsibility on drivers rather than assigning almost all of the financial responsibility to registered owners (that is, those with auto insurance policies).

This method could be used with the Registered Owner model. That is, registered owners would continue to purchase Autopac policies and pay vehicle premiums for their vehicles and people with driver's licences only would pay a driver premium that better accounts for their risk.

This model will require less information sharing with MPI compared to the previous two models. Other benefits include the ease of customer understanding and ease of administration.

Personal impacts

We understand that the potential impact of each model on Manitobans will depend on the details of each model and each person's individual circumstances; for example, the number of vehicles in the household, the number of drivers in the household, and the frequency or amount of vehicle use by different drivers in the household.

Some of the models may result in higher or lower costs, or more or less convenience. For example, we expect that, generally speaking, the administration of the Registered Owner, Primary Driver, and Driver Premium models will be less time-consuming for customers than the other two models; under the All Household Drivers or Declared Drivers models, we would be required to collect additional household and driver information that we don't collect today. In addition, vehicle owners under these models would be required to report any changes that might impact the premiums they pay. However, the benefit is that overall, the risk may be more accurately priced under these models.

Questions to consider

1. Which values matter most to you in terms of your auto insurance premium? Some values to consider are fairness, the amount of information sharing with MPI, affordability for new or inexperienced drivers, ease of use/ease of understanding, ease of administration, and improving the actuarial soundness of our system.
2. Do you believe the current Registered Owner Model is fair and appropriate based on your own personal circumstances? Do you believe it is fair and appropriate for other individuals you know?
3. Overall, do you have any thoughts on the current Autopac vehicle premium rating system using the registered owner's DSR to determine insurance rates and discounts versus using the DSR of all drivers who may use a vehicle?
4. Do you prefer any of the proposed alternative models? Do you have any specific concerns with any of the proposed alternative models?
5. Do you believe that switching to one of the other alternative models presented in this paper would improve the overall Autopac premium rating system in terms of fairness, affordability, ease of use, etc.?
6. Is there anything else you would like us to consider when evaluating possible changes to the Autopac premium rating system?

Sharing your views

There are a number of ways you can share your views on our Autopac premium consultation. You may send written submissions to Manitoba Public Insurance, including a direct response to this paper:

By email: MPIResearch@mpi.mb.ca

By post: Autopac Premium Consultation
Manitoba Public Insurance
Box 6300
Winnipeg, Manitoba R3C 4A4

And/or participate in an online survey at mpi.mb.ca

Responses to this paper must be provided no later than April 30, 2019.

Appendix B: Stakeholder feedback

Letter to Stakeholders:

Dear XX,

As a valued partner of Manitoba Public Insurance, we want to advise you and your members that we are conducting a public consultation on our Driver Rating System (DSR) and how it is currently applied to determine vehicle insurance rates in Manitoba.

The Public Utilities Board has ordered that we review the DSR model and parts of the Autopac premium rating system to make sure the rates charged to our customers reflect their risk as best as possible, are fair and equitable, and that overall, the premiums collected continue to be adequate to cover the costs of auto insurance claims.

Our objective is to determine if there is a more accurate and fair way to charge premiums based on driver risk. As part of the review, we have committed to consult with the public regarding how you believe driving records, as defined by the DSR scale, should be applied to vehicle policies, particularly in cases where more than one driver uses a vehicle.

To help Manitobans understand the DSR system and how it is currently applied, we have created a discussion paper. It explains the current DSR system, but also provides descriptions of four alternative ways that the DSR system could be applied to determine driver and vehicle insurance premiums. These alternatives highlight certain values more than others. We are seeking feedback on these alternatives.

As a key stakeholder in this process, we invite you to review the discussion paper and provide any written feedback to us by April 30, 2019:

By email: MPIResearch@mpi.mb.ca

By post: Autopac Premium Consultation
Manitoba Public Insurance
Box 6300
Winnipeg, Manitoba R3C 4A4

The discussion paper is part of a broader public consultation process which also includes your feedback, an online survey, and general phone surveying.

The online survey and discussion paper are available on our website.

We encourage you share this information with your members and complete the survey by April 30, 2019.

If you require any additional information or clarification about the paper or our public consultation process, please contact us.

2019-05-15 Autopac Premium Consultation – Feedback

Doug Houghton
Box 1120
Beausejour MB R0E 0C0
204-268-5406
houghtnd@mymts.net

May 15, 2019

Autopac Premium Consultation - Driver Safety Rating System Review

Thank you for this opportunity to provide input into Driver Safety Rating System Review.

The current system of determining insurance premiums is partly fair in that it doesn't discriminate on the basis of age or gender. It does however, have many inequities as it allows high risk non-owner drivers to drive vehicles owned by those with merit discounts. As well, high risk drivers who accrue demerits or lose merits can simply transfer ownership to a parent, another family member or spouse with a better rating. Their DSR rating does not affect the vehicle premium. As well, this non-owner driver can continue to drive a company owned, MPI owned, or government owned vehicle without affecting the premiums of those vehicles. Are leased or rented vehicles affected?

I am of the opinion that there should be no discrimination based on age or gender of vehicle owner and that rates are based on driving experience and driving record (DSR). Presumably if a young or new driver chooses to own and insure a vehicle, they would not have yet earned merits and would pay the higher basic rate, more than that of the experienced driver with merit discounts. Furthermore, if that young or new driver exhibits high risk behavior with accidents and traffic violations, they will accrue demerits and consequently, higher insurance rates. **The loophole:** many young drivers and new drivers as well as those with bad driving records can drive a vehicle owned by a parent, other family member or spouse and their driving record would not be reflected in the premium of the merit discount owner. The same occurs with a company owned vehicle. (See notes in previous paragraph)

Other inequities - Person Injury or PIPP claims are a major claims cost to MPI and indirectly to policy holders, yet current MPI policies exempt certain classes of vehicles from paying PIPP premiums. In 2011 or 2012, MPI's own stats revealed that 12,954 vehicles, or 1.5% of registered vehicles, did not pay for PIPP coverage, including inter-provincial trucks, Government of Canada vehicles, and fire department vehicles. Although it's true that interprovincial truck drivers etc. may be eligible to obtain Workman's Compensation if injured, it is usually the occupants and passengers of smaller vehicles who sustain injuries. As well, in 2011, one-third of all PIPP claims were from non-vehicle owners. Of these, drivers without a registered vehicle accounted for 27% of these claims.

These drivers do not contribute to these high claims costs; however any movement to placing premiums on the drivers licence would help ameliorate this inequity.

I agree that rates charged to MPI clients should reflect the risk of all drivers, be fair and equitable and that the premiums collected are adequate to cover the costs of auto insurance claims.

I have read all of the proposed alternatives. Each has merits, but inequities remain. Each will have various degrees of public/political acceptance and complexities in terms of administration, enforcement and monitoring. All will have winners and losers in terms of premium costs.

2019-05-15 Autopac Premium Consultation – Feedback cont.

The primary Drive Model only works well if there is only one primary driver. This model will benefit the single driver / owner. Unless vehicle owners are totally honest, it's not much different than the current system. It requires policing and monitoring and can be confusing when there are multiple drivers to a vehicle and vehicle ownership changes during the policy year. It places more administrative responsibilities on MPI / agents and increases the possibility of disputes when a claim is made. There will be a need to develop a simple process to monitor and enforce and determine penalties for non-disclosure?

The All Household Drivers Model is a step in the right directions, but may still have some complications when a household has more than one vehicle with separate owners and others family members driving both. How does one determine an appropriate rate? As well there may also be regular non-household drivers such as a tradespersons vehicle or a farm pick up. How will leased vehicles be impacted? As in the Primary Drive Model, it requires honesty and places more administrative responsibilities on MPI and its agents. It may also increase the possibility of a dispute when a claim is made. As above, there will be a need to develop a simple process to monitor and enforce and determine penalties for non-disclosure?

This model may benefit the single driver / owner and be more costly to the single vehicle owner with several licensed family members, particularly younger drivers not yet in the work force. This increased cost should be partly offset by reduced vehicle premiums, but without a detailed actuarial analysis, the details are unknown. There may be more public backlash and lack of public/political acceptance, particularly from families with multiple drivers.

The Declared Drivers Model will perhaps be more easily understood by vehicle owners as it is similar to models used by private insurers in other jurisdictions. It still requires honesty on the part of vehicle owners to identify all regular drivers and defining same. How will an occasional driver be determined? As for previous models, it places more administrative responsibilities on MPI and its agents. It may also increase the possibility of a dispute when a claim is made. As with previous models, there will be a need to develop a simple process to monitor and enforce and determine penalties for non-disclosure?

This model may benefit the single driver / owner and be more costly to the single vehicle owner with several regular drivers, particularly younger drivers not yet in the work force. This increased cost should be partly offset by reduced vehicle premiums, but without a detailed actuarial analysis, the details are unknown. There may be more public backlash and lack of public/political acceptance, particularly from families with multiple drivers.

Driver Premium Model

This model requires minimal or no monitoring and is perhaps the easiest to enforce and administer. It also places more financial responsibility on the driver, who ultimately is responsible for accidents and infractions. Once again this may have a negative impact on large families with single vehicle and multiple drivers, but is the fairest and easiest to administer. As part of the driver premium model, all financial penalties due to accidents and Traffic Act infractions should be placed on the drivers licence and not the vehicle. This will place the financial responsibility where it belongs, on the driver. Once again there may be greater costs to the multi driver family, but this increased cost should be partly offset by reduced vehicle premiums. Without a detailed actuarial analysis, however, the detailed impact is unknown.

2019-05-15 Autopac Premium Consultation – Feedback cont.

Given the possible backlash and lack of public/political acceptance, I am of the opinion that this shift of insurance cost from the vehicle to the driver could be implemented on a staged basis, perhaps over a five year period until all liability and PIPP costs rest with the licenced driver.

A Better Model

I my opinion, a proper insurance model should separate the "tin from the skin". In other words, the vehicle should only be insured for collision and comprehensive, based on its value and repair costs etc.

All liability and related personal injury (PIPP) premiums should be applied to the drivers licence, based on the drivers DSR and licence class, if applicable. This would cover the drivers own injury claims and when at fault injury and vehicle damage to others. As well, all financial penalties due to accidents and Traffic Act infractions will be applied to the drivers licence and not the vehicle, placing the financial responsibility where it belongs.

This system may also encourage drivers to cancel licences when they are no longer able to drive or require a specific licence classification.

I trust the preceding comments will assist in your review. I will be forwarding motorcycle specific comments under separated cover directly to Actuarial and Risk Management, product and pricing section.

I am out of province for a few weeks and lacking cellular coverage so if you'd like to contact me for clarification or further comment just text or email at the above noted email address and phone number.

CAC Manitoba comments on MPI discussion document

Consumers' Association of Canada
Association des consommateurs du Canada
Manitoba

CAC Manitoba comments on the MPI discussion paper entitled
Setting Your Autopac Premium
2019-05-15

The Manitoba branch of the Consumers' Association of Canada (CAC Manitoba) would like to thank MPI for the opportunity to review this discussion paper, and offer some preliminary comments on this issue. We hope this will be the beginning of further dialogue and information sharing as MPI continues to explore these options.

We note from the MPI website that other forms of engagement have been conducted on this topic (survey, consumer panels) since April 1st of this year. CAC Manitoba commends MPI for beginning consumer and stakeholder engagement while several options are still on the table. We hope that the compiled data on the completed research will be made available to stakeholder organizations, and to the public, as part of the ongoing dialogue, and that more engagement will take place at that point, and before any final plan is put forward to the PUB.

The following comments are based on CAC Manitoba's past experience working with, and hearing from, auto insurance consumers, and the input of Board members and colleagues, but without the benefit having conducted engagement with consumers on this specific issue and the possible alternatives associated with it. With that understanding, here are our preliminary thoughts on the six questions asked at the end of the discussion paper:

1. Which values matter most to you in terms of your auto insurance premium? Some values to consider are fairness, the amount of information sharing with MPI, affordability for new or inexperienced drivers, ease of use/ease of understanding, ease of administration, and improving the actuarial soundness of our system.

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204-452-2576 1-888-596-0900 cacmb@mts.net

CAC Manitoba comments on MPI discussion document cont.

Each of these is important for consumers in different ways. From the perspective of CAC Manitoba, several of these concepts come together as inseparable aspects of one key principle:

- Fairness for, and amongst, consumers, including
  - fair and equitable access to auto insurance, which includes affordability, ease of understanding and using the system, protection of personal information required for access, etc.
  - fairness amongst consumers regarding the balance between their contribution to the system and the risk/cost they bring to the system

2. Do you believe the current Registered Owner Model is fair and appropriate based on your own personal circumstances? Do you believe it is fair and appropriate for other individuals you know?

While the current Registered Owner Model has served Manitobans for many years, the question for CAC Manitoba is whether or not there is potential for the fairness and actuarial soundness of this model to be impacted when, for example, vehicle owners have high DSRs, but some of the drivers of their vehicles have lower DSRs. To answer this question with greater certainty, it would be very helpful to have information regarding the overall dislocation of premiums amongst policyholders with the current Registered Owner Model.

3. Overall, do you have any thoughts on the current Autopac vehicle premium rating system using the registered owner's DSR to determine insurance rates and discounts versus using the DSR of all drivers who may use a vehicle?

This question highlights why it is so important to engage in an ongoing and in-depth dialogue with MPI customers and other stakeholders before any final plan is put forward. This is an important question to make part of the discussion, particularly because it could be a contentious question for some customers. Using the DSR of all drivers of a vehicle may possibly raise some insurance premiums. This could cause consumers to disallow some drivers from using their vehicle, or to allow some drivers to use their vehicle without being named on the insurance, for fear of an increase in their premium. From the perspective of

CAC Manitoba comments on MPI discussion document cont.

administrative ease, this option may require consumers to make several changes to their policies each year, as a new driver or an additional driver, needs to be added.

4. Do you prefer any of the proposed alternative models? Do you have any specific concerns with any of the proposed alternative models?

From our very preliminary review of the discussion paper, and without the benefit of input from consumers, the one alternative that seems most likely to be a viable alternative to the system currently in use would be the Primary Driver Model, in terms of ease of understanding by consumers, and the system modifications required. In our opinion, this model warrants further exploration.

Some concerns with the other three alternatives:

- The All Household Driver Model might provide MPI with more information about the DSRs of all drivers of a vehicle, but may be more complicated to administer (for example, possibly requiring several changes to the policy annually)
- The Declared Driver Model requires less personal information from consumers, but relies heavily on the self-reporting of consumers, creating the possibility of uninsured driver accidents, and more administrative requirements.
- The Driver Premium Model charges a "non-owner" driver premium to cover risks that are not really identified. How does this alternative account for consumers who maintain a license but rarely drive? Or consumers who are trying to reduce their carbon footprint by sharing a vehicle, or buying into a vehicle co-op?

5. Do you believe that switching to one of the other alternative models presented in this paper would improve the overall Autopac premium rating system in terms of fairness, affordability, ease of use, etc.?

This is a vital question to this discussion, and one that cannot really be answered with any certainty in the absence of further costing information, and the results of

CAC Manitoba comments on MPI discussion document cont.

engagement with consumers. CAC Manitoba would like to request that MPI prepare a costing model comparing the Registered Owner Model with the Primary Driver Model, and any other model that consumers, stakeholders, or MPI are seriously considering. The costing should include the financial impact on premium revenue and the costs of modifying the systems. We would ask that the costing comparison be shared with stakeholders.

6. Is there anything else you would like us to consider when evaluating possible changes to the Autopac premium rating system?

We would be interested in any research MPI has done into other jurisdictions that use either a system similar to Manitoba's current system, one of the four alternate systems, or any other viable system, particularly if it is perceived to be successful.

Summing up

CAC Manitoba commends MPI for engaging consumers and stakeholders early in the process, while there are several alternatives being discussed. We hope this is the beginning of an ongoing dialogue that will include:

- sharing of results from engagement already conducted
- sharing of information on the dislocation of premiums with the Registered Owner Model
- preparation and sharing of a costing model comparing the Registered Owner Model with the Primary Driver Model (and other models that are being seriously considered), including the financial impact on premium revenue and the costs of modifying the systems
- sharing of any research MPI has gathered on alternative models currently being used in other jurisdictions

CAC Manitoba would like to thank MPI for the opportunity to comment on this discussion document.

Appendix C: Survey Questions

Primary Survey Questions

Introduction

Hello, my name is [INSERT NAME] with [INSERT COMPANY NAME]. I am calling on behalf of Manitoba Public Insurance to discuss how auto insurance premiums are determined in Manitoba.

Verify age

Household-Vehicle-Driver demographic profile

[TRANSITION STATEMENT] We would like to understand more about the drivers and vehicles in your household.

HD1. How many people age 16 or older live in your household? Please include yourself.

[RANGE 1+]

HD2. How many vehicles are owned or leased in your household? (Note: We are only looking for vehicles that can be driven on the road. This does not include off-road vehicles such as ATVs or snowmobiles.)

[IF ONLY ONE PERSON 16+ IN HD1 - ELSE SKIP TO HD5]

HD3. Do you have a license to drive?

Yes

No

[IF ONLY ONE PERSON 16+ IN HD1 AND YES IN HD3 - ELSE SKIP TO HD5]

HD4. Do you regularly drive? (NOTE: By 'regularly' we mean at least once per week.)

Yes

No

[IF MORE THAN ONE PERSON 16+ IN HD1 - ELSE SKIP TO HD8]

HD5. How many of the people age 16 and older in your household are currently licensed to drive? Please include all licensed drivers, regardless of the class or stage of their license or if they regularly drive.

[RANGE 0 TO NUMBER OF PEOPLE 16+]

[IF ONLY ONE LICENSE HOLDER IN HD5 – ELSE SKIP TO HD8]

HD6. Does this person regularly drive a vehicle?

Yes

No

[IF MORE THAN ONE LICENSE HOLDER IN HD5 – ELSE SKIP TO HD8]

HD7. How many of the drivers in your household regularly drive a vehicle?

[IF MORE THAN ONE VEHICLE OWNED/LEASED IN HD2 – ELSE SKIP TO HD9]

HD8. How many of the vehicles in your household are currently registered?

[RANGE 0 TO NUMBER OF VEHICLES OWNED/LEASED]

[IF ONLY ONE VEHICLE OWNED/LEASED IN HD2 OR ONLY ONE VEHICLE REGISTERED IN HD8 – ELSE SKIP TO HD10]

HD9. Is the vehicle in your household registered by the person who drives it most often? That is, is the person who drives this vehicle most often the individual named on the insurance policy?

Yes, registered by the person who drives it most often

No, registered by someone else

[IF MORE THAN ONE VEHICLE REGISTERED IN HD8 – ELSE SKIP TO HD11]

HD10. Are all of the vehicles in your household registered under the same person? That is, is the person named on the insurance policy the same person for all vehicles in the household?

Yes, all registered by the same person

No, there is more than one registered owner

[ASK FOR EACH VEHICLE REGISTERED]

HD11. Is this vehicle regularly driven by only one or by more than one driver? If more than one, by how many drivers in total?

Only one driver

RECORD NUMBER OF DRIVERS [RANGE 2+]

[IF MORE THAN ONE VEHICLE REGISTERED AND MORE THAN ONE POLICY HOLDER – ASK FOR EACH VEHICLE REGISTERED]

HD12. Is the registered owner for this vehicle, that is, the individual named on the insurance policy, the person who drives it most often?

Yes, registered by the person who drives it most often

No, registered by someone else

Underlying Values Prioritization

[TRANSITION STATEMENT] I'd like to discuss some of the underlying philosophy at work in Manitoba's Autopac system. In Manitoba, the costs of the auto insurance plan, which includes coverage for physical damage, property damage and bodily injury claims, are covered through two sources: driver insurance premiums and vehicle insurance premiums. The driver insurance premium, ranging from $15 to $3,000, depending on the licence holder's Driver Safety Rating level, is charged on every Manitoban's driver's licence. Collecting this premium ensures that all Manitoba drivers share some of the risk of accidents, regardless of whether they own a vehicle or not. Vehicle insurance premiums cover most of the costs of the auto insurance plan. Pricing for vehicle premiums depends on where you live, how the vehicle is used, the kind of vehicle you own, and the registered owner's Driver Safety Rating level. Vehicle insurance premiums are paid for by the registered owner of the vehicle.

[ALTERNATE TRANSITION STATEMENT] I'd like to discuss some of the underlying philosophy at work in Manitoba's Autopac system. In Manitoba, the costs of the auto insurance plan are covered by driver insurance premiums and vehicle insurance premiums. The driver insurance premium is charged on every Manitoban's driver's licence and ensures that all Manitoba drivers share some of the financial risk of accidents. Vehicle insurance premiums cover most of the costs of the auto insurance plan and are paid for by the registered owner of the vehicle.

VP1. I'd like to know how much you agree or disagree with some of the guiding principles behind how auto insurance premiums could be set in Manitoba. I am going to read you a statement and I'd like to know if you agree or disagree with the statement, using a 7-point scale where 1 means you strongly disagree and 7 means you strongly agree. How much do you agree or disagree that…
[READ STATEMENT – RANDOMIZE ORDER]

STATEMENTS:

No one should be denied insurance, that is, everyone should have access to coverage
Drivers should be encouraged to act responsibly behind the wheel
All drivers should share the financial risk of accidents, regardless of whether they own a vehicle
Drivers who have more at-fault auto insurance claims should pay higher insurance premiums
Drivers with a poor or bad driving history should pay higher insurance premiums
Less experienced drivers should pay higher insurance premiums

VP2. I'd like to know how much priority you feel should be given to some specific concepts, or values, when implementing an auto insurance model for Manitoba. I am going to read you a value statement and I'd like to know if you think it should be a top priority or not. Please use a 7-point scale where 1 means it should not be a priority at all and 7 means it should be a top priority. How much priority should be given to… [READ VALUE STATEMENT – RANDOMIZE ORDER]

VALUES:

Fairness [IF ASKED FOR A DEFINTION, SAY: "Fairness means whatever it does to you.")
Affordability for less experienced drivers
Ease of use, that is, easy to purchase
Ease of understanding, that is, knowing how the rate is set
Rewarding having a good driving record
Accurately pricing risk, that is, paying the right price or rate
The amount of personal information required to get vehicle insurance

VP3. I'd like to know what you consider to be the top three priorities that should be considered when implementing an insurance model for Manitoba. Please think about the seven statements we previously discussed. These were [RE-READ ALL VALUES IN ORDER THEY WERE ASKED IN FOR VP2]. Now please tell me…

Which is the top priority value?
Which is the second priority?
Which is the third priority?

VALUES:

Fairness
Affordability for less experienced drivers
Ease of use, that is, easy to purchase
Ease of understanding, that is, knowing how the rate is set
Rewarding having a good driving record
Accurately pricing risk, that is, paying the right price or rate
The amount of personal information required to get vehicle insurance

[NOTE: THE DATA COLLECTION VENDOR WILL BE ASKED TO COMMENT ON THE BEST PRACTICE TO ADMINISTER THIS QUESTION, BE IT RE-READING ALL THE STATEMENTS, SOME OF THE STATEMENTS, NONE OF THE STATEMENTS, ETC.]

Model Assessment

[TRANSITION STATEMENT] I'd now like to discuss several models that could be used to set your driver insurance premiums and vehicle insurance premiums. It is important to know that the Driver Safety Rating impacts all the models we will discuss. Your position on the Driver Safety Rating scale depends on your driving record, which reflects your years of safe driving, and your accident and traffic conviction history. Driving safely moves a driver up the scale, while at-fault claims, traffic violations, and driver suspensions move a driver down the scale. Simply put, good driving increases your rating and bad driving decreases your rating. A positive Driver Safety Rating results in lower driver insurance premiums and vehicle insurance premiums.

[ALTERNATE TRANSITION STATEMENT] I'd now like to discuss several models that could be used to set your driver insurance premiums and vehicle insurance premiums. It is important to know that the Driver Safety Rating impacts all the models we will discuss. Your Driver Safety Rating depends on your driving record, and good driving increases your rating while bad driving decreases it. A positive Driver Safety Rating results in lower driver and vehicle insurance premiums.

[CURRENT MODEL DESCRIPTION]

[MODEL NAME] Registered Owner Model

The first model we will discuss is the current model used in Manitoba, called the Registered Owner Model. Under the Registered Owner Model, the Driver Safety Rating of the registered owner of the vehicle is used to calculate the vehicle insurance premiums, regardless of how many other drivers drive the vehicle or the driving records of the other drivers. This model prioritizes the values of ease of administration and ease of understanding.

[ALTERNATE MODEL DESCRIPTION] The first model we will discuss is the current model used in Manitoba, called the Registered Owner Model. Under the Registered Owner Model, a vehicle's premium is based on the Driver Safety Rating of the registered owner of the vehicle regardless of how many other drivers drive the vehicle or the driving records of the other drivers.

MA1. The Registered Owner Model is the current model used to set vehicle insurance premiums. How fair do you believe it is to use this model? Would you say it is [READ RESPONSES – RANDOMLY REVSERSE ORDER]?

Completely fair
Somewhat fair
Somewhat unfair
Completely unfair

MA2. And why do you say that the Registered Owner Model is [INSERT RESPONSE FROM PREVIOUS]? [RECORD VERBATIM] PROMPT: Any other reasons?

[TRANSITION STATEMENT] Now I'd like to discuss several alternative models that could be used to set driver insurance premiums and vehicle insurance premiums for Manitobans.

[PRESENT EACH MODEL TO THE RESPONDENT IN RANDOM ORDER. AFTER PRESENTING THE MODEL DESCRIPTION, ASK THE QUESTIONS BEFORE MOVING TO THE NEXT MODEL]

The first alternative model is the...
The second alternative model is the...
A third alternative model is the...
The last alternative model is the...

[MODEL NAME] Primary Driver Model

[MODEL DESCRIPTION] Under the Primary Driver Model, a vehicle's insurance premium would be based on the Driver Safety Rating level of the primary driver of the vehicle, the one who drives the vehicle the most. The vehicle owner would be required to identify the primary driver for the vehicle, and ensure that the primary driver information is updated every time it changes. The owner of the vehicle would pay vehicle premiums based on the risk presented by the primary driver of the vehicle, regardless of the Driver Safety Rating of the vehicle owner or others who may also drive the vehicle from time to time. This model prioritizes the value of ease of understanding. This model requires more information sharing between customers and MPI compared to the current model.

[MODEL NAME] All Household Drivers Model

[MODEL DESCRIPTION] Under the All Household Drivers Model, the vehicle's insurance premium would be based on the Driver Safety Rating levels of all the drivers in the household. Vehicle insurance premiums could be based on the combined or average Driver Safety Rating of all drivers in the household, assuming that all vehicles in the household are being driven equally by all drivers in the household. Another option under this alternative is to assign vehicles to specific drivers, although how they would be assigned has not yet been determined. This model prioritizes fairness by more closely aligning driver risk and insurance premiums. This model requires more information sharing between customers and MPI compared to the current model. Some people may find this model to be more complicated to understand and more complex to administer.

[MODEL NAME] Declared Drivers Model

[MODEL DESCRIPTION] Under the Declared Drivers model, the vehicle owner insuring the vehicle would be required to list all of the regular drivers of their vehicle on their insurance policy. A regular driver could be someone who drives the vehicle a certain number of times in a defined period of time. Vehicle insurance premiums could be determined based on the average Driver Safety Rating level of the listed, or declared drivers, on the Driver Safety Rating level of the lowest rated driver, or on some other basis. Benefits of this model include increased fairness by more closely matching driver risk and insurance premiums. This model will require more information sharing between customers and MPI compared to the current model. Some people may find this model to be more complicated to understand and more complex to administer.

[MODEL NAME] Driver Premium Model

[MODEL DESCRIPTION] Under the Driver Premium Model, people who hold a driver's licence but do not register or insure a vehicle in their name would pay an additional "non-owner" driver premium, based on their DSR level. The driver premium collected from these "non-owners" would be used to lower vehicle premiums for the pool of insured vehicles. This, in turn, would improve the actuarial soundness and fairness of the Autopac rating system by placing more financial responsibility on drivers rather than assigning almost all of the financial responsibility to people with auto insurance policies. Benefits of this model include ease of customer understanding, and ease of administration. This model will require less information sharing with MPI compared to some other alternative models.

[QUESTIONS TO BE ASKED AFTER EACH MOEDL DESCRIPTION]

After hearing this description of the [INSERT MODEL NAME], how fair do you believe it is to use this model to set Autopac premiums for Manitoba drivers? Would you say it is [READ RESPONSES – RANDOMLY REVSERSE ORDER]?

Completely fair
Somewhat fair
Somewhat unfair
Completely unfair

MA4. And why do you say that the [INSERT MODEL NAME] is [INSERT RESPONSE FROM PREVIOUS]? [RECORD VERBATIM] PROMPT: Any other reasons?

MA5. Do you have any questions or concerns regarding the [INSERT MODEL NAME]? PROMPT: Any other questions or concerns?

None/ No questions

RECORD VERBATIM QEUSTIONS

Overall Model Preference

[NOTE: READ A BRIEF SUMMARY OF EACH MODEL IF NECESSARY OR ASKED]

Registered Owner Model

Under the Registered Owner Model, the current model used in Manitoba, a vehicle's premium is based on the Driver Safety Rating of the registered owner of the vehicle regardless of how many other drivers drive the vehicle or the driving records of the other drivers.

Primary Driver Model

Under the Primary Driver Model, a vehicle's premium would be based on the Driver Safety Rating of the primary driver of the vehicle, the one who drives the vehicle the most.

All Household Drivers Model

Under the Household Drivers Model, the vehicle's insurance premium would be based on the Driver Safety Rating of all the drivers in the household.

Declared Drivers Model

Under the Declared Drivers Model, the vehicle's insurance premium would be based on the Driver Safety Ratings of all the declared drivers listed on the vehicle's policy.

Driver Premium Model

Under the Driver Premium Model, people who hold a driver's licence but do not register or insure a vehicle in their name would pay an additional "non-owner" driver premium, based on their Driver Safety Rating. The driver premium collected from these "non-owners" would be used to lower vehicle premiums for the pool of insured vehicles.

[TRANSITION STATEMENT] Now that we've had a chance to discuss all five models, I'd like to get your thoughts regarding which one model you feel is the best for Manitoba overall.

MP1. Considering the five models, which one do you believe [INSERT STATEMENT]? [CHOOSE ONE RESPONSE]

STATEMENTS:

Is the best to accurately determine vehicle and driver premiums based on driver risk
Would best encourage safe driving among drivers
Would ensure that all drivers share the financial risk of accidents
Is the most fair for setting the vehicle and driver premiums
Would be the most affordable for all Manitobans
Is the easiest for all Manitobans to use
Is the easiest for all Manitobans to understand

[PRESENT RESPONSES IN THIS ORDER – THE CURRENT Registered Owner Model, FOLLOWED BY THE FOUR ALTERNATIVE MODELS IN THE ORDER THEY WERE PRESENTED]

(The current) Registered Owner Model
Primary Driver Model
All Household Drivers Model
Declared Drivers Model
Driver Premium Model

MP2. If you were to choose one of these models to use for setting vehicle and driver premiums in Manitoba, which would you choose?

[PRESENT MODELS IN THIS ORDER – THE CURRENT Registered Owner Model, FOLLOWED BY THE FOUR ALTERNATIVE MODELS IN THE ORDER THEY WERE PRESENTED]

(The current) Registered Owner Model
Primary Driver Model
All Household Drivers Model
Declared Drivers Model
Driver Premium Model

MP3. Why would you choose that model? [RECORD VERBATIM] PROMPT: Any other reasons?

MP4. Is there anything else you think should be considered when evaluating possible alternatives to the Autopac premium rating system in Manitoba? [RECORD VERBATIM] PROMPT: Anything else?

[END SURVEY]

Those are all the questions I have. On behalf of myself, [THE VENDOR], and Manitoba Public Insurance, thank you for your time today.

ePanel - Another Driver Safety Rating Survey Available

Hello

Recently, you participated in an ePanel survey about Manitoba Public Insurance's public consultations on the Driver Safety Rating system. We would like to follow up on that survey and get a more detailed understanding of how you think about the underlying philosophy at work in Manitoba's Autopac system.

Please click the survey link before Monday, April 26 to provide your feedback. This survey should take about 15 minutes to complete:

Your individual responses will remain confidential and will only be reported in aggregate form. This means your responses will never be individually disclosed – only overall results (combined from all participants' input) will be reported.

Members of our Voice of the Customer ePanel who complete this survey will have the opportunity to complete another survey on this same topic next week. That one will dig deeper into some of the insurance models explored in the first survey.

Some Manitobans choose to have a single person register all of the vehicles in their household while others choose to have different people register different vehicles. Do you feel this practice is:

Completely fair
Somewhat fair
Somewhat unfair
Completely unfair

Why do you say that?

While many Manitobans agree that no one should be denied insurance, what do you think would be circumstances that would warrant denying someone vehicle insurance, if any?

None – No circumstances would warrant denying insurance to someone
Yes – Specify circumstances

Many Manitobans have indicated that they agree that all drivers should share the financial risk of accidents, regardless of whether they own a vehicle. In your opinion, what is the best way to ensure that drivers who don't register a vehicle share this risk?

Manitobans have different views when it comes to whether or not less experienced drivers should pay higher insurance premiums. Under what circumstances, if any, would you say that less experienced drivers should pay more?

None – No circumstances would warrant this
Yes – Specify circumstances

A majority of Manitobans agree that fairness is a primary value that needs to be considered when setting insurance premiums. In an auto insurance context, what does fairness mean to you?

Rewarding having a good driving record is ranked as a top priority by a majority of Manitobans. In your opinion, what is the best way for an insurance system to reward a good driving record?

Paying the right price or rate is a priority for a majority of Manitobans. How do you know you are paying the right price for your auto insurance premium?

END SURVEY

ePanel - A Third Driver Safety Rating Survey Available

Hello

Recently, you participated in an ePanel survey about Manitoba Public Insurance's public consultations on the Driver Safety Rating system. We would like to follow up on that survey and get a more detailed understanding of how you think about the alternate rate setting models presented for Manitoba's Autopac system. This is the third and final survey in our series about this topic.

Please click the survey link before Wednesday, May 15 to provide your feedback.
This survey should take about 15 minutes to complete:

In a previous survey, you reviewed and responded to several alternative models that could be used to set driver insurance premiums and vehicle insurance premiums for Manitobans. We would like to know what you think are the strengths and weaknesses of each of these models.

INSERT DESCRIPTION OF MODEL

A majority of Manitobans have told us that they think this model is fair.

A majority of Manitobans have told us that they think this model is not fair.

Manitobans appear to be divided on this model, with about half saying it is fair and half saying it is not fair.

What do you think are the strengths of this model? (Please select all that apply)

It is fair for all Manitobans

It would be affordable for less experienced drivers

It would be easy to use, that is, easy to purchase

It is easy to understand, that is, to know how the rate is set

It rewards good driving behaviour

It ensures that you pay the right price or rate

It requires sharing an acceptable amount of personal information to get vehicle insurance

None of the above

What are the other strengths of this model that you would include?
That is, why would someone choose this model over others?

What do you think are the primary weaknesses of this model? (Please select all that apply)

It is not fair for all Manitobans

It would not be affordable for less experienced drivers

It would not be easy to use, that is, not easy to purchase

It is not easy to understand, that is, not easy to know how the rate is set

It does not reward good driving behaviour

It does not ensure that you pay the right price or rate

It requires sharing too much personal information to get vehicle insurance

None of the above

Are there any other weakness of this model that you can think of?
That is, why would someone recommend not using this model?

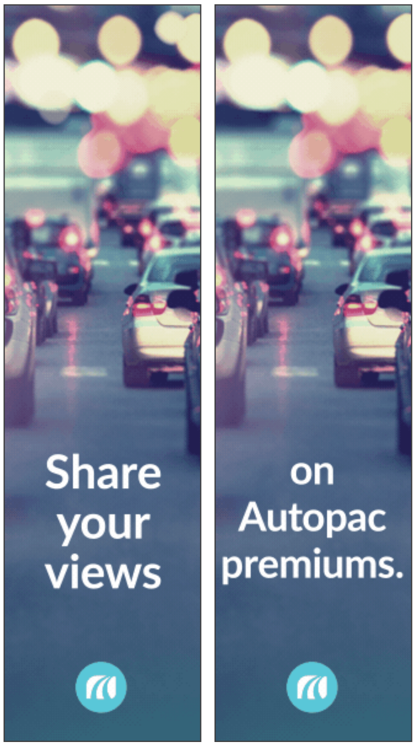
END SURVEY

Appendix D: Advertising/ Media Relations

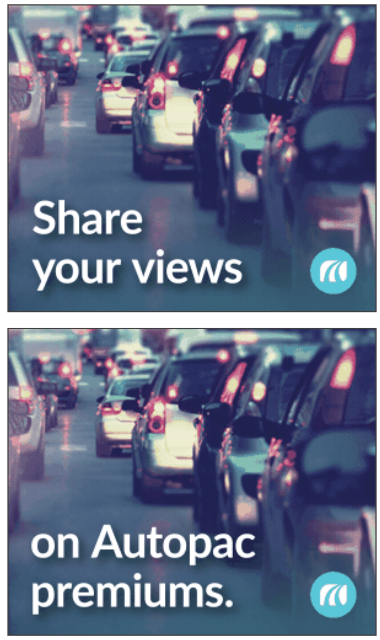
Newspaper print ads

English and French.

Online ads, animated (frames shown)



"Skyscraper" size (160 x 600 px)



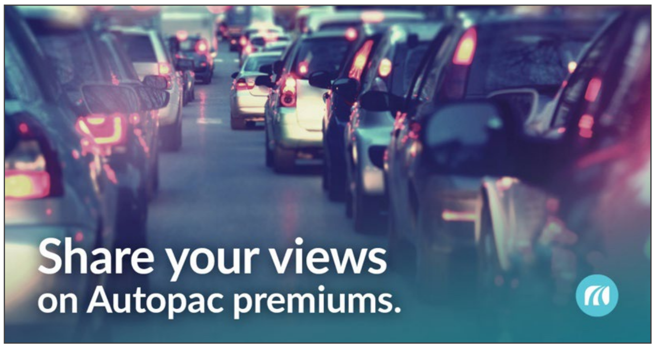
"Big Box" size (300 x 250 px)

"Leaderboard" size (160 x 600 px)

Social Media Ads

Facebook:

Text: MPI Welcomes Your Input

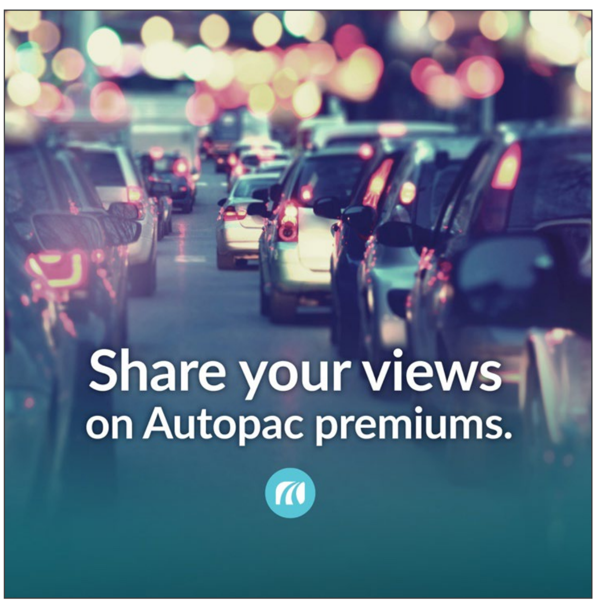


(headline not required)

Link Description: Complete Survey

Links to: www. mpi.mb.ca

Instagram:



Manitoba Public Insurance welcomes your input on our current method of applying the Driver Safety Rating (DSR) in pricing insurance coverage and on potential alternatives we are considering to ensure fairness to all Manitobans. Complete the survey at www.mpi.mb.ca

MANITOBA PUBLIC INSURANCE

CAC (MPI) 2-37

Part and Chapter:	**Part X Capital Management and the Rate Stabilization Reserve** **Rate Stabilization Reserve**	**Page No.:**	**4, 7-15**
PUB Approved Issue No:	**8. Capital Management Plan**		
Topic:	**Capital build and rebate provisions**		
Sub Topic:			

Preamble to IR:

MPI sets out its proposed Capital Management Plan in the 2024 GRA.

The *Manitoba Public Insurance Act,* states as follows:

Rate stabilization reserve surplus

18(4) *A rebate must not be paid from the rate stabilization reserve unless*

(a) the reserve's MCT ratio exceeds 120% at the beginning of a fiscal year;

(b) the corporation applies to The Public Utilities Board for approval to the pay the rebate;

(c) The Public Utilities Board approves the application; and

(d) the rebate is not projected to reduce the reserve's MCT ratio to less than 100%.

Rate stabilization reserve deficiency

18(5) *If the rate stabilization reserve's MCT ratio is less than, or is projected to be less than, its target MCT ratio at the beginning of a fiscal year, the corporation must ensure that its revenue from universal compulsory automobile insurance is sufficient to allow the reserve's* *target MCT ratio to be achieved within the five-year period beginning with that fiscal year.*

Question:

a) Please comment on differences, if any, in MPI's process for deciding whether or not to apply for a capital rebate provision or a capital build provision, given the differences in language in the MPIC Act regarding situations in which there is a surplus or a deficiency.

b) Please comment on whether there would be any situations in which Basic RSR's MCT ratio is projected to exceed 120% at the beginning of the fiscal year and MPI decides not apply to the PUB for a rebate, as per section 18(4) of the MPIC Act.

c) Please describe, if any, possible scenarios in which MPI would transfer funds out of the Basic RSR or the Extension reserves to other reserves or lines of business prior to the beginning of a fiscal year, thereby avoiding a situation in which the Basic RSR's MCT ratio would be 120% or higher at the beginning of a fiscal year.

Rationale for Question:

To understand the implications of the MPIC Act on the Capital Management Plan.

RESPONSE:

a) There is no decision process to issue a capital rebate as the application for the capital rebate is triggered if the MCT exceeds 120% at the beginning of the fiscal year. In contrast, there is a decision process for applying for a capital build which is outlined in *Part X – Capital Management and the Rate Stabilization Reserve, the Rate Stabilization Reserve Chapter*.

b) MPI does not foresee a situation in which Basic RSR's MCT ratio exceeds 120% at the beginning of the fiscal year and MPI does not apply for a rebate.

c) Considering current investment policies and directives, MPI knows of no scenario in which it would transfer funds out of the Basic RSR in order to achieve the objective of avoiding a situation in which the MCT Ratio of the Basic RSR would be 120% or higher at the beginning of a fiscal year.

As it relates to the Extension Reserve, as per the Capital Management Plan (see: *Part X –Capital Management and the Rate Stabilization Reserve, the Rate Stabilization Reserve Chapter*):

> *"The proposed CMP requires MPI to transfer to the Basic RSR all capital in the Extension Reserve in excess of 200% MCT at each fiscal year end. Notwithstanding this requirement, the Board of Directors (BoD) of MPI may transfer such excess funds prior to fiscal year end to cover any subsequent or existing shortfalls to its other lines of business."*

CAC (MPI) 2-38

Part and Chapter:	Part V IT Attachment A	Page No.:	
PUB Approved Issue No:	15. Information Technology benchmarking		
Topic:	MPI Technology Benchmark		
Sub Topic:	Gartner Report Version 3.0		

Preamble to IR:

MPI filed the Gartner IT Benchmarking report as Exhibit MPI-5 on July 13, 2023.

Question:

a) The report indicates this is version 3.0. Please provide all previous versions of the report.

b) Please provide a copy of the FY 2018/19, 2019/20 and 2020/21 reports referred to on page 5.

c) Please advise what 11 insurance industry peers were selected for the benchmark and the rationale for this selection.

Gartner is unable to share the identity of the peers out of respect for the privacy and confidentiality of the peer organizations. The peers were selected based on the following criteria in order to come up with a peer group that is as closely representative of MPI:

i. Data currency (considering how recent the data was collected for the peers)
ii. Industry (Insurance)
iii. Total Revenue
iv. Total Operating Expenses

v. Number of Employees

vi. IT Opex and Capex

d) Last year's benchmark reports 14 peers, while this only includes 11(Page 10 of Executive summary). What is the reason for the change? What is the material impact of this change?

e) What is the rationale for excluding benchmarks of crown corporations and public sector organizations as an additional benchmark?

f) Given that Project Nova is out of scope for the Gartner Benchmark (per page 8 of the Executive Summary), why does the analysis not exclude these amounts, or perform an analysis of MPI vs. Benchmark with Nova costs included AND one excluding Project Nova? For example, on Page 19, Note 2 indicates that Project Nova costs were not included previously.

g) Why has MPI's Strategy and Execution maturity dropped (2.99 in 2019/20 and is now 1.32 2021/22 with peers at 2.65), despite substantial efforts and focus in this area.

i. Please explain similarly the reductions of magnitude for
   - Applications
   - Program and Portfolio Management

ii. Please also provide commentary on the reasons for MPI's reduction in Overall IT Maturity Level from 3.39 in 2019/20 to the current 2.75.

h) Regarding IT Maturity Level Methodology, on Page 32, it indicates that MPI respondents were selected from MPI's IT Management team. On Page 33, Strategy and Execution, it indicates "Incomplete survey response for some functional areas (questions answered as "Don't Know").

i. What areas of IT management were unable to provide answers?

ii. What were the questions they were unable to answer?

iii. Please provide both the questions and answers for this area by respondent and their role within MPI to help understand the context for their inability to answer.

iv. Is there an action plan in place to address this shortcoming going forward? If so, please share.

i) Regarding MPI's decreasing maturity in the areas of Program and Portfolio Management and Strategy and Execution as described on Page 42 and given Project Nova is in mid-flight and requires significant maturity in these areas to deliver Project Nova on scope, time, and budget:

i. Why did these areas decline?

ii. What action plan is in place to address these declines?

iii. How does MPI plan to address these declines on an urgent/accelerated basis?

j) Regarding Gartner's List of Improvement opportunities (Pages 44 to 51) and Detailed Recommendations (Pages 61 to 66).

i. Which of these recommendations are MPI implementing?

ii. What is the timing of implementations and impact in terms of resource and economic cost?

iii. How does this fit into MPI's governance model?

k) Please confirm that this and past Gartner benchmarking reports were provided to MPI's Board of Directors.

Rationale for Question:

To inform assessment of MPI’s IT maturity.

RESPONSE:

a) and b)
Please refer to *Attachments A, B, C, D, and E*.

c) Gartner is unable to share the identity of the peers out of respect for the privacy and confidentiality of the peer organizations. The peers were selected based on the following criteria in order to come up with a peer group that is as closely representative of MPI:

i. Data currency (considering how recent the data was collected for the peers)
ii. Industry (Insurance)
iii. Total Revenue
iv. Total Operating Expenses
v. Number of Employees
vi. IT Opex and Capex

d) Gartner typically selects a group of peers of between 8 and 15 organizations. In addition, for benchmarks that require year-over-year comparisons as is the case for MPI, Gartner also aims to incorporate the same peers as much as possible. This is because when new peers are introduced to the group, their impact on the peer averages must be carefully assessed to ensure the results are not steered by changes within the peer group. Of course, there is no guarantee that each peer organization will submit updated benchmarking data to Gartner each year. In the case of the FY2021-22 benchmark, 11 of the original 14 peers submitted recent data (an unusually high retention rate). With this many of the original peers having participated in recent benchmarks, there is no need to substitute data from new peer organizations, which is usually required. Since the number of peers is well within the acceptable range to ensure diversity, there was no need to substitute any new organizations to the peer group and there is no material impact due to this change.

e) Many years ago, prior to the current series of benchmarks the peer group included a small number of Crown Corporations and Public Sector organizations. In the recent iterations of the benchmarks, these peers were excluded because the levels of IT intensity and efficiency for public sector organizations has diverged from Insurance industry peers, meaning that the benchmark could be steered by the inclusion of those peers in the peer group. Public sector organizations could be shown as a separate benchmark upon request, with an applicable scope change order.

f) The benchmark does not allow for an analysis of project spending, scope and schedule which would be required to create a view of the health of project Nova. While an analysis of these project data is out of scope, it is appropriate for aggregate project spending to be included as part of total IT spending amounts as defined in the taxonomy for IT spending. This approach provides a complete view of annual IT spending and staffing and is consistent with the approach adopted by peer organizations. In response to a request from MPI in 2022, the benchmark was expanded to show an analysis of MPI with and without Nova costs for the summary views (page 11, page 16).

g) The individual form Strategy and Execution who responded to the questionnaire and participated in the interview portion is no longer with MPI. The review of the unanswered questions has resulted in a request to have the maturity assessment re-done.

   i. New leadership with external experience and perspective was able to review the maturity and program with a fresh perspective which led to the decrease in the self-assessment questionnaire and interview.

   For Program and Portfolio Management the assessment with a maturity level of 3.39 in 2019/20 was prior to the Scaled Agile methodology introduced to the corporation in 2021. The decline in the assessment for 2021/22 was due to several factors including:

- The introduction of the SAFe/Agile framework and without proper training and Agile foundation throughout the organization.
- Lack of a change management plan leading to employee resistance to adaptation to a changing enterprise.
- Agile methodology implemented prior to a solid foundation with advanced training and change management embedded in implementation.
- Dichotomy of beliefs in traditional and agile life cycles.
- Lacking defined identity, including, objectives, vision, purpose and value proposition.
- Minimum engagement with stakeholder.
- Implementation lacks transparency, trust and true accountability.
- Inability to identify and measure outcomes / value realized.
- Inadequate or misaligned skill sets.

ii. Material changes in the maturity assessments discussed above for Strategy & Execution and Program and Portfolio Management significantly impacted the Overall IT Maturity Level. For the other areas in the assessment new executive leadership joined the corporation in 2021 and challenged IT leadership to be more critical when assessment maturity as the executive view at the time was that the assessment scores were too high based on the executive perspective. For the current maturity assessment each IT Director took a critical look at the maturity particularly with the shift to an Agile methodology and the maturity required with the shift to cloud technology which requires different skills for Software Development & Operations, Platform Engineering and Infrastructure, Digital Workflow, Vendor Management, Data Management & Analytics, and Cyber Information Security.

h) Please see responses below:

i. Strategy & Execution and Project & Portfolio Management were areas unable to provide answers.

ii. Please see below the major topics to which each area was unable to respond:

Strategy and Execution

- MARKET IT CAPABILITIES
- ASSESS AND MANAGE BUSINESS DEMAND
- ESTABLISH IT ENGAGEMENT POSTURE
- CONTRIBUTE TO ORGANIZATIONAL CHANGE
- ENABLE BUSINESS IT CAPABILITIES
- SCOPE STRATEGY & VISION
- DEVELOP STRATEGY
- COMMUNICATE STRATEGY
- APPLY ANALYSIS & INNOVATE
- OPTIMIZE THE IT OPERATING MODEL
- LEVERAGE TECHNOLOGY
- DEVELOP THE TECHNOLOGY ROADMAP
- HONE IT DELIVERY CAPABILITY
- SUSTAIN AND EVOLVE IT CULTURE
- ALLOCATE IT DECISION RIGHTS
- OPERATE IT GOVERNANCE FRAMEWORK
- MANAGE IT RISK
- PREPARE AND MANAGE IT BUDGETS
- PERFORM IT FINANCIAL ANALYSIS:
- PRIORITIZE IT INVESTMENTS
- DEVELOP IT WORKFORCE STRATEGY
- SOURCE INTERNAL AND EXTERNAL TALENT
- DEVELOP SKILLS AND COMPETENCIES
- DEFINE AND EVOLVE IT SERVICES
- MEASURE IT PERFORMANCE
- COMMUNICATE & REPORT IT PERFORMANCE
- ACT ON METRICS FOR IMPROVEMENT
- INCENTIVIZE ACHIEVEMENT OF OBJECTIVES

Project and Portfolio Management:

- DEFINE A STAKEHOLDER MANAGEMENT APPROACH
- ENGAGE SPONSORS
- MANAGE VENDORS
- STEWARD INVESTMENT ALLOCATION
- FACILITATE PORTFOLIO PRIORITIZATION
- MANAGE RISKS AND INTERDEPENDENCIES
- SELECT AND REPORT PORTFOLIO METRICS
- MANAGE RESOURCES
- MEASURE AND MANAGE BENEFIT REALIZATION
- PROMOTE DELIVERY METHODOLOGIES
- FACILITATE MULTIPLE METHODOLOGY DELIVERY
- CREATE ESTIMATES FOR INITIATIVES
- SELECT AND REPORT INITIATIVE PERFORMANCE
- TRACK COSTS OF INITIATIVES
- DEFINE PROGRAMS
- MANAGE PROGRAMS
- ENABLE ORGANIZATIONAL CHANGE MANAGEMENT
- MANAGE TROUBLED INITIATIVES
- DEFINE PPM ROLES
- DEVELOP SKILLS AND COMPETENCIES
- MANAGE CAREER PATHS
- EQUIP STAKEHOLDERS TO MANAGE INITIATIVES
- SUPPORT AGILE DELIVERY TEAMS
- MANAGE CONTRACTORS
- MANAGE THE MANDATE OF THE PPM FUNCTION
- MEASURE AND COMMUNICATE PPM PERFORMANCE
- LEVERAGE PPM-ENABLING TECHNOLOGY

iii. Please refer to *Appendix 1* for questions and answers asked to these areas above.

iv. Please refer to part g).

i) Program Nova has a separate program management governance structure and this was not part of Gartner Assessment. Please see PUB 2-23 b for more details.

j) MPI has reviewed and accepted the Detailed Recommendations contained on pages 62 - 66

Recommendation one to Develop a complete view of MPI’s project portfolio, supported by centralized governance and documented PPM processes and standards has been accepted. MPI has established the foundational elements of PPM including a clear view of all enterprise-wide projects and initiatives and work is in progress to complete a formalized PPM charter in 2024.

PPM standards and process documentation as well as implementing a risk-based project review is in progress with estimate completion in 2024.

The second recommendation to map initiatives and processes to measure business impacts, prioritization of efforts based on organization strategy has been accepted. Work to align project metrics with business goals and measurement of the benefits realized is 75% complete and will be finalized in 2024. The facilitation of prioritization guided by organizational strategy in in progress with completion in 2024. Technology Roadmaps have been complete.

Recommendation three to enable self-service reporting and automation are in alignment with MPI's Data Management (DM) roadmap. A time-phased plan to gradually mature current state DM functional areas to a desired future state is being developed. Next steps will be the implementation of the initial phase of this plan for the remaining fiscal year. Implementation will be centered around key MPI priority business areas and corporate projects.

The fourth recommendation to apply best practices to attract and retain hires, evaluate critical skill gaps, and staff process fir against a workforce plan is accepted. MPI has an initiative to provide training regarding the skills necessary to support MPI’s cloud initiatives, cyber security, and software development and operations. There is a focus on attracting new hires with the skills required for the cloud environment and associated initiatives.

The final recommendation to formalize and document vendor risk management and supplier management framework has been accepted and initiatives are currently under way. MPI is currently deploying tools to manage enterprise and IT risks to standardize and formalize the process for compliance with the existing Enterprise Risk policies and standards to replace the use of spreadsheets to track and manage risks related to vendor risk. Documentation is being completed to clearly document roles and responsibilities across the various stakeholders.

These initiatives do not have project costs associated as they are being addressed through operations and continuous improvement.

k) The current Gartner report has not been presented to MPI's Board of Directors as of this submission.

Appendix 1:
IT Maturity Level Methodology Questions

This material is the subject of a confidential motion.

Manitoba Public Insurance Information Technology Benchmark (FY 2019-2020)

Executive Report

June 4th, 2021

MANITOBA PUBLIC INSURANCE

Gartner®

Purpose of this Report

- This reports contains the summarized executive version of the findings and recommendations resulting from the analysis conducted as part of the Gartner / Manitoba Public Insurance (MPI) Annual IT Benchmark for FY 2019-2020
- Refer to the Full Report for the detailed analysis

Table of Contents

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01 Gartner Point of View

Levels of investment in IT must be in balance with value derived by the business: There is a cost to maturing IT Service Management Processes

Investments in IT

- IT Personnel
- Contractors
- Hardware
- Software
- Facilities
- Managed Services

Value Delivered

- Mature IT Service Management Processes
- Satisfied business stakeholders and end users
- Reduced risk
- Progress towards business outcomes
- Profitability *
  (Applicable for commercial peers; not for MPI)

**Since MPI is a Crown Corporation, it does not aim to maximize profitability; thus profitability may be a less applicable measure of value delivered*

**Within the current and previous benchmark peer groups, a trend was found that higher levels of profitability are typically achieved for firms with higher levels of IT Spending per employee*

Gartner's Point of View on the insurance industry

COVID-19 Has Had A Significant Impact On Insurance Organizations, Yet Digitalization Continues

- The impact of **COVID-19 has hit the P&C insurance industry hard** and derailed many CIOs from delivering the digital results expected for 2020.
- **Digital maturity is continuing to advance** in the insurance industry, with most CIOs reporting they are delivering or scaling digital today.
- Insurance **CIOs project increased investment in many technologies for 2021,** but it is highly likely they will need to prioritize due to investment and talent issues.
- The insurance **CIO has been instrumental in responding to COVID-19** and will play an important role in digital as they focus on building the next information and technology foundation for the future.
- Different stances to **customer experience (CX) will be needed in 2021** to respond to emerging consumer demands, including more digital channel capabilities and new products and services.

Source: Gartner 2021

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02 Objectives, Approach and Methodology

An Information Technology Benchmark was independently performed by Gartner for MPI (2nd benchmark in a series spanning 3 fiscal years)

The objectives of the IT benchmark are to:

- Establish a baseline of IT spending and staffing based on 2019/2020 fiscal year data
- Compare IT spending and staffing levels with insurance industry peers
- Communicate the level of maturity of key IT domains within MPI relative to peers
- Identify the variances for areas that may have a potential for optimization
- Create a foundation for a continual change/ improvement program

Assumptions:

- This is the second iteration in a series of benchmarks that will provide year over year comparisons
- The benchmark uses an updated methodology for the analysis of spending and staffing and IT maturity, and comparisons with the previous benchmarks are limited to common metrics

Successful Outcome:

The benchmarking report provides a fact-based assessment for communicating IT performance within MPI and contributes to informing future budget, staffing and investment decisions.

For the Information Technology Benchmark, MPI's current state was informed through three different workstreams

Work Streams

Spending and Staffing Benchmark

- Peer groups were selected based characteristics such as industry, size and geography.
- Enterprise-level benchmarks for IT spending and staffing were developed using 2019/2020 fiscal year data provided by MPI.
- Comparisons were made to the averages, 25th, and 75th percentiles of the peer group and MPI's previous year levels, where applicable.

IT Service Management Process Review

- Evaluated IT domains include: Strategy & Execution, Applications, Data & Analytics, Enterprise Architecture, Infrastructure & Operations, Security & Risk, Program & Portfolio Management, Sourcing / Procurement, and Vendor Management.
- Service Management Processes were evaluated based on survey results and maturity levels were calculated and compared to peers and MPI's past year maturity level.
- Validation workshops for reviewing the assessment.

Stakeholder Analysis

- A document review and 6+ interviews were conducted with key IT personnel.
- The interviews were conducted to build a contextualized view towards MPI's strategy, processes, culture and past initiatives and were not used as part of the maturity assessment.

The recommendations were developed in collaboration with MPI's IT Management

Development Process

Benchmarking of IT Spending and Staffing

Discovery into the maturity of MPI's IT Service Management Processes

Interviews with ITBT Management

Validation of Results with MPI

Spending, Staffing and Workload Data Collection and Analysis

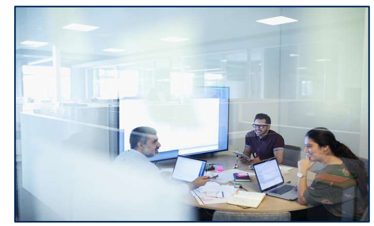
Gartner benchmarking draws upon a deep repository of IT spending to identify fact-based, optimization opportunities. For MPI, Gartner conducted an analysis of spending, staffing levels and IT workloads, comparing results with peer organizations.

IT Score Surveys

Gartner IT Score Surveys assess specific IT domains, by evaluating best practice activities performed in each function, and assigning a maturity level based on responses. For MPI, Gartner assessed the maturity of MPI's IT Service Management processes through IT Score Surveys.

Interviews with IT Management

Gartner's interviews helped understand the context behind MPI's current capabilities, identify business challenges, uncover pain points, and pin-point critical success factors.



Workshops with MPI IT Management to Validate Recommendations

Recommendations are based on accurate information, and are actionable, attributable, measurable and prioritized accordingly.

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03 IT Benchmark Assessment Findings

Gartner's Benchmarking Assessment Findings:
MPI's investment in IT is at a similar level relative to peers while process maturity is at a significantly higher level

Spending Levels

MPI's IT spending is slightly higher than peers, but within a typical range of spending

0.2%

Above peer average for IT Spend as a Percent of OPEX

Staffing Levels

MPI's IT staffing levels are below peers and within a typical range of staffing

1.4%

Below peer average for IT Staff as a Percent of All Staff

IT Maturity Levels

MPI's IT maturity levels continue to outperform peers in all nine of the IT domains

3.39

MPI's Maturity Level compared to Peer Average of 2.60

Maturity scores are assessed on a scale from 1-5, with the score of 5 representing Gartner's best practices for the IT domain

MPI's IT spending and staffing levels are close to peers, and MPI continues to allocate more of its budget towards supporting evolving business initiatives

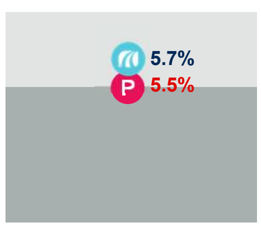
MPI's IT Spending as a percentage of OPEX is slightly higher than the peer average

IT Staffing as a percentage of enterprise employees is lower than the peer average

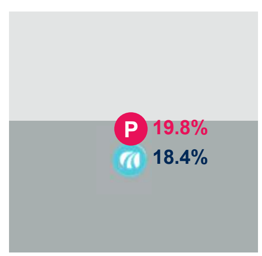
IT Spending per enterprise employee is significantly lower than the peer average and is below the 25th percentile of peer organizations

MPI allocates slightly less of its budget to running the business leaving a larger portion to support changes to meet business demands

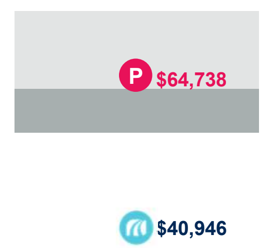
IT Spending as a Percentage of Total Operating Expense



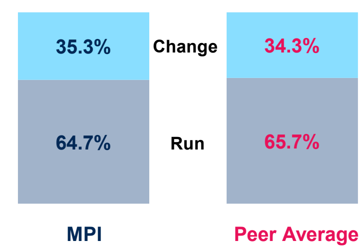
IT Staffing as a Percentage of Enterprise Employees



IT Spending per Enterprise Employee



Percentage Spending on Run vs Change



MPI | P Peer Average | 25th to 50th Percentile | 50th to 75th Percentile

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During the interviews, Gartner discovered that the focus on preparing for Project NOVA has been maintained, despite COVID-19 challenges

1.

MPI continues to plan for modernization of enterprise applications based on a user / customer centric design (Project NOVA)

2.

Agile development methodologies and a product management approach has been adopted for application development

3.

MPI has taken steps to improve scalability for vendor management and has improved risk management processes

4.

Legacy modernization initiatives will further increase the need for integration planning, API management and vendor risk management

IT investments have yielded highly mature IT service management processes, which position MPI well to address changing business demands. New baselines have been established in areas which can be linked to continuous improvement initiatives.

Strategy and Execution maturity is slightly better than peers, and executive leadership changes have provided new directives which are being initiated within Enterprise Architecture.

IT Strategy can be further improved by anticipating future investments and skills requirements.

Applications delivery has adopted agile development and Data and Analytics has seen a new focus by management.

A continued focus on integration requirements and API management will further improve MPI's position to deliver Project NOVA.

Improvements to Security and Risk Management include a framework to track risks and a GRC tool implementation.

An added focus on third-party risk management will enable maturity to be maintained as MPI transitions to modernized applications.

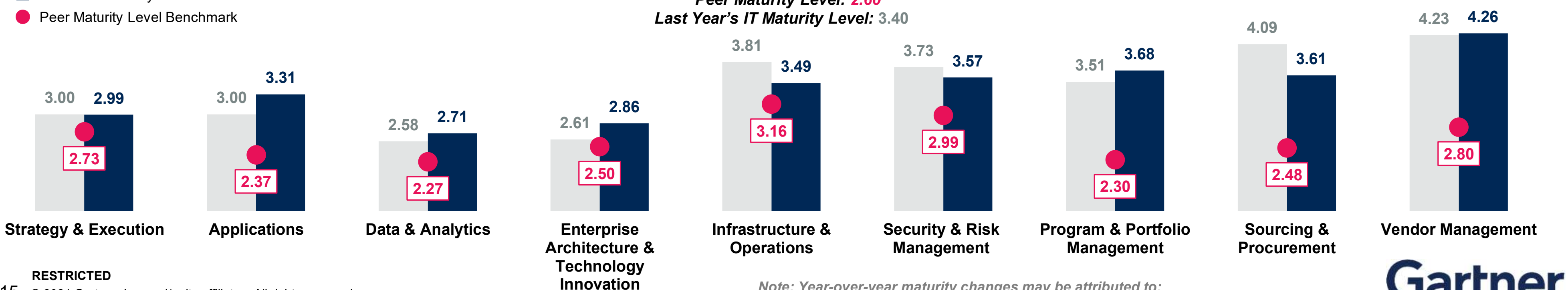
Scalability concerns in Vendor Management, have been resolved to some extent with improved processes.

A focus on determining an approach for utilizing cloud-service providers will unlock additional value.

MPI's IT Domain Maturity Levels compared to Industry Peers and MPI's Previous Year's Levels

MPI's Overall IT Maturity Level: 3.39
Peer Maturity Level: 2.60
Last Year's IT Maturity Level: 3.40

2019 MPI Maturity Level
2020 MPI Maturity Level
Peer Maturity Level Benchmark



Note: Year-over-year maturity changes may be attributed to:
1. *Change in the levels of MPI's IT Service Delivery*
2. *Evolving criteria required to meet a level of maturity defined by Gartner*

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Maturity scores are assessed on a scale from 1-5, with the score of 5 representing Gartner's best practices for the IT domain

04 Recommendations

The recommendations, for MPI's implementation roadmap are listed below:

1. Conduct a skills assessment and create a workforce plan to address the new skills required within the IT organization
2. Ensure IT Financial Management facilitates priorities for investments across products and services and has flexibility to adjust to changing business plans
3. Increase the scope of delivery of the integration strategy for applications and continue to document the APIs
4. Integrate third-party risk management into the IT Security Governance, Risk and Compliance (GRC) processes
5. Formulate a sourcing and vendor management approach for utilizing cloud-service providers

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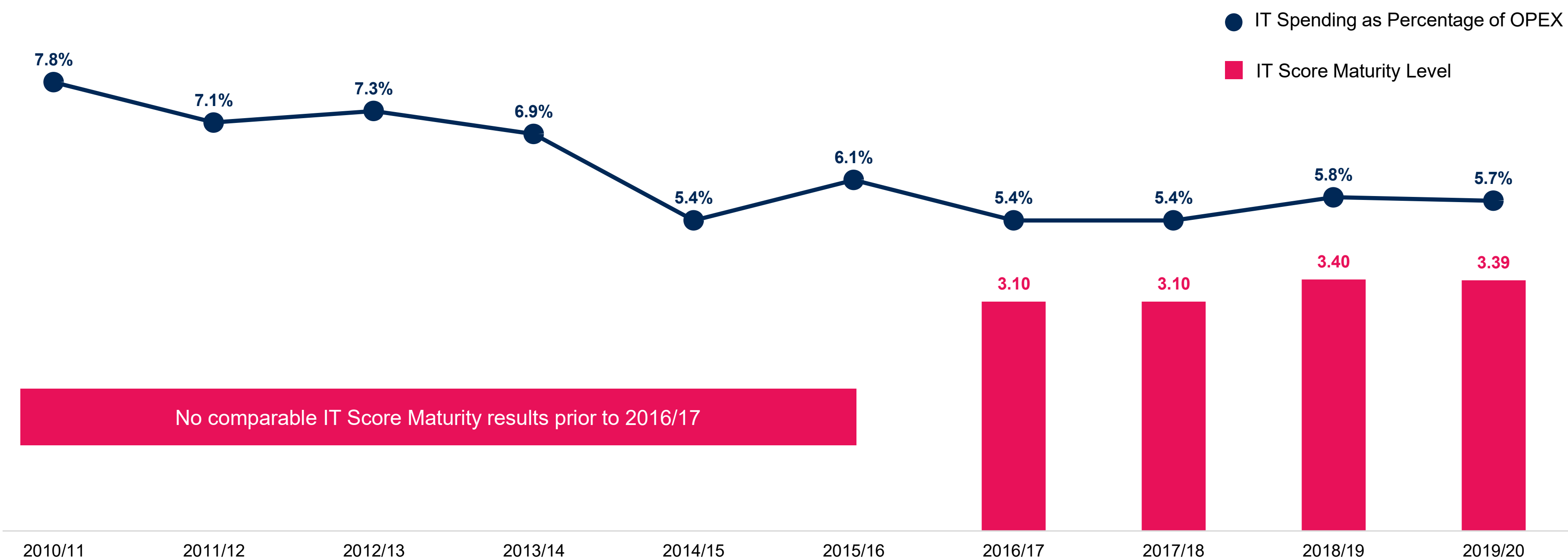
05 Closing

Over recent years, MPI has demonstrated a stable trend of maintaining IT spending as a proportion of total business expenses, while maintaining IT service management maturity levels

IT Spending as a Percentage of Enterprise Operating Expense and IT Score Maturity Levels



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MPI’s investments in IT are commensurate with the higher levels of maturity achieved compared to peers

Investments in IT

- MPI’s IT spending levels are slightly higher than peers, but are within a typical range of spending
- MPI’s IT staffing levels are lower than peers, and are within a typical range
- MPI’s IT spending per enterprise employee is lower and below the 25th percentile of peers

Value Delivered

- IT service management processes are more mature than peer organizations in every domain
- MPI has adapted services to changing business requirements, has adopted agile application development processes and implemented product management
- MPI has reduced IT security and privacy risks
- MPI has enacted key requirements for modernization of legacy applications

Previous investments in IT have yielded high levels of maturity in IT service delivery and recent investments have positioned MPI well to deliver on its modernization strategy. Gartner considers this to be a good level of progress for the year, especially when considering COVID-19 impacts and has no general concerns. MPI’s IT management team continues to execute on continuous improvement initiatives and will consider recommendations provided by Gartner for inclusion in its roadmap.

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Appendix

Reconciling Past IT Benchmark Recommendations

Past Benchmark Recommendations (FY 2018/2019)

I. **Document vision and objectives for Enterprise Architecture using a formal charter**

Completing a formal charter was part of past year's main objectives

II. **Add capacity and transition vendor management from a focus on transaction-based activities to all aspects of the vendor management lifecycle**

Operational capacity is being extended as part of increased training for skills within the team

III. **Establish a skills management and training initiative, and define additional personnel roles within EA, PPM, vendor management, applications and IT security**

Skills management and workforce planning is carried over as part of Recommendation #1 for the current benchmark

IV. **Improve application management competencies required for legacy modernization including agile application delivery and application testing for secure coding**

Agile delivery has been adopted and code quality standards are in the process of being improved

Current Benchmark Recommendations (FY 2019/2020)

1. **Conduct a skills assessment and create a workforce plan to address the new skills required within the organization**
2. **Ensure IT Financial Management facilitates priorities for investments across products and services and has flexibility to adjust to changing business plans**
3. **Increase the scope of delivery of the integration strategy for applications and continue to document the APIs**
4. **Integrate third-party risk management into the IT Security GRC processes**
5. **Formulate a sourcing and vendor management approach for utilizing cloud-service providers**

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Manitoba Public Insurance Information Technology Benchmark (FY 2019-2020)

Findings and Recommendations Report

Final Version
June 4th, 2021

MANITOBA
PUBLIC INSURANCE

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Version History

Version	Date	Details
V1.0	14 May 2021	First version delivered to MPI (Working Draft)
V2.0	21 May 2021	Updated version following validation of recommendations with MPI
V3.0	2 June 2021	Updated based on further validation of recommendations with MPI
Final	4 June 2021	Final Report

Purpose of this Report

- This reports contains the final version of the findings and recommendations resulting from the analysis conducted as part of the Gartner / Manitoba Public Insurance (MPI) Annual IT Benchmark for FY 2019-2020
- The report contains an executive summary of the findings and recommendations, substantiation of the findings and details for the implementation of the recommendations

Table of Contents

1. Introduction

Levels of investment in IT must be in balance with value derived by the business: There is a cost to maturing IT Service Management Processes

Investments in IT

- IT Personnel
- Contractors
- Hardware
- Software
- Facilities
- Managed Services

Value Delivered

- Mature IT Service Management Processes
- Satisfied business stakeholders and end users
- Reduced risk
- Progress towards business outcomes
- Profitability *
  (Applicable for commercial peers; not for MPI)

Since MPI is a Crown Corporation, it does not aim to maximize profitability; thus profitability may be a less applicable measure of value delivered

Within the current and previous benchmark peer groups, a trend was found that higher levels of profitability are typically achieved for firms with higher levels of IT Spending per employee

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Gartner's Point of View on the insurance industry

COVID-19 Has Had A Significant Impact On Insurance Organizations, Yet Digitalization Continues

- The impact of **COVID-19 has hit the P&C insurance industry hard** and derailed many CIOs from delivering the digital results expected for 2020.
- **Digital maturity is continuing to advance** in the insurance industry, with most CIOs reporting they are delivering or scaling digital today.
- Insurance **CIOs project increased investment in many technologies for 2021,** but it is highly likely they will need to prioritize due to investment and talent issues.
- The insurance **CIO has been instrumental in responding to COVID-19** and will play an important role in digital as they focus on building the next information and technology foundation for the future.
- Different stances to **customer experience (CX) will be needed in 2021** to respond to emerging consumer demands, including more digital channel capabilities and new products and services.

Source: Gartner 2021

An Information Technology Benchmark was independently performed by Gartner for MPI (2nd benchmark in a series spanning 3 fiscal years)

The objectives of the IT benchmark are to:

- Establish a baseline of IT spending and staffing based on 2019/2020 fiscal year data
- Compare IT spending and staffing levels with insurance industry peers
- Communicate the level of maturity of key IT domains within MPI relative to peers
- Identify the variances for areas that may have a potential for optimization
- Create a foundation for a continual change/ improvement program

Assumptions:

- This is the second iteration in a series of benchmarks that will provide year over year comparisons
- The benchmark uses an updated methodology for the analysis of spending and staffing and IT maturity, and comparisons with the previous benchmarks are limited to common metrics

Successful Outcome:

The benchmarking report provides a fact-based assessment for communicating IT performance within MPI and contributes to informing future budget, staffing and investment decisions.

For the Information Technology Benchmark, MPI's current state was informed through three different workstreams

Work Streams

Spending and Staffing Benchmark

- Peer groups were selected based characteristics such as industry, size and geography.
- Enterprise-level benchmarks for IT spending and staffing were developed using 2019/2020 fiscal year data provided by MPI.
- Comparisons were made to the averages, 25th, and 75th percentiles of the peer group and MPI's previous year levels, where applicable.

IT Service Management Process Review

- Evaluated IT domains include: Strategy & Execution, Applications, Data & Analytics, Enterprise Architecture, Infrastructure & Operations, Security & Risk, Program & Portfolio Management, Sourcing / Procurement, and Vendor Management.
- Service Management Processes were evaluated based on survey results and maturity levels were calculated and compared to peers and MPI's past year maturity level.
- Validation workshops for reviewing the assessment.

Stakeholder Analysis

- A document review and 6+ interviews were conducted with key IT personnel.
- The interviews were conducted to build a contextualized view towards MPI's strategy, processes, culture and past initiatives and were not used as part of the maturity assessment.

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Benchmarking Approach - The recommendations contained in this report were developed in collaboration with MPI IT Management

Development Process

Benchmarking of IT Spending and Staffing

Discovery into the maturity of MPI's IT Service Management Processes

Interviews with ITBT Management

Validation of Results with MPI

Spending, Staffing and Workload Data Collection and Analysis

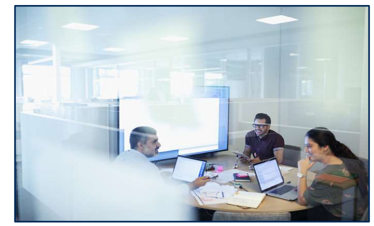
Gartner benchmarking draws upon a deep repository of IT spending to identify fact-based, optimization opportunities. For MPI, Gartner conducted an analysis of spending, staffing levels and IT workloads, comparing results with peer organizations.

IT Score Surveys

Gartner IT Score Surveys assess specific IT domains, by evaluating best practice activities performed in each function, and assigning a maturity level based on responses. For MPI, Gartner assessed the maturity of MPI's IT Service Management processes through IT Score Surveys.

Interviews with IT Management

Gartner's interviews helped understand the context behind MPI's current capabilities, identify business challenges, uncover pain points, and pin-point critical success factors.



Workshops with MPI IT Management to Validate Recommendations

Recommendations are based on accurate information, and are actionable, attributable, measurable and prioritized accordingly.

2. Executive Summary

Gartner's Benchmarking Assessment Findings:
MPI's investment in IT is at a similar level relative to peers while process maturity is at a significantly higher level

Spending Levels

MPI's IT spending is slightly higher than peers, but within a typical range of spending

0.2%

Above peer average for IT Spend as a Percent of OPEX

Staffing Levels

MPI's IT staffing levels are below peers and within a typical range of staffing

1.4%

Below peer average for IT Staff as a Percent of All Staff

IT Maturity Levels

MPI's IT maturity levels continue to outperform peers in all nine of the IT domains

3.39

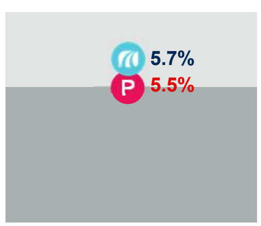
MPI's Maturity Level compared to Peer Average of 2.60

Maturity scores are assessed on a scale from 1-5, with the score of 5 representing Gartner's best practices for the IT domain

MPI's IT spending and staffing levels are close to peers, and MPI continues to allocate more of its budget towards supporting evolving business initiatives

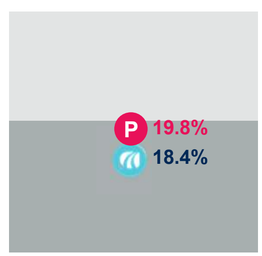
MPI's IT Spending as a percentage of OPEX is slightly higher than the peer average

IT Spending as a Percentage of Total Operating Expense



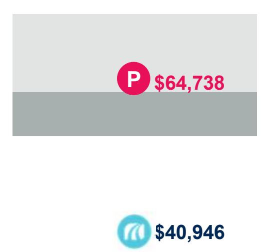
IT Staffing as a percentage of enterprise employees is lower than the peer average

IT Staffing as a Percentage of Enterprise Employees



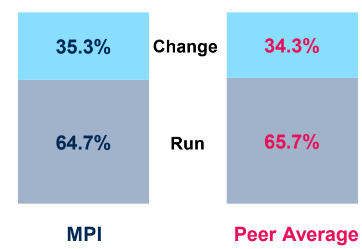
IT Spending per enterprise employee is significantly lower than the peer average and is below the 25th percentile of peer organizations

IT Spending per Enterprise Employee



MPI allocates slightly less of its budget to running the business leaving a larger portion to support changes to meet business demands

Percentage Spending on Run vs Change



MPI | P Peer Average | 25th to 50th Percentile | 50th to 75th Percentile

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During the interviews, Gartner discovered that the focus on preparing for Project NOVA has been maintained, despite COVID-19 challenges

1.

MPI continues to plan for modernization of enterprise applications based on a user / customer centric design (Project NOVA)

2.

Agile development methodologies and a product management approach has been adopted for application development

3.

MPI has taken steps to improve scalability for vendor management and has improved risk management processes

4.

Legacy modernization initiatives will further increase the need for integration planning, API management and vendor risk management

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IT investments have yielded highly mature IT service management processes, which position MPI well to address changing business demands. New baselines have been established in areas which can be linked to continuous improvement initiatives.

Strategy and Execution **maturity is slightly better than peers, and executive leadership changes have provided new directives which are being initiated within *Enterprise Architecture.***

IT Strategy can be further improved by anticipating future investments and skills requirements.

Applications **delivery has adopted agile development and *Data and Analytics* has seen a new focus by management.**

A continued focus on integration requirements and API management will further improve MPI's position to deliver Project NOVA.

Improvements to *Security and Risk Management* include a framework to track risks and a GRC tool implementation.

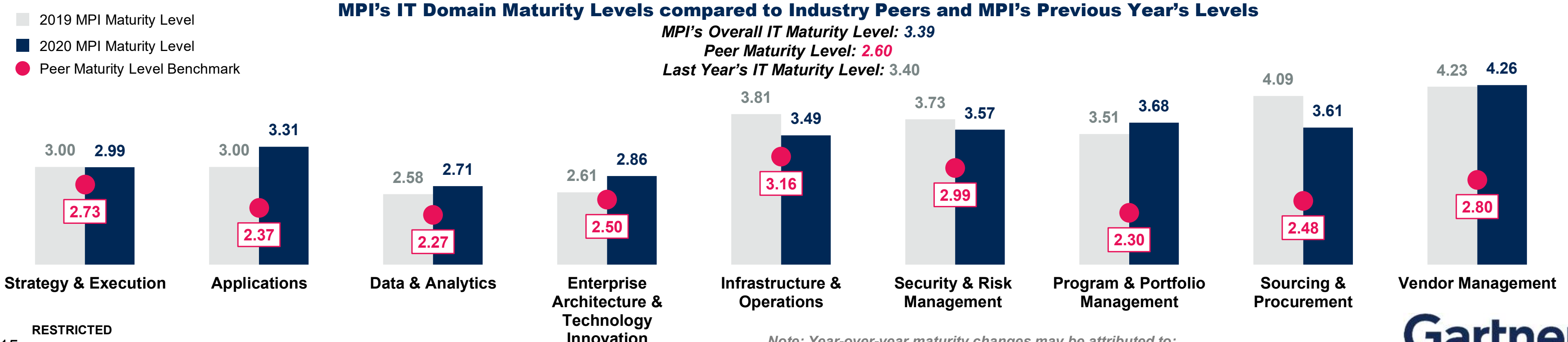
An added focus on third-party risk management will enable maturity to be maintained as MPI transitions to modernized applications.

Scalability concerns in *Vendor Management,* have been resolved to some extent with improved processes.

A focus on determining an approach for utilizing cloud-service providers will unlock additional value.

MPI's IT Domain Maturity Levels compared to Industry Peers and MPI's Previous Year's Levels

MPI's Overall IT Maturity Level: *3.39*
Peer Maturity Level: *2.60*
Last Year's IT Maturity Level: 3.40



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Note: Year-over-year maturity changes may be attributed to:

1. *Change in the levels of MPI's IT Service Delivery*
2. *Evolving criteria required to meet a level of maturity defined by Gartner*

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Maturity scores are assessed on a scale from 1-5, with the score of 5 representing Gartner's best practices for the IT domain

The recommendations, for MPI's implementation roadmap are listed below:

1. Conduct a skills assessment and create a workforce plan to address the new skills required within the IT organization
2. Ensure IT Financial Management facilitates priorities for investments across products and services and has flexibility to adjust to changing business plans
3. Increase the scope of delivery of the integration strategy for applications and continue to document the APIs
4. Integrate third-party risk management into the IT Security Governance, Risk and Compliance (GRC) processes
5. Formulate a sourcing and vendor management approach for utilizing cloud-service providers

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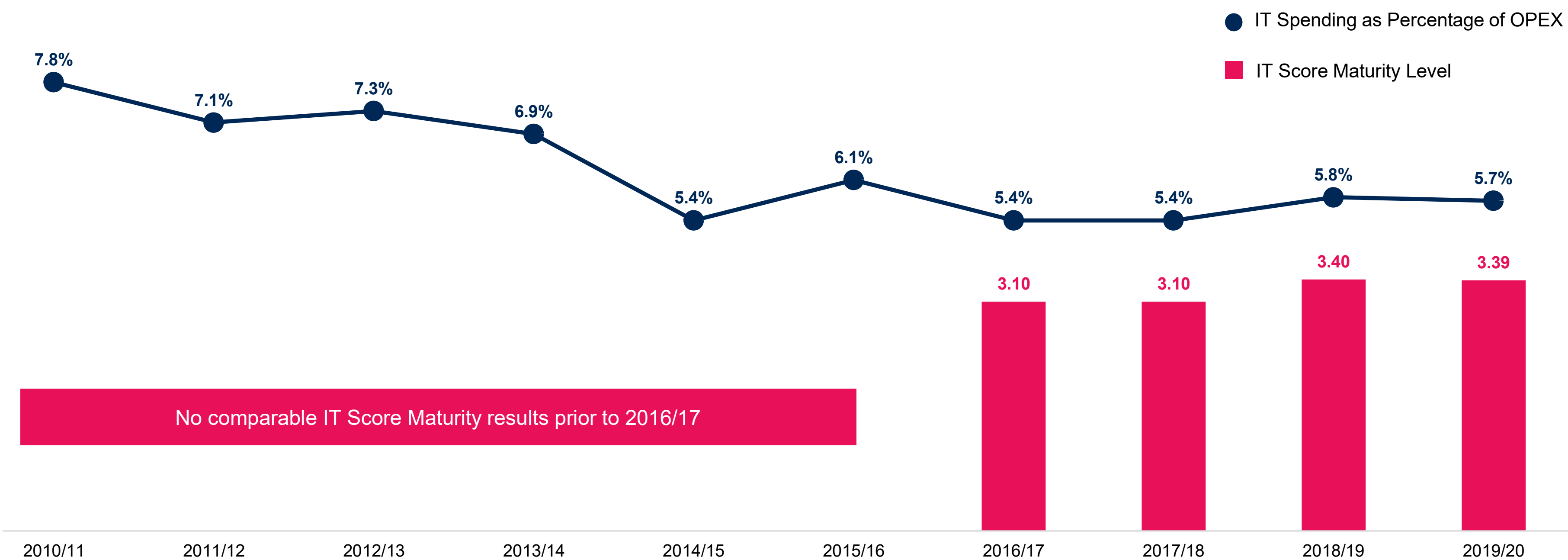
Over recent years, MPI has demonstrated a stable trend of maintaining IT spending as a proportion of total business expenses, while maintaining IT service management maturity levels

IT Spending as a Percentage of Enterprise Operating Expense and IT Score Maturity Levels



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MPI's investments in IT are commensurate with the higher levels of maturity achieved compared to peers

Investments in IT

- MPI's IT spending levels are slightly higher than peers, but are within a typical range of spending
- MPI's IT staffing levels are lower than peers, and are within a typical range
- MPI's IT spending per enterprise employee is lower and below the 25th percentile of peers

Value Delivered

- IT service management processes are more mature than peer organizations in every domain
- MPI has adapted services to changing business requirements, has adopted agile application development processes and implemented product management
- MPI has reduced IT security and privacy risks
- MPI has enacted key requirements for modernization of legacy applications

Previous investments in IT have yielded high levels of maturity in IT service delivery and recent investments have positioned MPI well to deliver on its modernization strategy. Gartner considers this to be a good level of progress for the year, especially when considering COVID-19 impacts and has no general concerns. MPI's IT management team continues to execute on continuous improvement initiatives and will consider recommendations provided by Gartner for inclusion in its roadmap.

3. Detailed IT Benchmark Findings

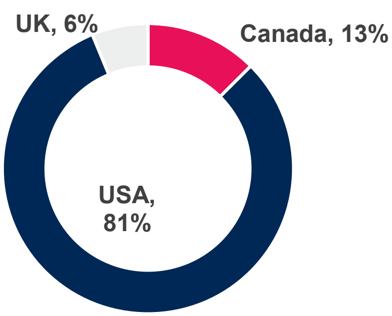
3.1 Spending and Staffing Benchmark Findings

Gartner's Spending and Staffing Benchmark compared MPI with industry peers

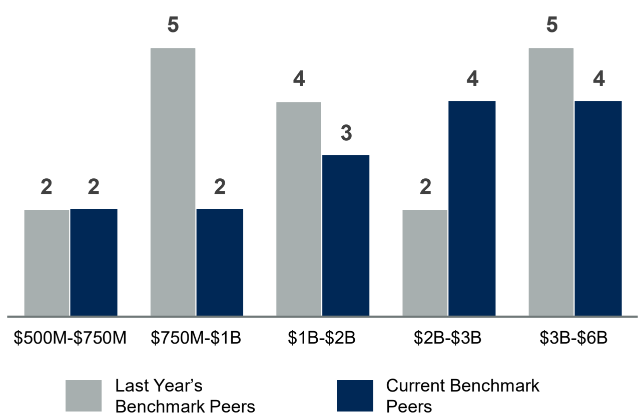
15 Insurance Industry Peers

- Predominately firms which had automotive insurance business lines
- 8 of the same organizations were the same peers from the last year's benchmark
- Firm size range from 500 to 5750 full-time employees
- Benchmark data was taken for 2020

Geographic Profile



Number of Peers by Revenue



Enterprise Metrics

Metric	MPI (2019/20)	Last Year's Peer Average	Current Peer Average
Number of Peers	-	18	15
Total Revenue	$1,514.9 M	$2,091.8 M	$2,346.0 M
Total Operating Expense	$1,348.7 M	$1,910.1 M	$2,130.2 M
Total Number of Employees	1,890	1,805	1909
Total Number of IT Employees (Including Contractors)	347	287	319
Total IT Operating and Capital Expenditure	$77.4 M	$92.5 M	$104.2 M

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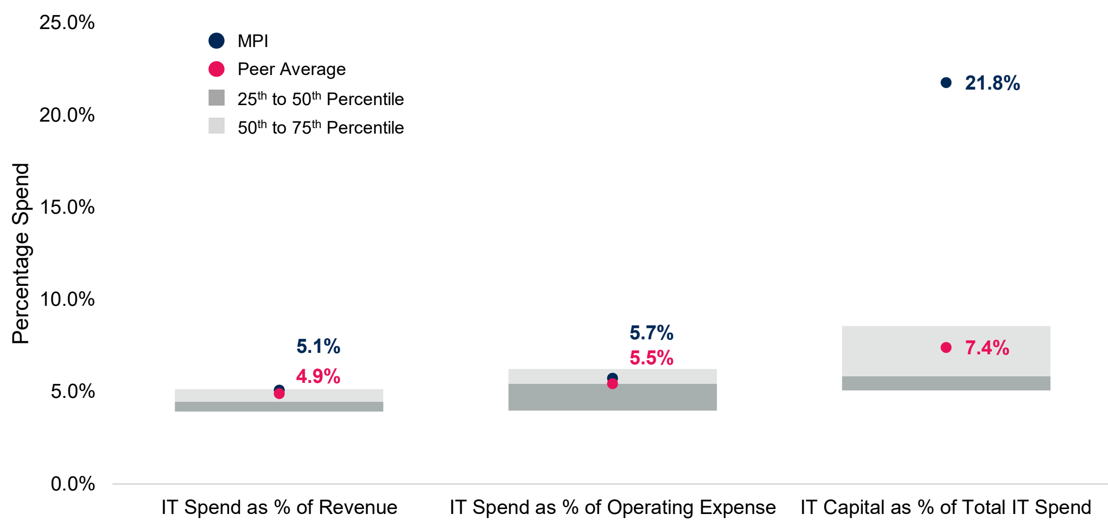
IT Spending and IT Budget Allocation

MPI's IT spending allocation as a percentage of the enterprise's operating expenses is higher compared to peers

Enterprise IT Spending Metrics



	MPI (2018/19)	MPI (2019/20)	Peer Average
IT Spend as a % of Revenue	5.2%	5.1%	4.9%
IT Spend as % of Operating Cost	5.8%	5.7%	5.5%
IT Capital as % of Total IT Spend	28.1%	21.8%	7.4%

Observations:

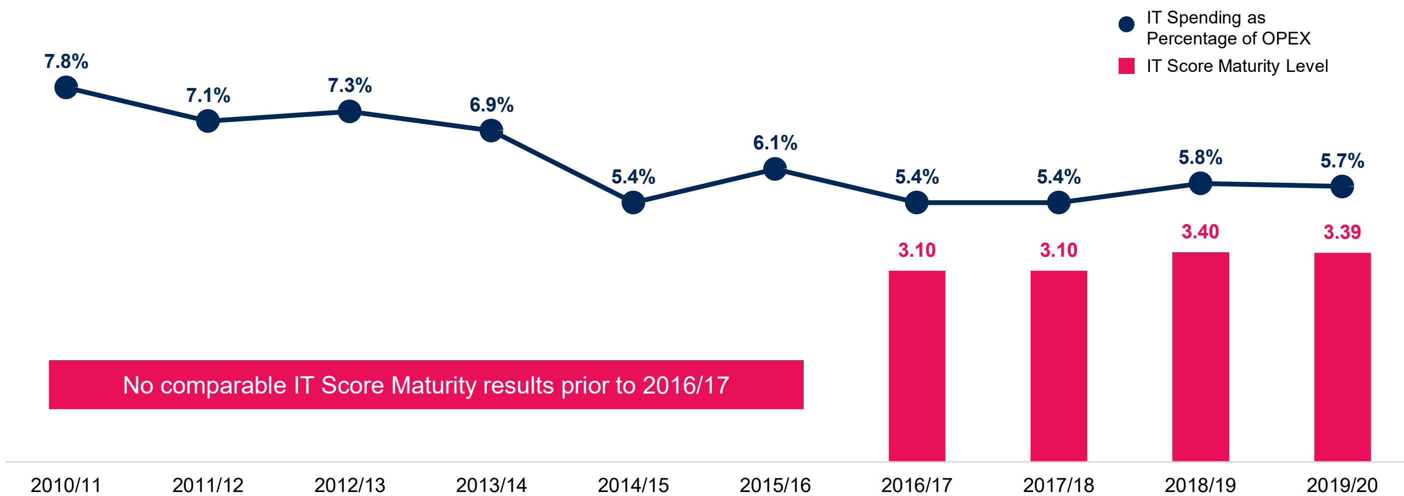
- MPI's IT spend as a percentage of the Enterprise's total operating expenses is higher compared to peer average (MPI: 5.7% vs 5.5%)
- MPI's allocation to IT capital was higher than the peer average (MPI: 21.8% vs 7.4%). By inverse relationship, MPI's allocation to IT operating costs were lower than the peer average (MPI: 78.2% vs 92.6%).
  - *Note: Based on Gartner's IT Key Metrics Data*, IT's average allocation to Capital Expenditures for the insurance industry was 21% in 2020.*
- MPI's IT Spend as a percentage of revenue is higher than peers (this metric is less relevant since MPI does not have a focus on maximizing profit)

**Source: IT Key Metrics Data 2021: Industry Measures —Insurance Analysis Published 18 December 2020 - ID G00737605*

Historical Trend on IT Spending and IT Score Maturity Levels

Over recent years, MPI has demonstrated a stable trend of maintaining IT spending as a proportion of total business expenses, while maintaining IT service management maturity levels

IT Spending as a Percentage of Enterprise Operating Expense and IT Score Maturity Levels



Observations:

- IT spend as a percentage of enterprise operating expense was slightly lower in the current benchmark year compared to the previous year (5.7% vs 5.8%)
- MPI's overall IT Score Maturity level is marginally lower in the current benchmark year compared to the previous year (3.38 vs 3.40).

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Operating Expense	0.94 B	0.76 B	1.13 B	1.23 B	1.26 B	1.15 B	1.37 B	1.29 B	1.42 B	1.35 B
IT Expense	73.5 M	54.2 M	82.3 M	85.0 M	68.7 M	70.7 M	74.8 M	69.7M	82.5 M	77.4 M
IT Spending as Percentage of OPEX	7.8%	7.1%	7.3%	6.9%	5.4%	6.1%	5.4%	5.4%	5.8%	5.7%
IT Score Maturity Level	-	-	-	-	-	-	3.10	3.10	3.40	3.39

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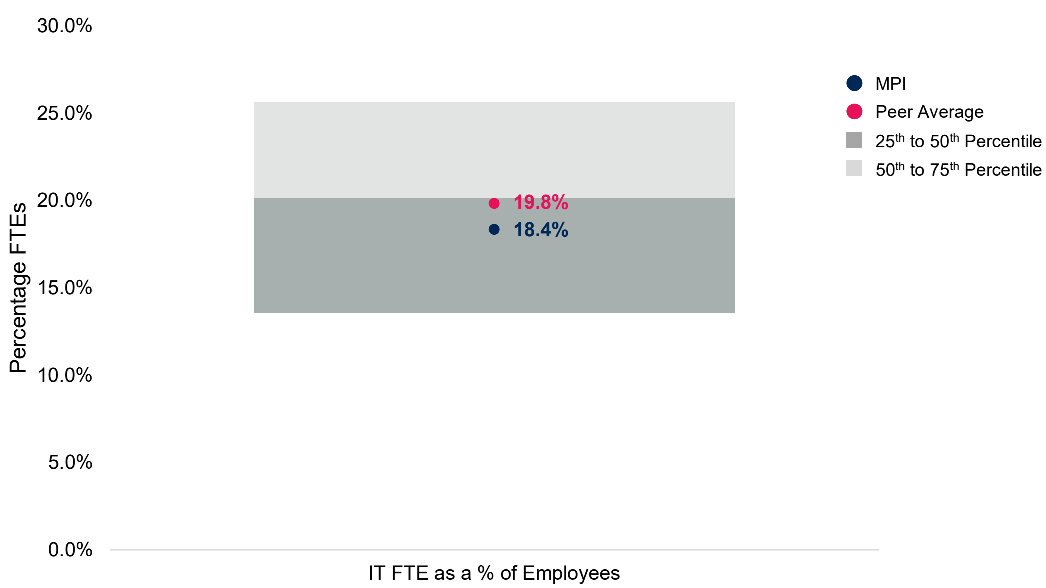
IT Staffing per Employee

MPI has a lower number of IT employees as a percentage of total employees relative to peers

IT Staffing as a Percentage of Organizational Employees



	MPI (2018/19)	MPI (2019/20)	Peer Average
IT FTEs as a % of Employees	18.4%	18.4%	19.8%

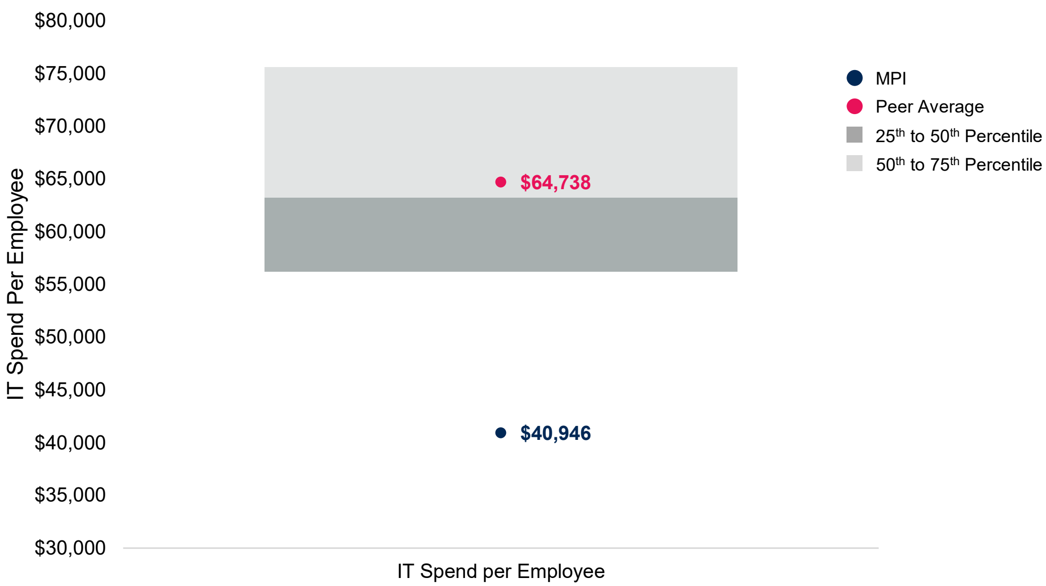
Observations:

- MPI has a lower percentage (MPI: 18.4% vs 19.8%) of IT employees as a percent of organizational employees relative to the peer average
- MPI's IT staffing as a percent of organizational employees has remained since the previous year

IT Spending per Employee

MPI has a significantly lower IT cost per organizational employee relative to peers

IT Spending per Employee



	MPI (2018/19)	MPI (2019/20)	Peer Average
Spending per Employee	$46,613	$40,946	$64,738

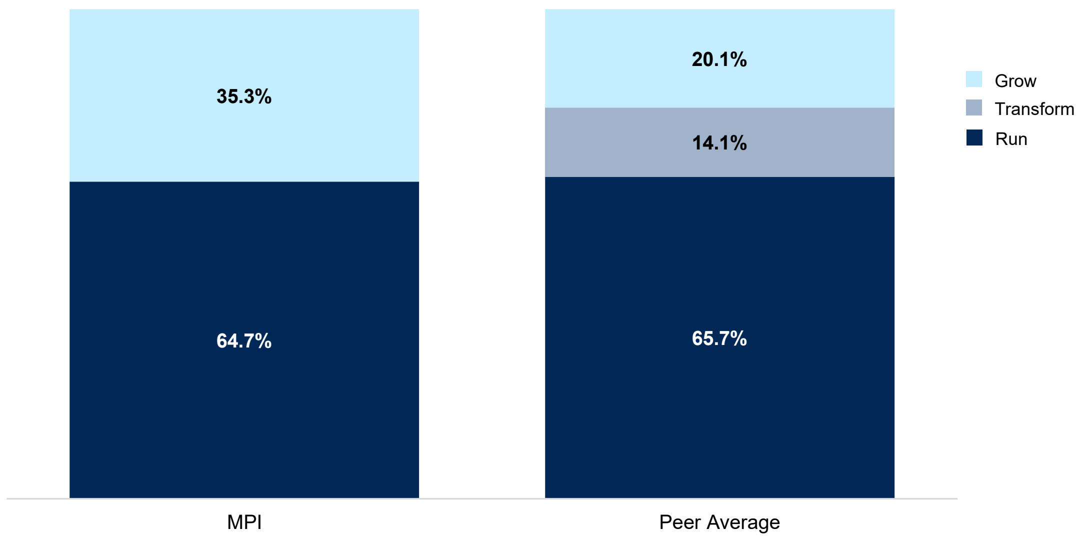
Observations:

- MPI's IT spend per organizational employee is lower than the peer average (MPI: $40,946 vs $64,738) and below the 25th to 50th percentile of peers
- MPI's IT spend per organizational employee has decreased since the previous year; this was influenced by the increased number of organizational employees (2020: 1,890 vs 2019: 1,770), in conjunction with the decrease in the total IT operating and capital expenditure (2020: $77.4M vs 2019: $82.5M).

‘Run’ vs ‘Change’ Spending Distribution

ITBT allocates slightly less to ‘Running’ IT compared to peers; MPI’s spending distribution on ‘Change’ has decreased since the previous benchmark

Run, Grow & Transform Spending



Spending Distribution	MPI (2018/19)	MPI (2019/20)	Peer Average
Run	57.0%	64.7%	65.7%
Change (Grow + Transform)	43.0%	35.3%	34.3%

Observations:

- MPI’s IT spending allocation to ‘Change’ initiatives (i.e. Grow) is slightly above the peer average (MPI: 35.3% vs 34.2%).
- By inverse relationship, MPI’s allocation to ‘Running’ IT is slightly lower than the peer average (MPI: 64.7% vs 65.7%).
- From the previous year, MPI’s spending distribution on ‘Change’ initiatives has decreased from 43.0% to 35.3%

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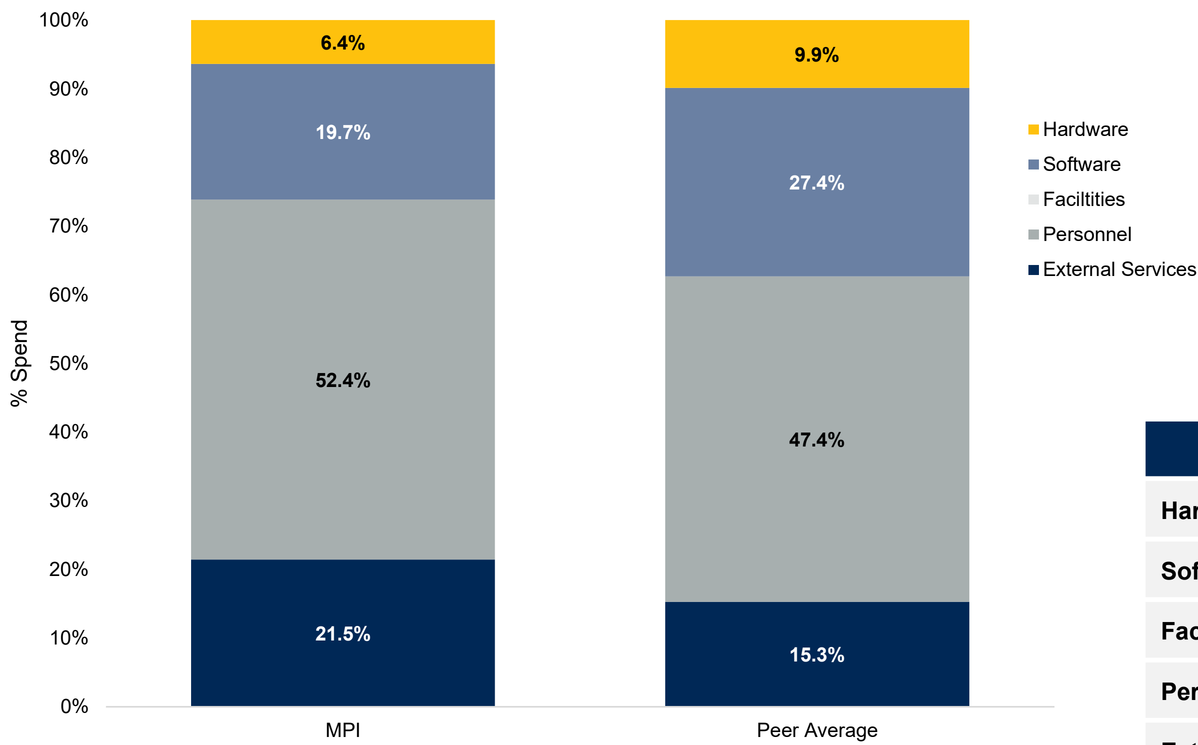
Asset Category Spending Distribution – High Level View

MPI's allocation of spending is higher for personnel and external services, but lower for hardware and software compared to peers

IT Spending by Asset Categories



Refer to page 31 for a detailed breakdown of distribution

Observations:

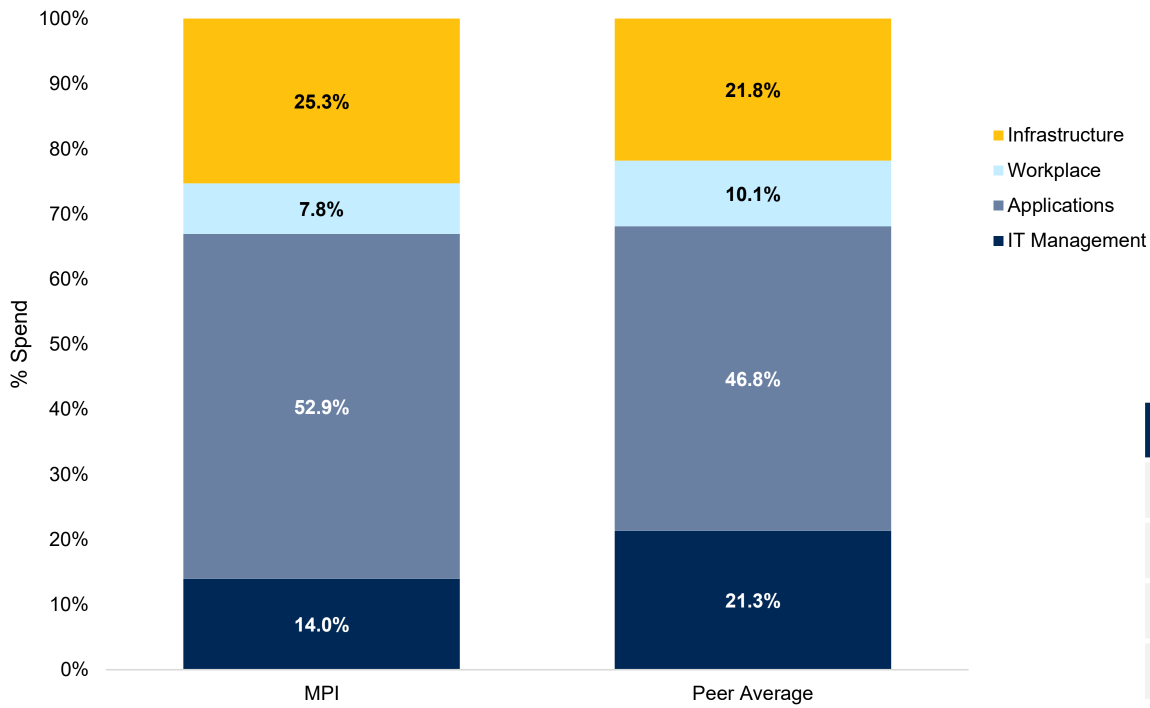
- MPI's spending allocation to Personnel is higher relative to the peer average (MPI: 52.4% vs 47.4%).
- MPI's spending allocation to Hardware is lower relative to the peer average (MPI: 6.4% vs 9.9%).
- MPI's spending allocation to Software is lower relative to peer average (MPI: 19.7% vs 27.4%).
- MPI's spending allocation for external services is higher relative to peer average (MPI: 21.5% vs 15.3%)

Spending Distribution	MPI (2018/19)	MPI (2019/20)	Peer Average
Hardware	6.2%	6.4%	9.9%
Software	17.0%	19.7%	27.4%
Facilities	0.0%	0.0%	0.0%
Personnel	53.9%	52.4%	47.4%
External Services	22.8%	21.5%	15.3%

IT Functional Spending Distribution – High Level View

MPI's allocation of spending is lower for Workplace and IT Management, but higher for Infrastructure and Applications compared to peers

IT Spending by Functional Group



Observations:

- MPI's spending allocation to Applications is higher relative to the peer average (MPI: 52.9% vs 46.8%)
- MPI's spending allocation to Infrastructure is higher relative to the peer average (MPI: 25.3% vs 21.8%)
- MPI's spending allocation Workplace is lower relative to the peer average (MPI: 7.8% vs 10.1%)
- MPI's spending allocation to IT Management is lower relative to the peer average (MPI: 14.0% vs 21.3%)

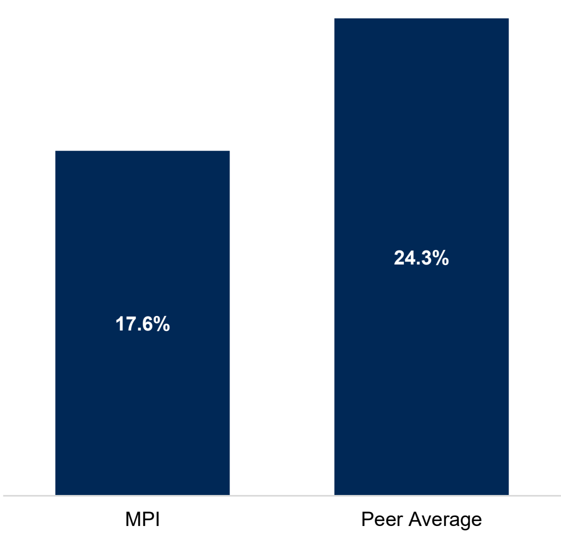
Spending Distribution	MPI (2018/19)	MPI (2019/20)	Peer Average
Infrastructure	27.1%	25.3%	21.8%
Workplace	6.6%	7.8%	10.1%
Applications	51%	52.9%	46.8%
IT Management	15.2%	14.0%	21.3%

Refer to page 32 for a detailed breakdown of distribution

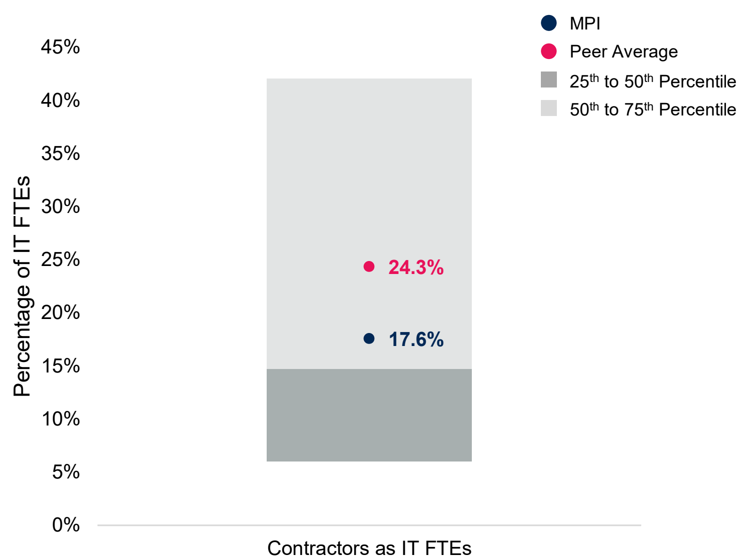
IT Staffing Distribution – Use of Contractors

MPI has a lower percentage use of contractors as part of IT staff compared to peers; the percentage use of contractors has decreased since the previous benchmark

Contractors as IT FTEs



Distribution of Contractors as IT FTEs



Observations:

- MPI uses a lower percentage of contractors as part of IT staff relative to the peer average (MPI: 17.6% vs 24.3%).
- From the previous year, the percentage of contractors used as IT FTEs has decreased from 24.9% to 17.6%

Staff Distribution	MPI (2018/19)	MPI (2019/20)	Peer Average
IT Employees which are Contractors	24.9%	17.6%	24.3%

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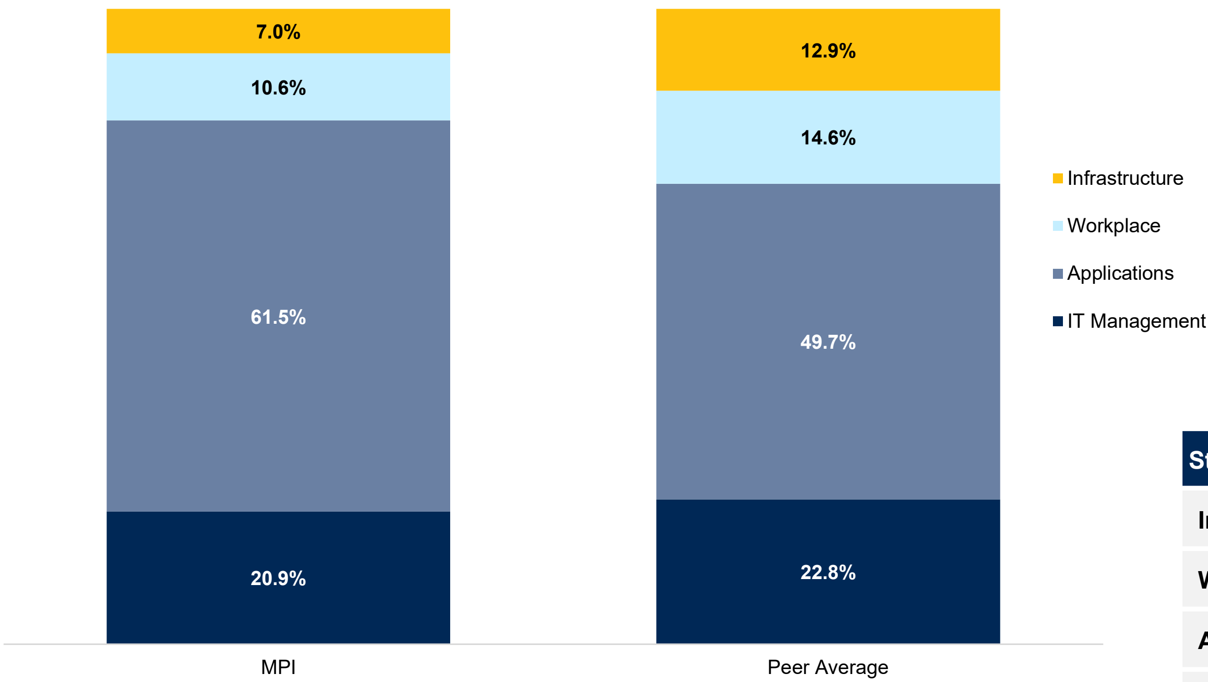
IT Staff Distribution – Functional View

MPI's allocation of staffing for Applications is higher compared to peers and is lower in all other functional areas, reflecting the legacy modernization initiatives

IT Staffing by Functional Group



Observations:

- MPI's staffing distribution for Infrastructure is lower than the peer average (MPI: 7.0% vs 12.9%)
- MPI's staffing distribution for Workplace is lower than the peer average (MPI: 10.6% vs 14.6%)
- MPI's staffing distribution for Applications is higher than the peer average (MPI: 61.5% vs 49.7%)
- MPI's staffing distribution for IT Management is lower than the peer average (MPI: 20.9% vs 22.8%)

Staffing Distribution	MPI (2018/19)	MPI (2019/20)	Peer Average
Infrastructure	6.2%	7.0%	12.9%
Workplace	9.8%	10.6%	14.6%
Applications	59.8%	61.5%	49.7%
IT Management	24.2%	20.9%	22.8%

Refer to page 33 for a detailed breakdown of distribution

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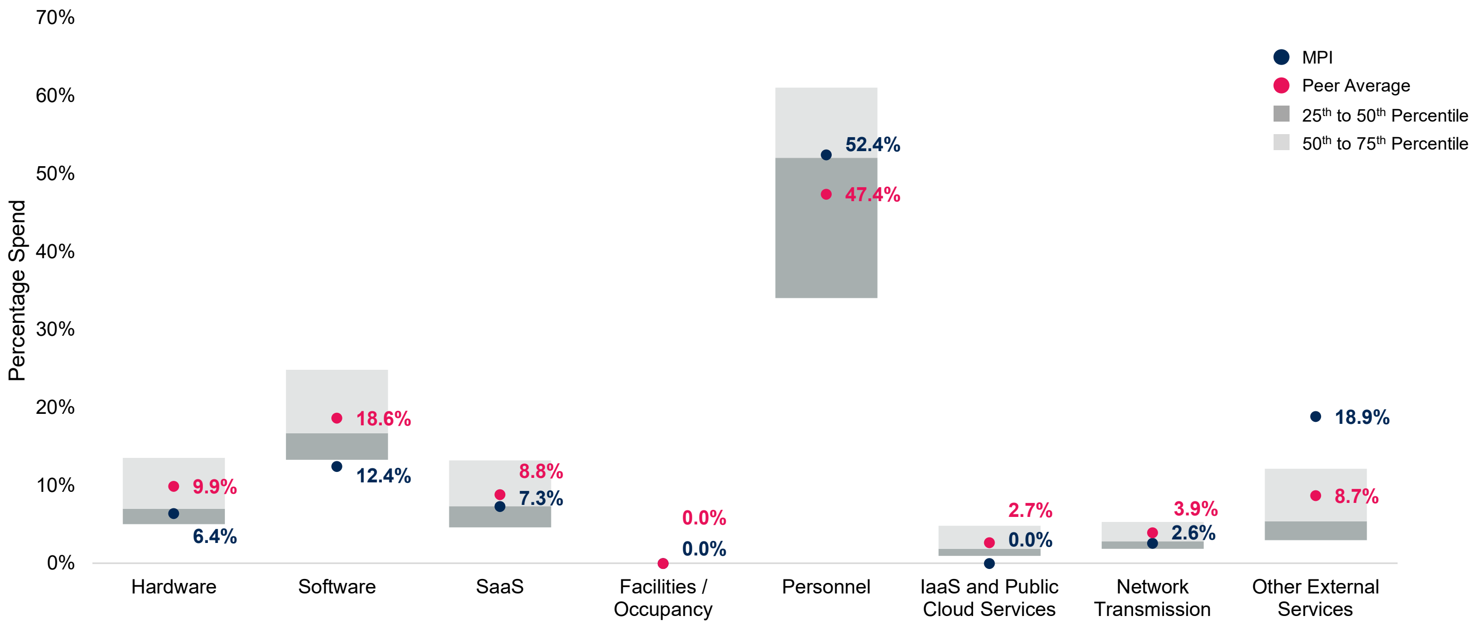
Asset Category Spending Distribution – Detailed View

IT Spending – Percentage Spending by Asset Category



Group	Spending Distribution	MPI (2018/19)	MPI (2019/20)	Peer Average	25th Percentile	Median	75th Percentile
Hardware	Hardware	6.2%	6.4%	9.9%	5.0%	7.0%	13.5%
Software	Software	10.3%	12.4%	18.6%	13.3%	16.7%	24.8%
	SaaS	6.8%	7.3%	8.8%	4.6%	7.3%	13.2%
Facilities	Facilities / Occupancy	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Personnel	Personnel	53.9%	52.4%	47.4%	34.0%	52.0%	61.0%
External Services	IaaS and Public Cloud Services	0.0%	0.0%	2.7%	1.0%	1.8%	4.8%
	Network Transport	2.6%	2.6%	3.9%	1.8%	2.8%	5.3%
	Other External Services	20.2%	18.9%	8.7%	3.0%	5.4%	12.1%

Observations:

- MPI's spend allocation for Software spending is below the 25th percentile of peers.
- MPI's spend allocation of Other External Services is higher relative to the peer average and is mainly attributed to the outsourcing service contract with IBM.
- MPI's spending allocation to Personnel is higher than the peer average, but is within the 50th to 75th percentile of peers.

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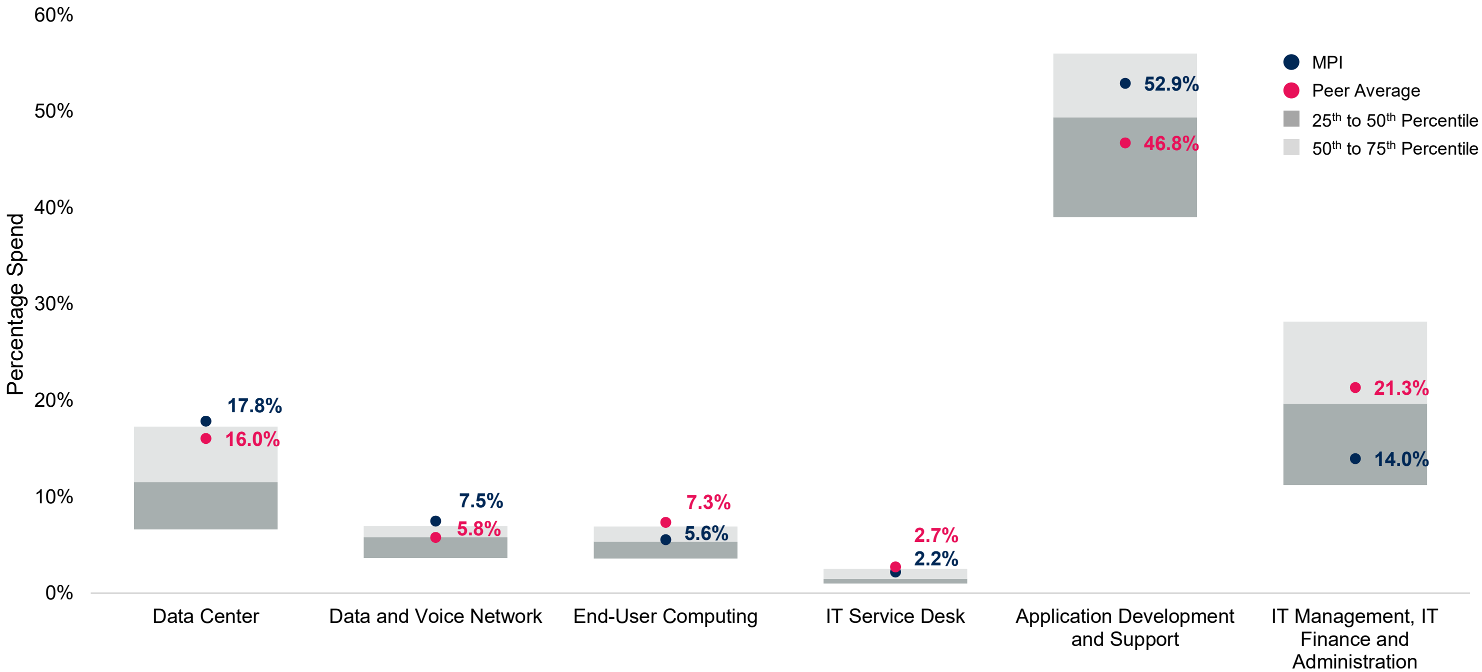
IT Functional Spending Distribution – Detailed View

IT Spending – Percentage Spending by Functional Category



Group	Spend Distribution	MPI (2018/19)	MPI (2019/20)	Peer Average	25th Percentile	Median	75th Percentile
Infrastructure	Data Center	18.7%	17.8%	16.0%	6.6%	11.5%	17.3%
	Data and Voice Network	8.5%	7.5%	5.8%	3.6%	5.8%	7.0%
Workplace	End-User Device & Print Management	4.9%	5.6%	7.3%	3.6%	5.4%	6.9%
	IT Service Desk	1.7%	2.2%	2.7%	1.0%	1.5%	2.5%
Applications	Application Development and Support	51.0%	52.9%	46.8%	39.0%	49.4%	56.0%
IT Management	IT Management, IT Finance and Administration	15.2%	14.0%	21.3%	11.2%	19.7%	28.2%

Observations:

- MPI's higher spending allocation to the Infrastructure category relative to the peer average is attributed to MPI's higher spending allocation in both Data Center and Data & Voice Network.
- MPI's spending allocation to the Applications Development and Support is higher than the peer average (MPI: 52.9% vs 46.8%), but is within the 50th to 75th percentile of peers.

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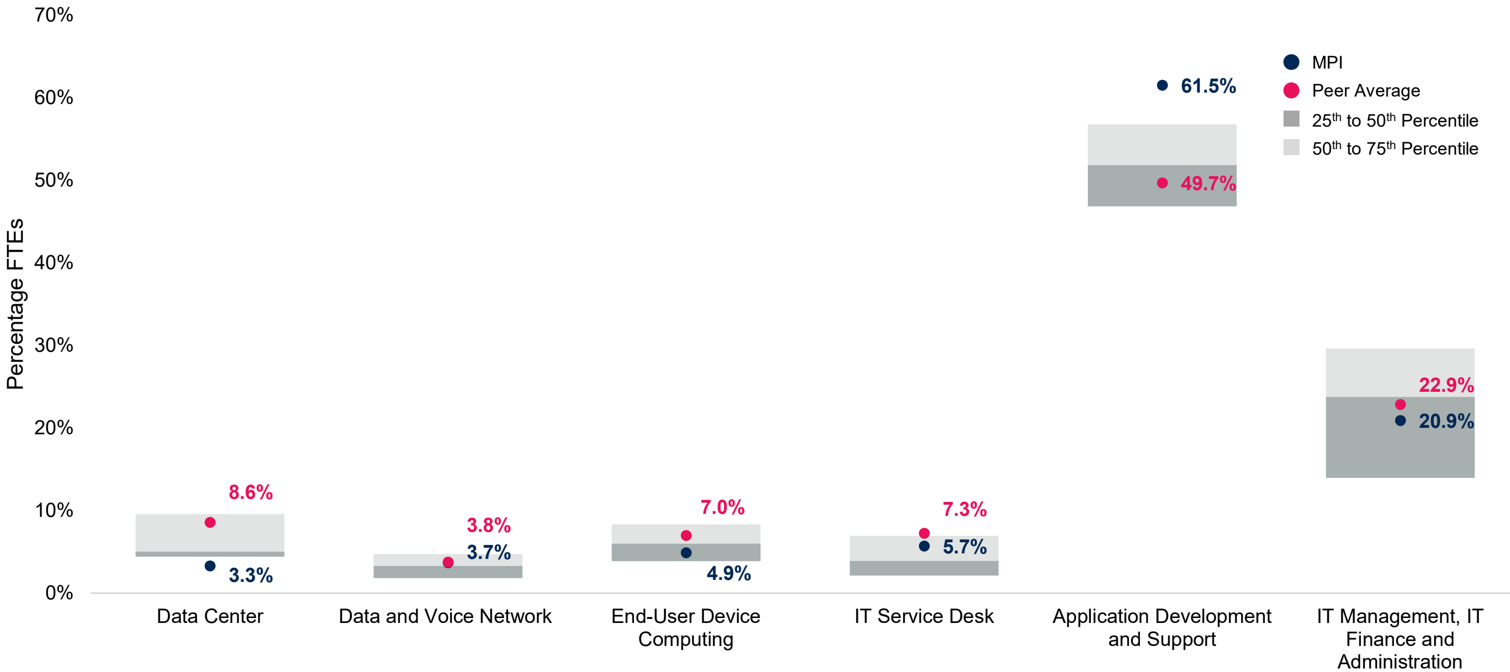
IT Staff Distribution – Detailed View

IT Staffing Distribution – Percentage of FTEs by Functional Category



Observations:

- MPI's lower staffing distribution in the Infrastructure category is mainly attributed to lower allocation to Data Center personnel relative to peers (MPI: 3.3% vs 8.6%).
- MPI's allocation to Applications Development and Support is higher than the peer average (MPI: 61.5% vs 49.7%); this is above the 75th percentile of peers.

Group	Staffing Distribution	MPI (2018/19)	MPI (2019/20)	Peer Average	25th Percentile	Median	75th Percentile
Infrastructure	Data Center	2.5%	3.3%	8.6%	4.4%	5.0%	9.6%
	Data and Voice Network	3.7%	3.7%	3.8%	1.8%	3.3%	4.7%
Workplace	End-User Device Computing	4.9%	4.9%	7.0%	3.8%	6.0%	8.3%
	IT Service Desk	4.9%	5.7%	7.3%	2.1%	3.9%	6.9%
Applications	Application Development and Support	59.8%	61.5%	49.7%	46.8%	51.8%	56.8%
IT Management	IT Management, IT Finance and Administration	24.2%	20.9%	22.9%	14.0%	23.7%	29.6%

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3.2 IT Service Management Process Review Findings

IT Maturity Level Methodology

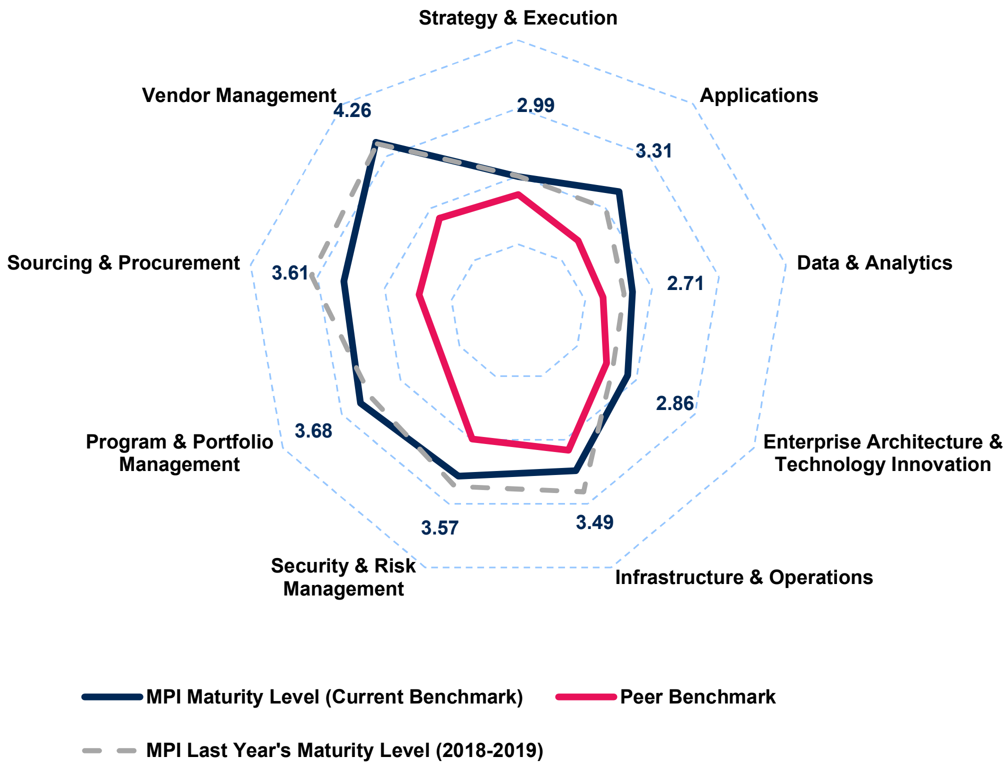
- Maturity assessment results were collected via surveys using Gartner’s proprietary IT Score Assessment Tool.
- MPI respondents for surveys were selected from MPI’s IT management team, based on ownership and expertise in the particular domain.
- IT Maturity surveys evaluated 9 IT Domains, which are comprised of 51 Functions and 208 Activities.

- Maturity levels are measured on a scale ranging from Level 1 (Lowest) to Level 5 (Highest), and depict how advanced MPI’s development in a domain, function or activity are relative to Gartner’s Best Practice Research. These maturity level descriptions are dependant on the specific domain being assessed, and may be subject to yearly updates to reflect modern best practices.
- Maturity level results were compared to a peer group which was selected based on survey responses from insurance companies which are 1B - 3B USD in size.
- For reporting simplification, only domain and functional level have been presented.
- ***Requirement to meet Gartner’s defined level of maturity, and subsequently the IT survey questions evolve each year to reflect the changing industry standards as it pertains to IT service delivery worldwide.*** *As a result, the changes of IT maturity scores year-over-year, may be a result of: 1) Changes in the levels of MPI’s IT Service Delivery or 2) Evolving criteria required to meet a particular level of maturity as defined by Gartner.*
- Recommendations were developed based the assessment of the IT Domains, Functions and Activities. Gartner's recommendations were guided by the level of importance to the organization (i.e. Activity Priority Index), the maturity level relative to peers and other factors such as MPI’s organizational objectives, industry trends and insights uncovered through interview discussions and document review.

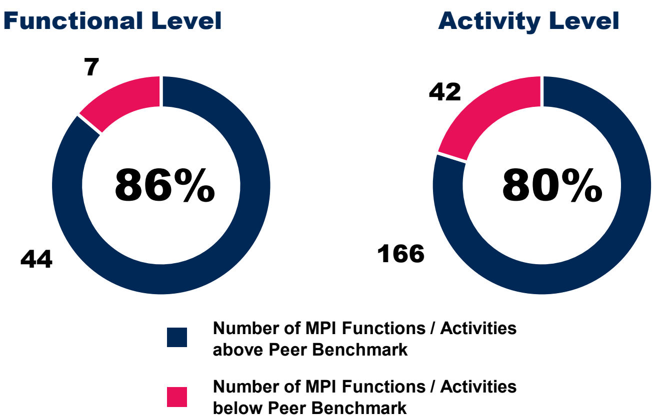
MPI Outperforms Industry Peers in 9 out of 9 IT Domains

MPI's IT Maturity Levels Across All Domains

Overall IT Maturity Level: 3.39
Peer Maturity Level: 2.60
Last Year's IT Maturity Level: 3.40



Breakdown of Performance by:



Functional Areas by Maturity Level

Top 5
- Vendor Management – Partner With Stakeholders (4.53)
- Security and Risk Management – Engage and Support Stakeholders (4.45)
- Vendor Management – Mange the Function (4.33)
- Security and Risk Management – Manage Operations (4.25)
- Strategy & Execution – Perform Strategy and Planning (4.17)

Bottom 5
- Data and Analytics – Integrate and Manage Data (2.00)
- Data and Analytics – Create the D&A Vision and Strategy (2.25)
- Data and Analytics – Align D&A to Business Outcomes (2.33)
- Strategy & Execution – Develop & Manage Talent (2.33)
- Strategy & Execution – Manage IT Finance (2.39)

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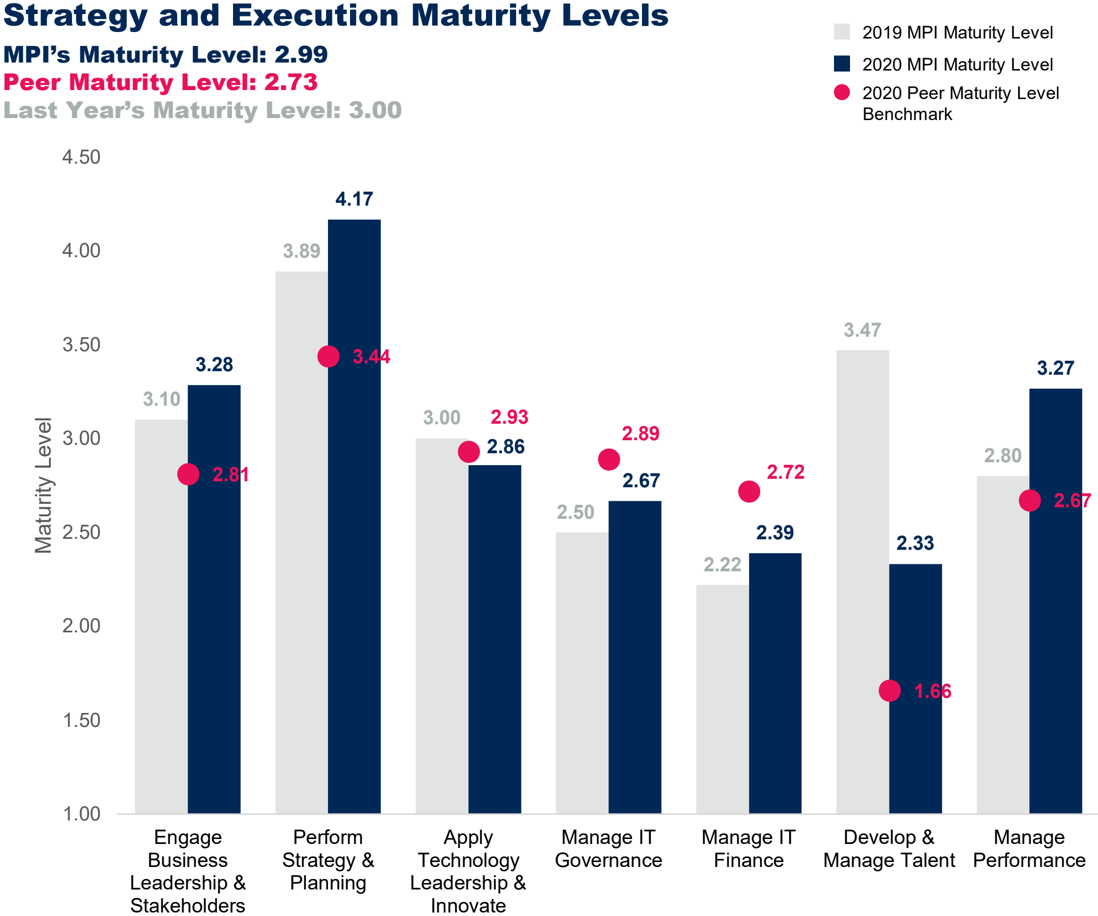
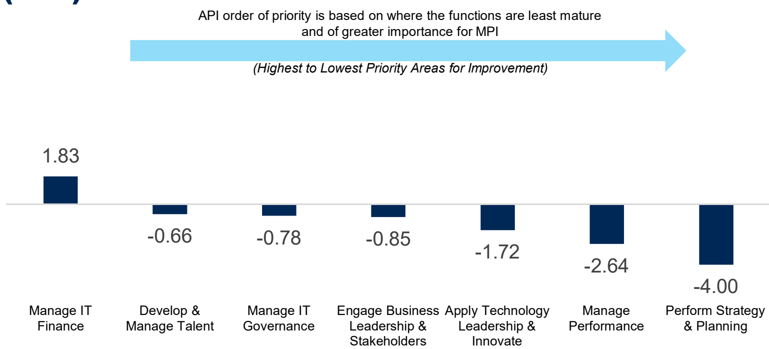
Strategy and Execution

Strategy and Execution Maturity Levels

MPI's Maturity Level: 2.99
Peer Maturity Level: 2.73
Last Year's Maturity Level: 3.00



Strategy and Execution Activity Priority Index (API)



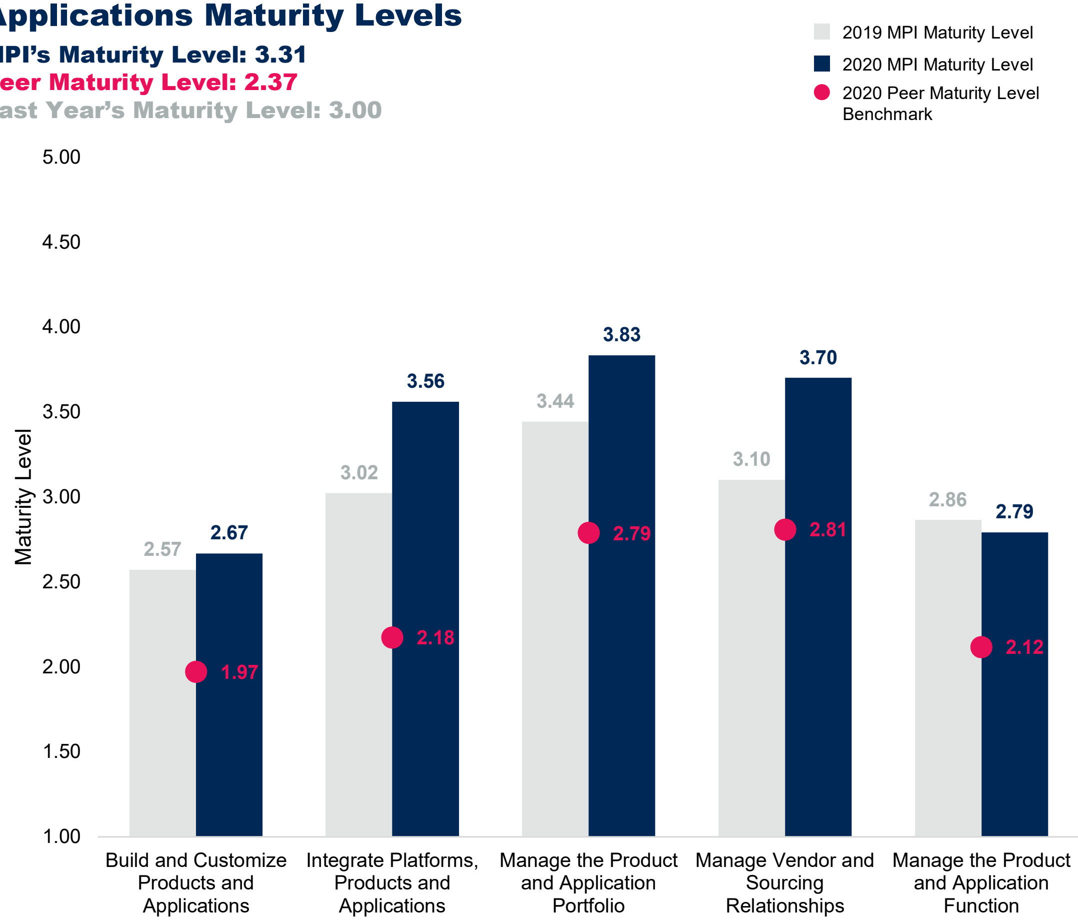
Observations:

- Overall maturity exceeds the peer benchmark
- Overall maturity has decreased from the previous year's maturity levels
- MPI's maturity are below the peer benchmarks in the following functions:
  - Apply Technology Leadership & Innovate
  - Manage IT Governance
  - Manage IT Finance

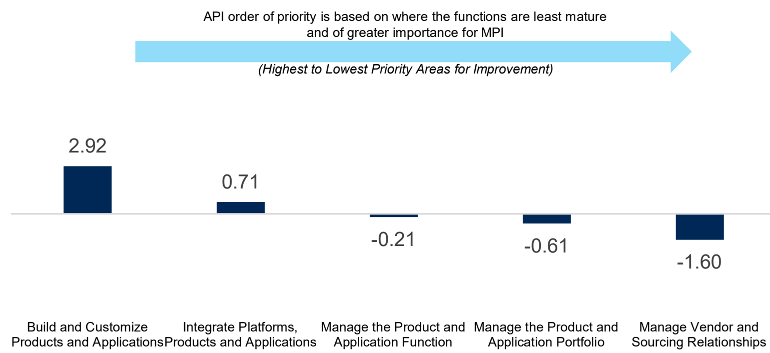
Applications

Applications Maturity Levels

MPI's Maturity Level: 3.31
Peer Maturity Level: 2.37
Last Year's Maturity Level: 3.00



Applications Activity Priority Index (API)



Observations:

- Overall maturity exceeds the peer benchmark
- Overall maturity has increased from the previous year's maturity levels

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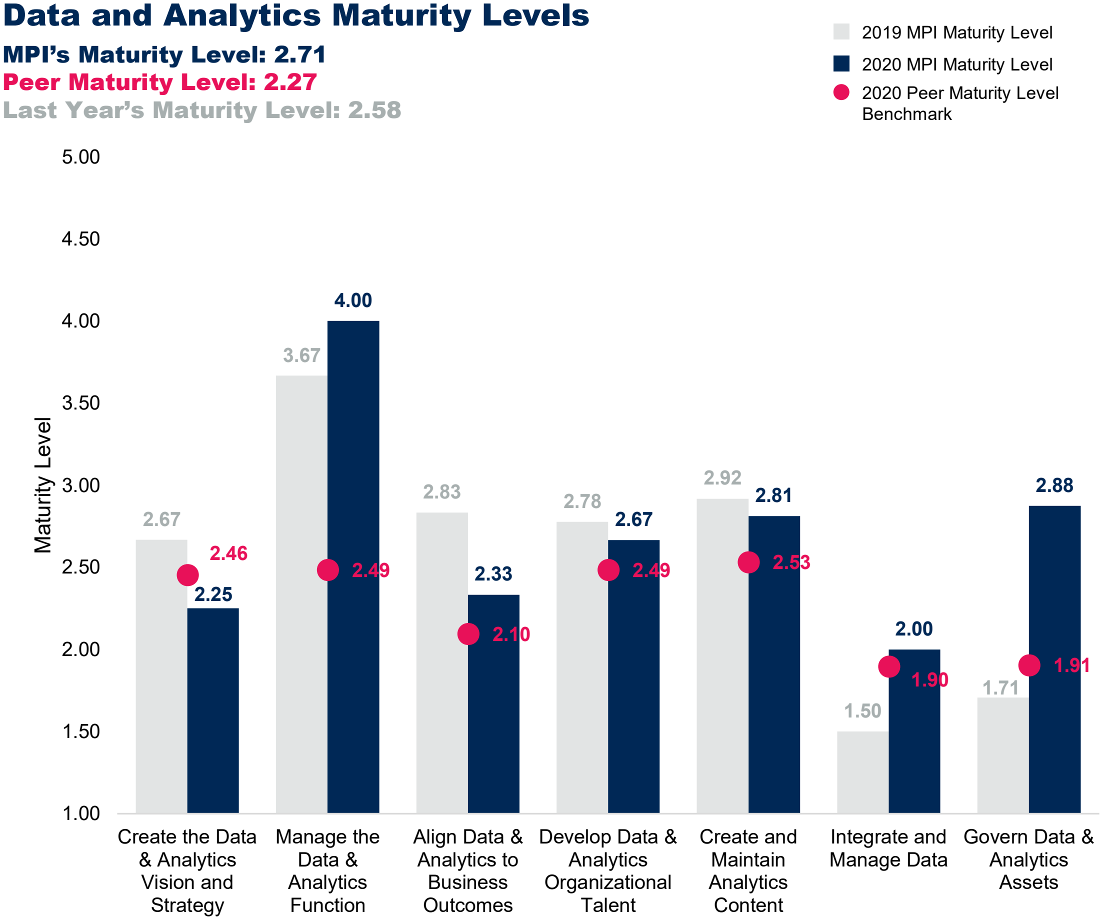
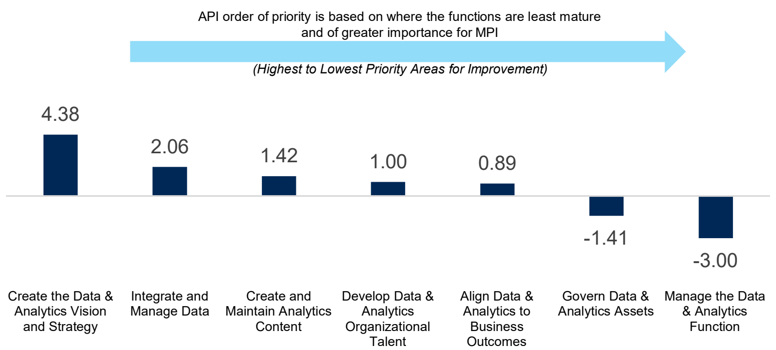
Data and Analytics

Data and Analytics Maturity Levels

MPI's Maturity Level: 2.71
Peer Maturity Level: 2.27
Last Year's Maturity Level: 2.58



Data and Analytics Activity Priority Index (API)



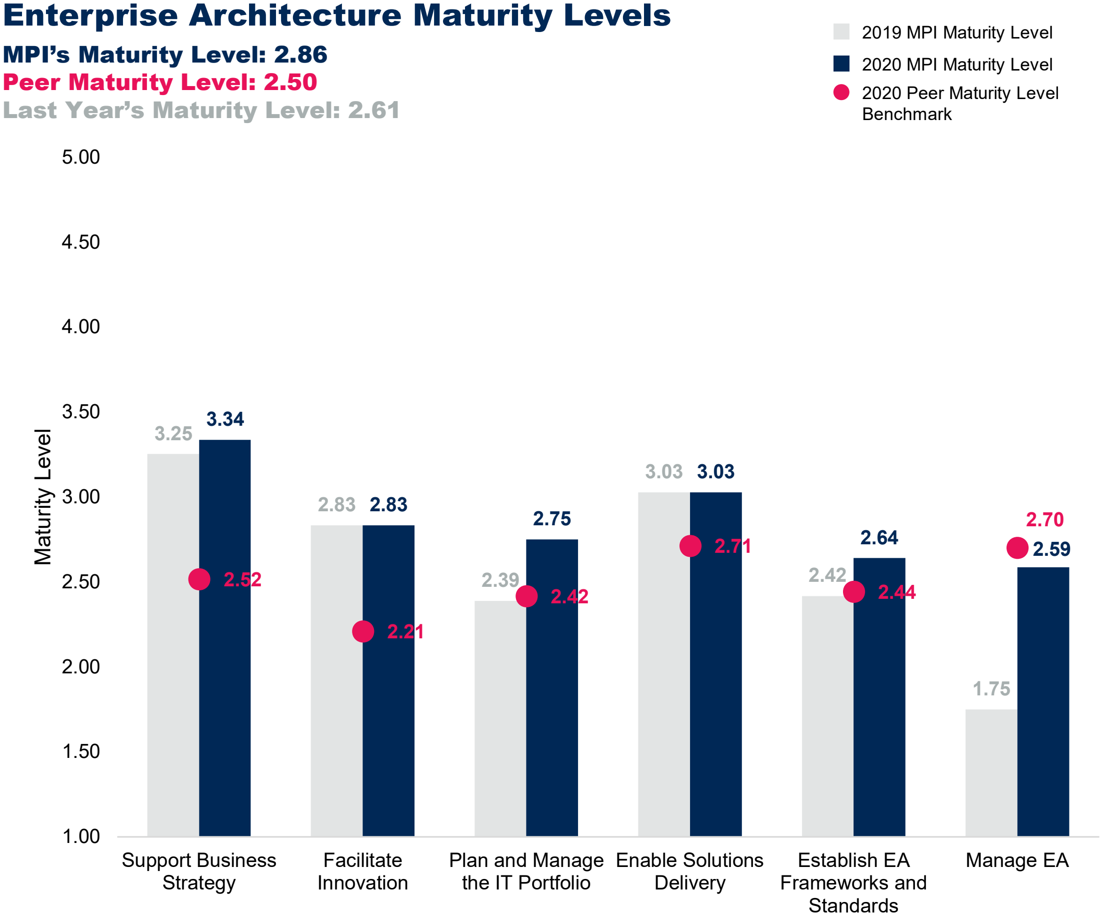
Observations:

- Overall maturity exceeds the peer benchmark
- Overall maturity has increased from the previous year's maturity levels
- MPI's maturity are below the peer benchmarks in the following function:
  - Create the Data & Analytics Vision and Strategy

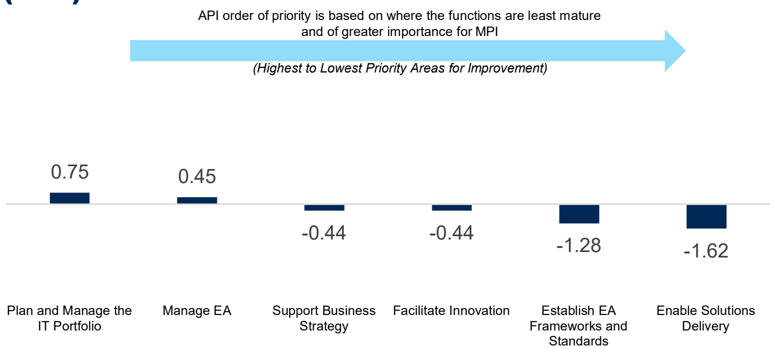
Enterprise Architecture (EA)

Enterprise Architecture Maturity Levels

MPI's Maturity Level: 2.86
Peer Maturity Level: 2.50
Last Year's Maturity Level: 2.61



Enterprise Architecture Activity Priority Index (API)



Observations:
- Overall maturity exceeds the peer benchmark
- Overall maturity has increased from the previous year's maturity levels
- MPI's maturity is below the peer benchmark in the following function:
  - Manage Enterprise Architecture

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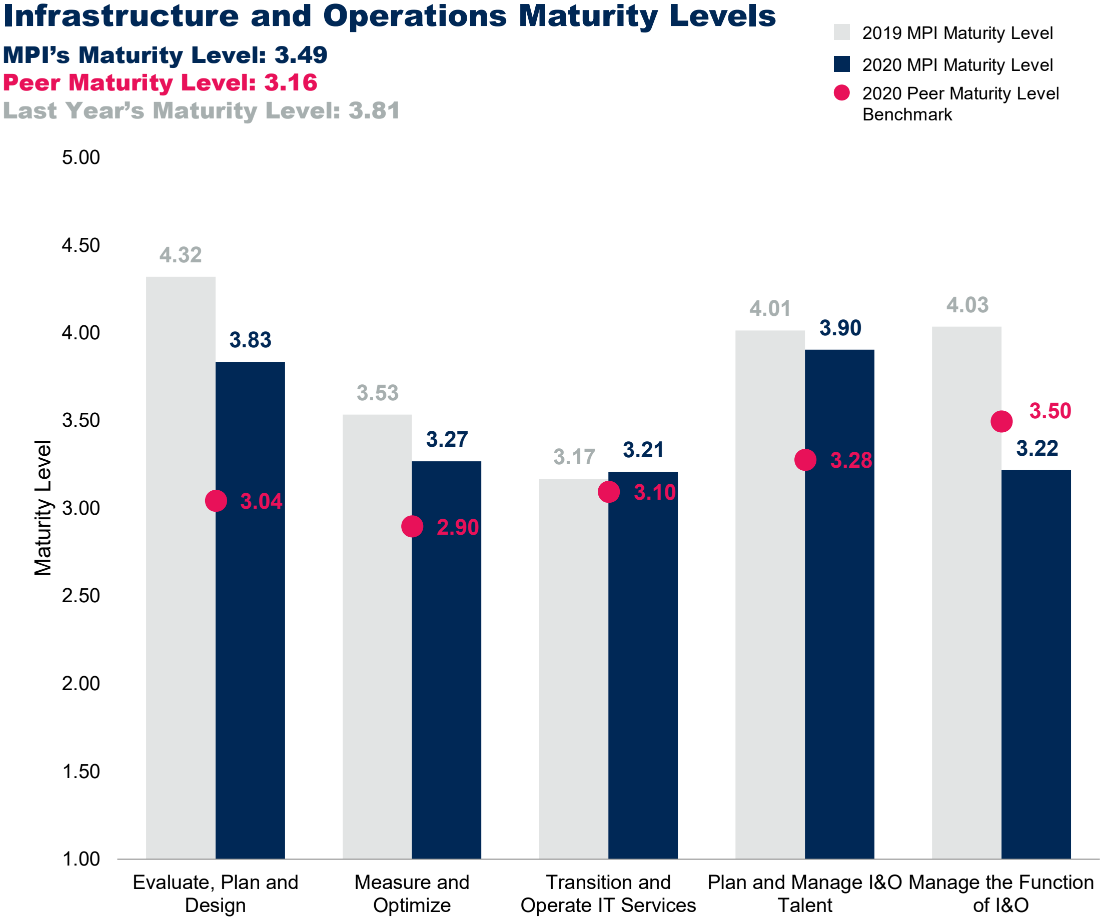
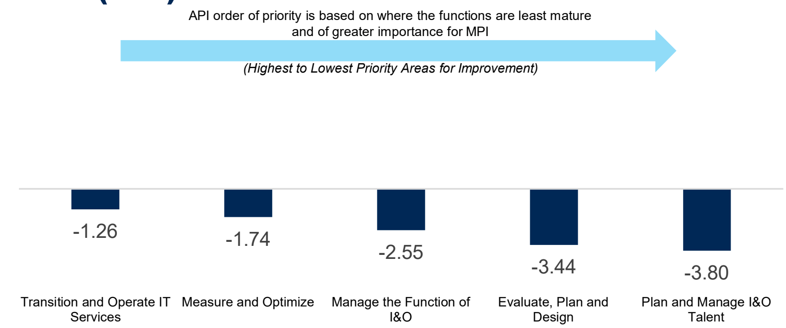
Infrastructure and Operations

Infrastructure and Operations Maturity Levels

MPI's Maturity Level: 3.49
Peer Maturity Level: 3.16
Last Year's Maturity Level: 3.81



Infrastructure and Operations Activity Priority Index (API)



Observations:

- Overall maturity exceeds the peer benchmark
- Overall maturity has decreased from the previous year's maturity levels
- MPI's maturity is below the peer benchmark in the following function:
  - Manage the Function of I&O

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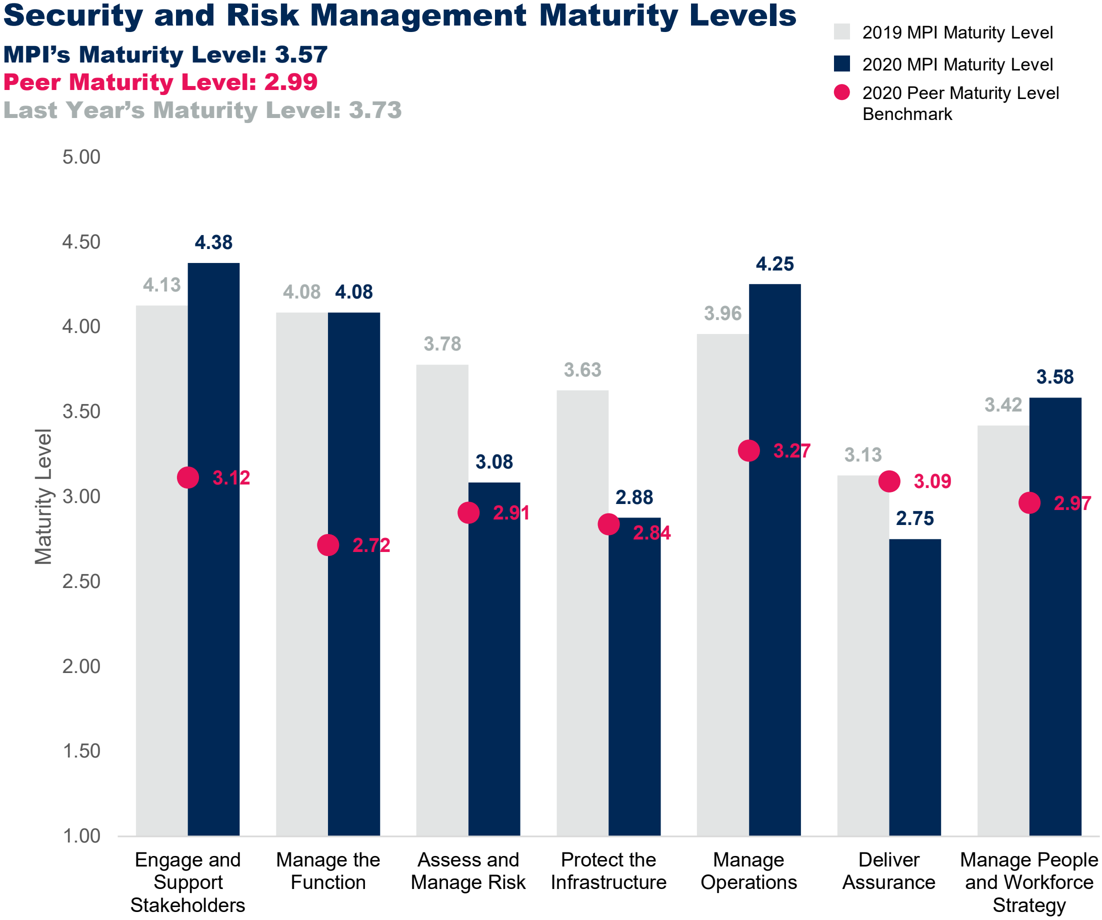
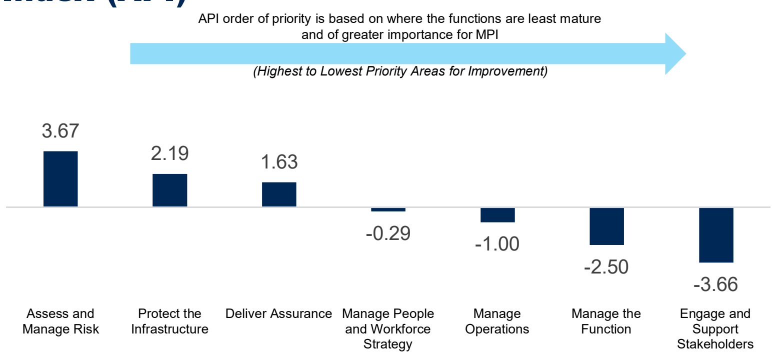
Security and Risk Management

Security and Risk Management Maturity Levels

MPI's Maturity Level: 3.57
Peer Maturity Level: 2.99
Last Year's Maturity Level: 3.73



Security and Risk Management Activity Priority Index (API)



Observations:

- Overall maturity exceeds the peer benchmark
- Overall maturity has decreased from the previous year's maturity levels
- MPI's maturity is below the peer benchmark in the following function:
  - Deliver Assurance

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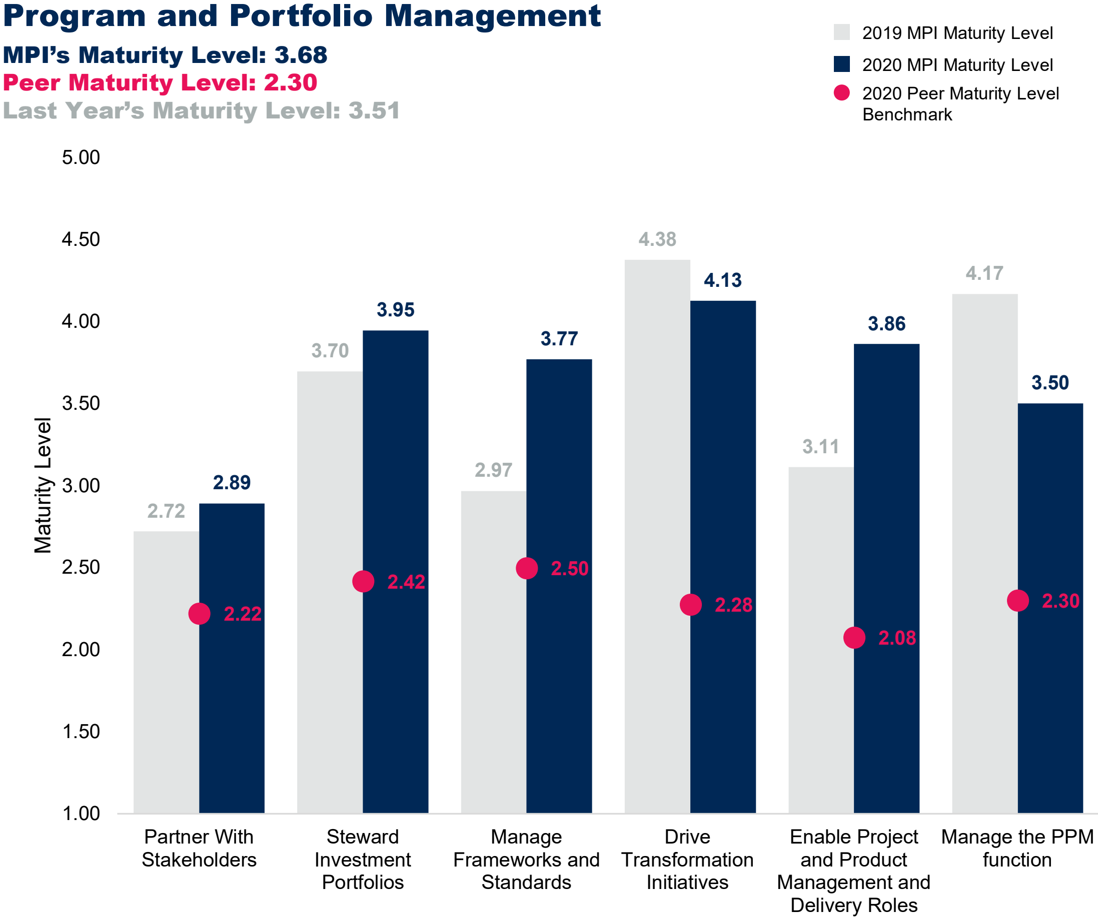
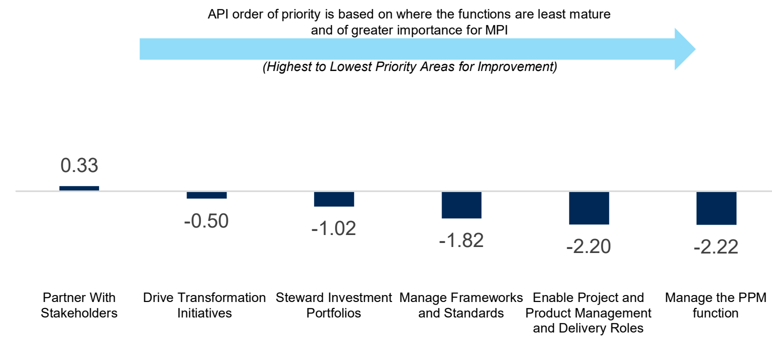
Program and Portfolio Management

Program and Portfolio Management

MPI's Maturity Level: 3.68
Peer Maturity Level: 2.30
Last Year's Maturity Level: 3.51



Program and Portfolio Management Activity Priority Index (API)



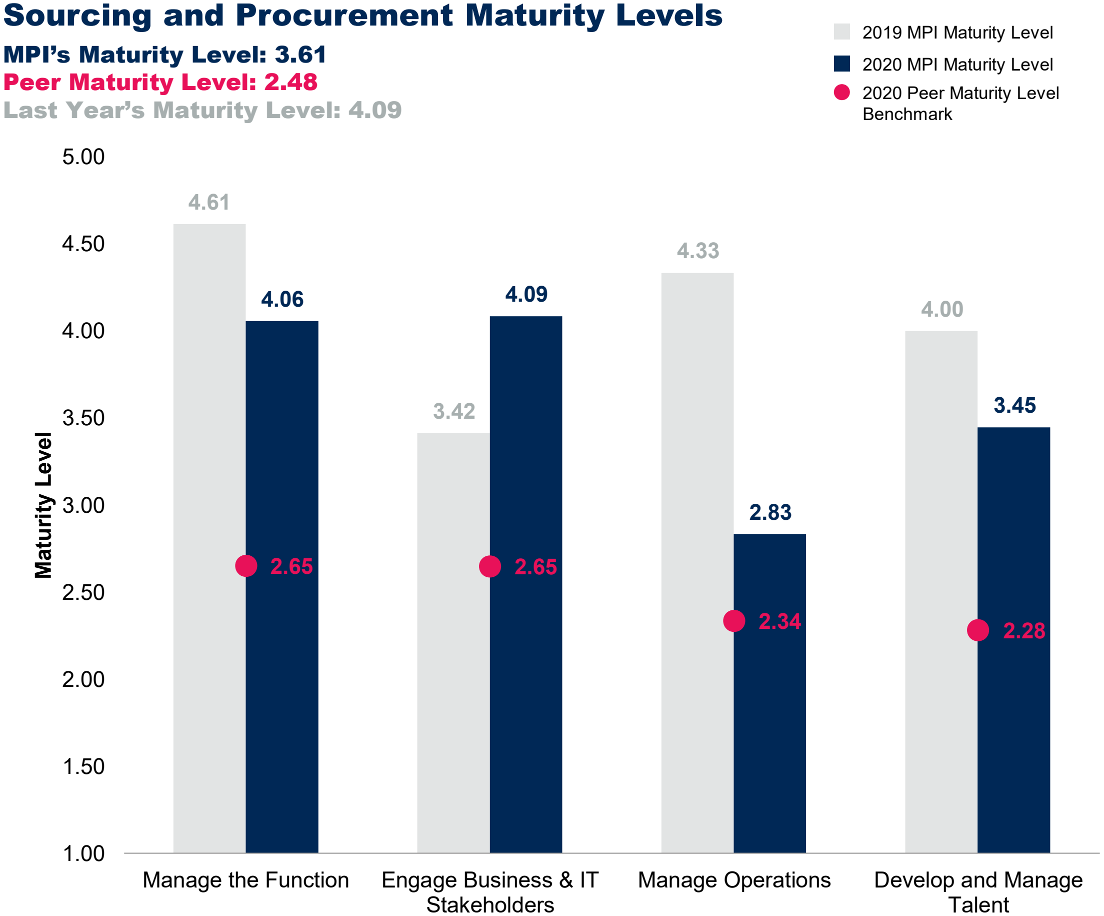
Observations:

- Overall maturity exceeds the peer benchmark
- Overall maturity has increased from the previous year's maturity levels

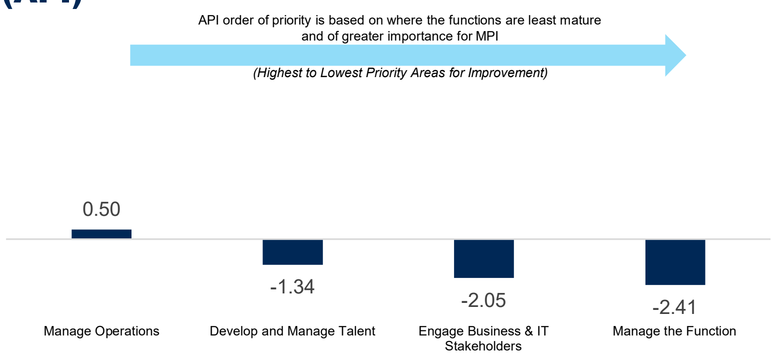
Sourcing and Procurement

Sourcing and Procurement Maturity Levels

MPI's Maturity Level: 3.61
Peer Maturity Level: 2.48
Last Year's Maturity Level: 4.09



Sourcing and Procurement Activity Priority Index (API)



Observations:

- Overall maturity exceeds the peer benchmark
- Overall maturity has decreased from the previous year's maturity levels

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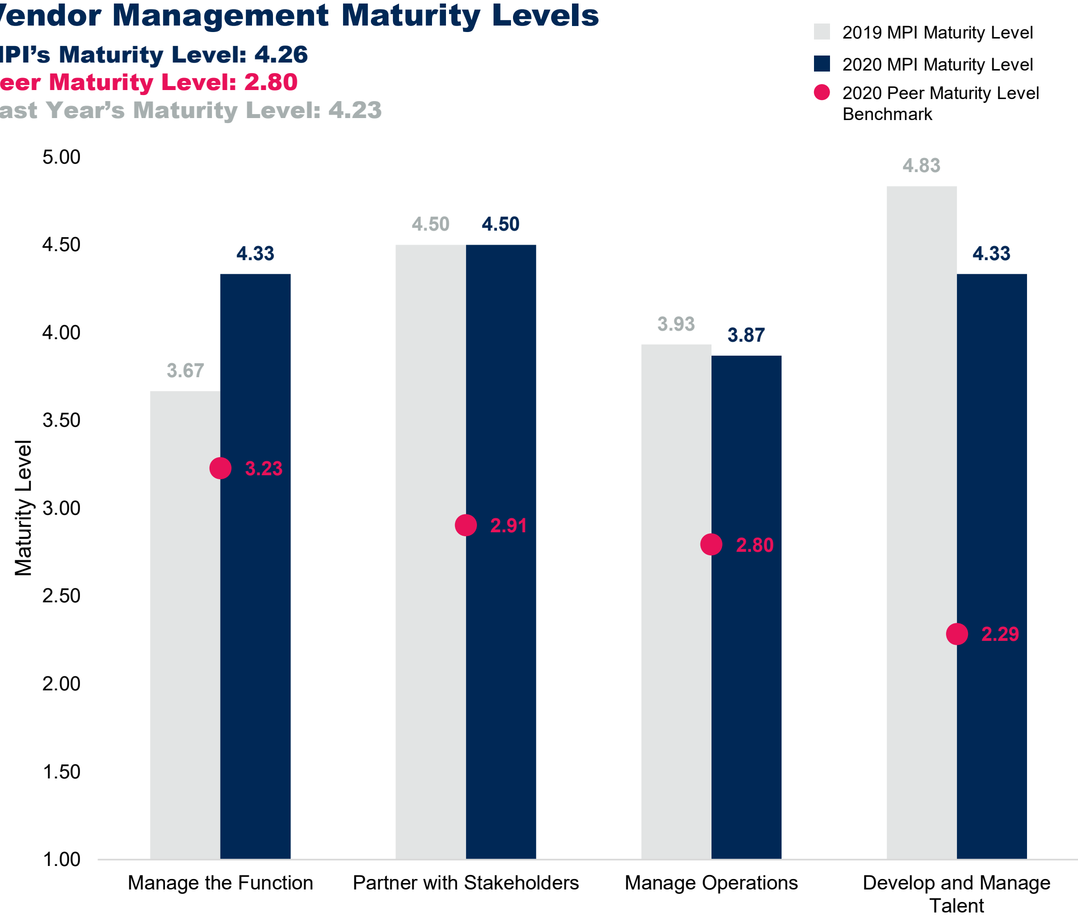
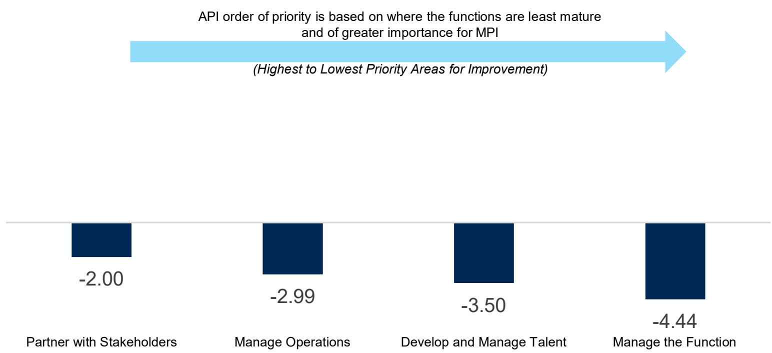
Vendor Management

Vendor Management Maturity Levels

MPI's Maturity Level: 4.26
Peer Maturity Level: 2.80
Last Year's Maturity Level: 4.23



Vendor Management Activity Priority Index (API)



Observations:

- Overall maturity exceeds the peer benchmark
- Overall maturity has increased from the previous year's maturity levels

Summary of Changes in Functional Level of IT Maturity Over the Past Year

Largest Increases in Maturity

IT Domain	Functional Level	2019 MPI Maturity Level	2020 MPI Maturity Level	Peer Benchmark	YoY Maturity Difference
Data & Analytics	Govern Data & Analytics Assets	1.71	2.88	1.91	+1.17
Enterprise Architecture & Technology Innovation	Manage EA	1.75	2.59	2.70	+0.84
Program & Portfolio Management	Manage Frameworks and Standards	2.97	3.77	2.50	+0.80
Program & Portfolio Management	Enable Project and Product Management and Delivery Roles	3.11	3.86	2.08	+0.75
Sourcing & Procurement	Engage Business and IT Stakeholders	3.42	4.09	2.65	+0.67
Vendor Management	Manage the Function	3.67	4.33	3.23	+0.67
Applications	Manage Vendor and Sourcing Relationships	3.10	3.70	2.81	+0.60
Data & Analytics	Integrate and Manage Data	1.50	2.00	1.90	+0.50
Strategy & Execution	Manage Performance	2.80	3.27	2.67	+0.47
Applications	Manage the Product and Application Portfolio	3.44	3.83	2.79	+0.39
Enterprise Architecture & Technology Innovation	Plan and Manage IT Portfolio	2.39	2.75	2.42	+0.36

Largest Decreases in Maturity

IT Domain	Functional Level	2019 MPI Maturity Level	2020 MPI Maturity Level	Peer Benchmark	YoY Maturity Difference
Sourcing & Procurement	Manage Operations	4.33	2.83	2.34	-1.50
Strategy & Execution	Develop & Manage Talent	3.47	2.33	1.66	-1.14
Infrastructure & Operations	Manage the Function of I&O	4.03	3.22	3.50	-0.82
Security & Risk Management	Protect the Infrastructure	3.63	2.88	2.84	-0.75
Security & Risk Management	Assess and Manage Risk	3.78	3.08	2.91	-0.69
Program & Portfolio Management	Manage the PPM Function	4.17	3.50	2.30	-0.67
Sourcing & Procurement	Manage the Function	4.61	4.06	2.65	-0.56
Sourcing & Procurement	Develop and Manage Talent	4.00	3.45	2.28	-0.55
Data & Analytics	Align D&A to Business Outcomes	2.83	2.33	2.10	-0.50
Vendor Management	Develop and Manage Talent	4.83	4.33	2.29	-0.50
Infrastructure & Operations	Evaluate, Plan and Design	4.32	3.83	3.04	-0.48
Data & Analytics	Create the D&A Vision and Strategy	2.67	2.25	2.46	-0.42
Security & Risk Management	Deliver Assurance	3.13	2.75	3.09	-0.38

Note: Year-over year maturity changes may be attributed to:
1. *Change in the levels of MPI's IT Service Delivery*
2. *Evolving criteria required to meet a level of maturity defined by Gartner*

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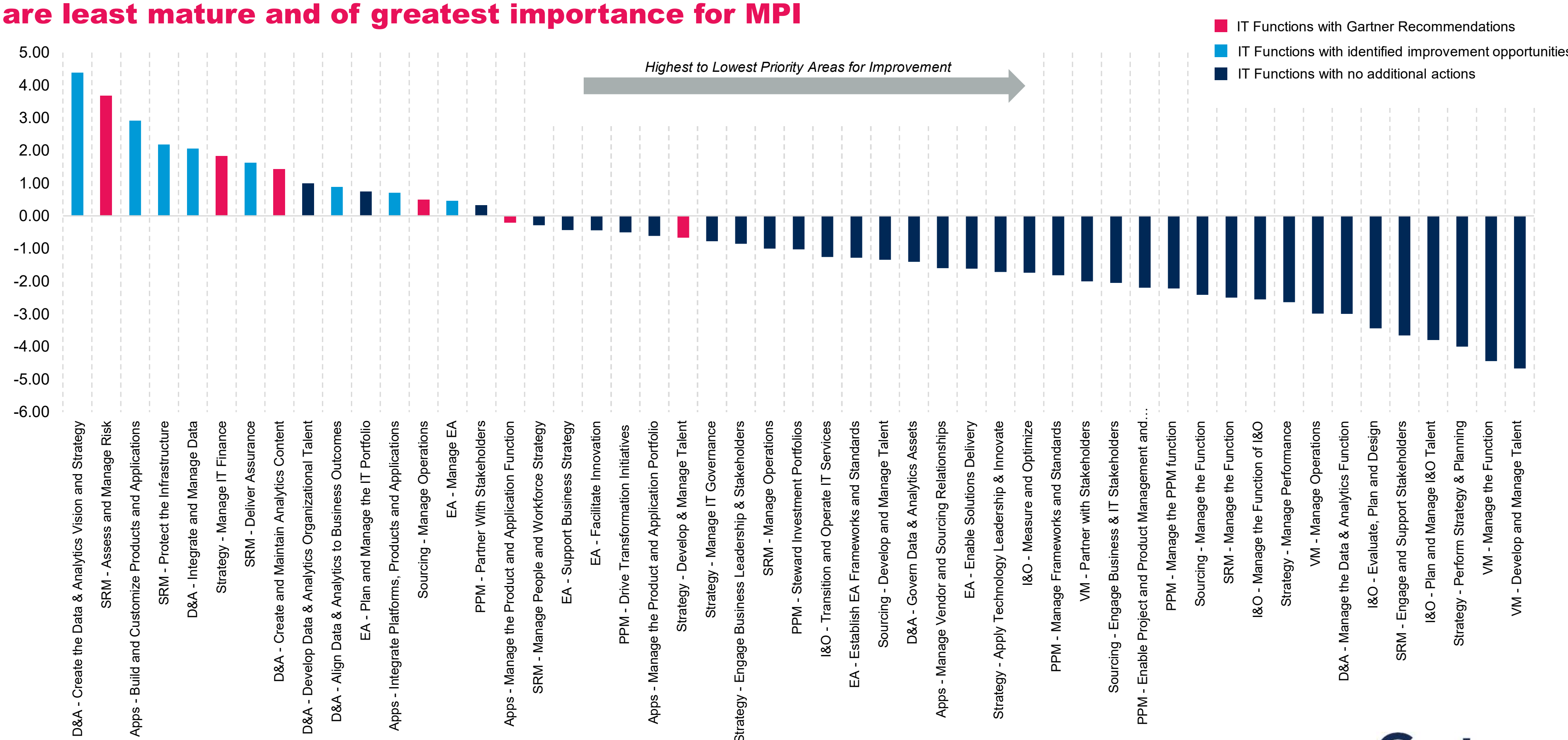
Improvement Opportunities: Activity Priority Index (API)

The Activity Priority Index (API) represents an order of priority for the IT functions, based on which are least mature and of greatest importance for MPI



List of Improvement Opportunities (1 of 4)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
1	**Strategy and Execution**	**Manage IT Finance**	**Important to key objectives**	**Prepare and Manage IT Budgets** ▪ **Revise the IT Budget to align with business changes** **Prioritize Investments** ▪ **Prioritize investments based on business requests** ▪ **Prioritize and rebalance the portfolio semiannually** ▪ **Use specialized business cases by investment type**
2	**Strategy and Execution**	**Develop & Manage Talent**	**Somewhat important to key objectives**	**Develop IT Workforce Strategy** ▪ **Forecast long-term IT workforce requirements, evolve regularly** ▪ **Use development experiences to inform workforce planning** **Develop Skills and Competencies** ▪ **Prioritize skills and competencies by importance to the business** ▪ **Integrate competency development into strategic planning process**
3	Applications	Build and Customize Products and Applications	Very important to key objectives	Establish Code Quality Standards ▪ Perform static analysis of code Manage Test Process and Automation ▪ Integrate smoke test into nightly builds
4	**Applications**	**Integrate Platforms, Products and Applications**	**Very important to key objectives**	**Manage API Strategy** ▪ **Create the role of API product manager** ▪ **Link API reporting to business value**

__Bolded__ items have been carried forward as part of a recommendation for MPI

List of Improvement Opportunities (2 of 4)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
5	**Applications**	**Manage the Product and Application Function**	**Important to key objectives**	**Manage Budgets and Funding** ▪ **Provide visibility into cost and trade-offs of funding of agile product teams** Manage Cross-Functional Coordination ▪ Define and consistently apply cross-functional coordination ▪ Provide guidance and support on cross-functional requirements ▪ Hold delivery teams accountable for cross-functional requirements
6	Data and Analytics	Create the D&A Vision and Strategy	Very important to key objectives	Implement the Strategy ▪ Recalibrate the D&A strategy as business context changes ▪ Focus on outcomes and key enablers Create the Functional Design ▪ Organize the D&A function to promote visibility ▪ Lead business pilots ▪ Promote continuous engagement with domain experts ▪ Design the D&A function to enable cross-unit collaboration
7	Data and Analytics	Integrate and Manage Data	Important to key objectives	Describe Data Assets ▪ Manage data assets in alignment with D&A strategy Integrate Data Assets ▪ Align data with assets ▪ *(Manage SLA changes project by project)* Share Data Assets ▪ Share data semantics within a local, single site context

***Bolded** items have been carried forward as part of a recommendation for MPI*

List of Improvement Opportunities (3 of 4)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
8	Data and Analytics	Create and Maintain Analytics Content	Important to key objectives	Create Advanced Analytical Models ▪ Build predictive models with internal and external data ▪ Put processes in place to collect new types of data Create and Maintain Enterprise Reports ▪ Deliver Reports through email subscriptions Create and Maintain Visual Dashboards ▪ Incorporate maps and location intelligence into dashboards
9	Enterprise Architecture and Technology	Plan and Manage IT Portfolio	Important to key objectives	Develop and Maintain Roadmaps ▪ Consult with cross-functional experts to align roadmaps ▪ Document path to future states in technology roadmaps Enable Information Strategy ▪ Create enterprise information management (IM) strategy ▪ Identify stakeholder pain points related to information usage ▪ Prioritize initiatives critical to IM capabilities
10	Enterprise Architecture and Technology	Manage EA	Important to key objectives	Measure and Manage Function Performance ▪ Seek feedback from peers ▪ Assess performance quantitatively ▪ Report examples of EA's successes
11	**Security & Risk Management**	**Assess and Manage Risk**	**Very important to key objectives**	**Manage Third-Party Risk** ▪ **Categorize third parties to modify the rigor of risk assessments** ▪ **Enable third-party access while protecting sensitive data**

***Bolded** items have been carried forward as part of a recommendation for MPI*

List of Improvement Opportunities (4 of 4)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
12	Security & Risk Management	Protect the Infrastructure	Very important to key objectives	Secure Applications ▪ Review applications at least once
13	Security & Risk Management	Deliver Assurance	Important to key objectives	Support Privacy ▪ Assess the impact of new privacy regulations ▪ Delineate cross-functional privacy responsibilities Support Audit ▪ Formalize auditee alignment and scheduling
14	**Sourcing and Procurement**	**Manage Operations**	**Very Important to key objectives**	**Manage Acquisition Process** ▪ **Assess and deploys differentiated processes optimized for the sourcing and procurement of differentiated products and services (i.e. SaaS, cloud-service providers, etc.)**

Bolded *items have been carried forward as part of a recommendation for MPI*

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3.3 Stakeholder Interview Findings

Strategy and Execution

Findings

- Changes in executive leadership has generated new business imperatives
- Business executive leadership has provided a new business architecture
- Improved Enterprise Architecture linkages to business architecture
- Business product offerings are being rationalized (Enhanced Drivers License)
- COVID-19 pandemic has introduced new challenges for MPI
  - Rebate cheques which were issued to Manitobans
  - New business requirements for enabling employees to work from home using employee-owned devices
- Project NOVA continues to progress according to original timeline and has moved from planning stage, to vendor selection stage
- Progress has been made on defining career paths and new roles (solution architects)
- Staff augmentation contracts leveraged for specialist skill requirements (i.e. scrum masters)

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Applications

Findings

- MPI has continued on its journey for agile delivery and has made the following progress over the past year:
  - Business applications have been transitioned to product teams
  - Decision have been decentralized for products; and teams have been given autonomy to operate within guardrails
  - Adopted Scaled Agile Framework (SAFe)
- Based on the recommendations last year for code quality, MPI have performed a gap analysis on the static code analysis to help define better processes
- This year the applications group is receiving funding to implement a tool for static code analysis and train staff
- Integrations and APIs will be an upcoming area to progress on, as Project NOVA elevates the importance of transfer of information between both old and new systems
- For talent management perspective, the application group is creating a new technical career path to bring more people into solution architecture
- MPI have adopted an approach that allows for insourced personnel to gain skills transfer from solution integrator
- The next year's focus will be on supporting lean portfolio management, and improving connections between agile delivery and the business planning cycle

Infrastructure & Operations, Data & Analytics

Findings

I&O

- The focus for I&O in the past year was to address security and technical debt
- Due to COVID-19, there has been a change in the way personal computing (i.e. laptops, desktops, printers, etc.) are being used compared to how they were originally envisioned to be used
  - Access has been provided by two channels: VPN to a MPI device or Token Authentication
- Some productivity products (i.e. MS Teams) are planned to be moved to the cloud
- 5-year capital plan is continued to be rolled out for devices such as firewalls
- ITSM improvements based on COBIT19 service management framework

D&A

- In the previous year, data was about delivery (i.e. increasing who is serviced, and how they are serviced)
- The next year will focus on adapting the service (i.e. adding tools, automation, and self service)
- The new data and analytics organizational structure centralizes functions which were previously performed in dispersed parts of MPI
  - As part of the D&A organization, there will be a data science and analytics team to generate models for the organization to use (they will be the biggest consumer of data)
- Anticipated future investment for data infrastructure (i.e. Data marts, new tools, etc)

Enterprise Architecture

Findings

- EA has made significant steps towards transitioning from solution architecture with a technology focus to business architecture, with an understanding of the business priorities, and trends
- Progress has been made within EA to understand how the group fits within agile and product management
- EA does not track formal measures or KPIs to manage performance, however it is getting feedback from business owners through conversations
    - The team is planning to develop metrics for categorizing capabilities of systems, technology debt, fit for purpose, and for engagement surveys

Security & Risk

Findings

- SABSA put in place to identify the threats to MPI
- Controls have been designed to offset risks
- Security Operations Centre (SOC) implemented at IBM as managed service
- Currently in the process of implementing the risk management and compliance program; IT will test the controls and ensure that they work within the design parameters within the controls
- Recently implemented a Governance Risk Management and Compliance (GRC) tool to document and identify the risks for the corporation
- Changes have been made to the prioritized risks which are prioritized and reported to the directors

Program & Portfolio Management

Findings

- Benefits for project NOVA are defined in a business case and tracked by the value realization office
- NOVA dependencies are tracked by the PMO - require organization and work plans
- Large focus in the previous year for PPM was the adoption of lean portfolio management and SAFe agile framework; this included changes to governance and processes
- For resource management, capacity is stretch in most part due to Project NOVA; however the team has ability to use external contractors given it is plan through the business case process
- MPI is adopting a “two-in-a-box” strategy for Project NOVA; this allows internal staff to train alongside the SI and Vendor and build up the skills to operate and support the systems

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Sourcing, Procurement, and Vendor Management

Findings
▪ Currently using SharePoint for the contract management; having a dedicated contract management solution in place may create more administrative work for the vendor management team, especially due to the smaller size of MPI relative to other insurance organizations ▪ For metrics, there will be an individual to document and manage the Project NOVA contracts going forward; there will also be staff on other teams responsible for vendor management metrics of the suppliers ▪ Some progress has been made developing career paths within Sourcing, Procurement and Vendor Management ▪ MPI is less mature when dealing with cloud service providers; the team will need to adapt to how RFPs and SLAs are built and managed for these providers (i.e. to address and manage requirements and risks)

4. Detailed Recommendations

The recommendations, for MPI’s implementation roadmap are listed below:

1. Conduct a skills assessment and create a workforce plan to address the new skills required within the IT organization
2. Ensure IT Financial Management facilitates priorities for investments across products and services and has flexibility to adjust to changing business plans
3. Increase the scope of delivery of the integration strategy for applications and continue to document the APIs
4. Integrate third-party risk management into the IT Security Governance, Risk and Compliance (GRC) processes
5. Formulate a sourcing and vendor management approach for utilizing cloud-service providers

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1 Conduct a skills assessment and create a workforce plan to address the new skills required within the organization

Mgmt Domain	Strategy and Execution					
Benefit	Cost Optimization	Service Alignment	**Employee Productivity**	User Experience	Agility	Risk Mitigation
Complexity	Low		**Medium**		High	

Description / Rationale
Established & formalized skills management, training programs and continuous learning were identified as required areas of improvement across multiple IT domains within the organization. This initiative is considered to be important for MPI at this juncture, because the shift towards new application platforms will require new skills. It includes definition of the roles, knowledge, skills and competencies needed to minimize talent gaps and prioritize talent investments to fulfill the needs for project NOVA. It also necessitates a recruitment strategy, defines and markets the MPI brand, and recruits and onboards talent externally. Lastly, it requires IT to establish the learning process that will enable the workforce to develop the knowledge, skills and competencies to achieve strategic goals.

Initiatives	Activities	Deliverables / Outcomes
Determine skills, competencies and capability requirements	▪ Align on the rationale for a skills inventory, set the inventory scope, determine resourcing needs and establish success metrics; build stakeholder understanding and support for the initiative throughout. ▪ Ensure competencies in areas such as cloud, analytics, Application Architecture and Integration, Customer Experience, Security and AI are addressed.	▪ Skills, competency and capability requirements
Perform a skills and competency assessment	▪ Engage HR to facilitate assessment ▪ Build and engage a skills-sensing network for broad, timely input (made up of cross-organizational stakeholders) ▪ Align on inventory scope (i.e. IT organization) ▪ Develop a preliminary set of skills to inventory, creating a flexible skills taxonomy refined over time ▪ Establish a preliminary data collection plan for skills ▪ Pilot skills data collection plan for skills ▪ Scale skills data collection plan for skills ▪ Incorporate opportunities for ongoing revision ▪ Analyze and report on skills supply and demand	▪ Skills inventory ▪ Updated IT strategy containing skills and competency requirements
Create Training and Career Progression Plan	▪ Build a training strategy and ensure IT skills alignment with the IT strategy ▪ Design and implement training curriculums to progress the development of skills valued within the organization ▪ Develop, plan and communicate program opportunities specific to each IT domain for growth, promotion and career path progression within MPI ▪ For relevant IT domains (i.e. Security and Risk Management) incorporate outside skills exposures and learning to stay up to date with changing technologies, risks and trends ▪ Plan progressive career paths or rotational roles within the organization	▪ Career path definitions (Procurement and Vendor Management, I&O, Security and Risk Management)

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2 Ensure IT Financial Management facilitates priorities for investments across products and services and has flexibility to adjust to changing business plans (1 of 2)

Mgmt Domain	Strategy and Execution					
Benefit	**Cost Optimization**	**Service Alignment**	Employee Productivity	User Experience	**Agility**	Risk Mitigation
Complexity	Low		Medium		**High**	

Description / Rationale

MPI have recently adopted an agile development and a product management approach, which provides an opportunity to ensure alignment of the IT budget with business priorities. The COVID-19 pandemic severely impacted insurers on a large scale. A more nuanced set of priorities is unfolding in 2021 as insurance CIOs simultaneously manage the impacts of increased remote working and evolving policyholder expectations. Insurers require support from their technology and service providers to deliver superior customer experience as they optimize existing business models and leverage emerging technology to innovate and progress to sustainable new business models. Product leaders must navigate a renewed focus on cost optimization and the after-effects of a recessionary impact on insurance IT spending in the coming year, as the industry continues along a K-shaped recovery from the disruptions in 2020. Product leaders must be laser-focused on value to continually win insurers' technology investment spending.

Initiatives	Activities	Deliverables / Outcomes
Capture enterprise context and incorporate it into the IT Budget process	▪ Build framework for presenting the IT Budget in business terms (build views for IT assets and resources, technology domains, unit costs, business services / products and chargeback / showback.) ▪ Capture enterprise context, using the business strategy to drive the development of the IT operating and capital budget by proactively involving key stakeholders to reflect business needs during the budgeting process ▪ Present the IT budget in business terms by correlating IT costs to valued business services / products ▪ Communicate the IT budget effectively to all key stakeholders including business executives and the IT staff by meetings, to ensure a uniform understanding, while giving them the opportunity to ask questions	Documented enterprise context and mapping to services and products
Implement a product-oriented approach to IT Financial Management	▪ Implement views of the IT Budget per IT product and product line level which articulate spending in terms that the business understands ▪ Implement views which show costing to charge/show the full costs of each IT service incurred in terms that the business understands ▪ Implement an iterative approach to budget analysis to show changes to investments based on business and market changes ▪ Implement a value management approach which uses financial analysis across business-outcome metrics to report on cost, value and risk to guide investments for products and services	Updated budget reporting deliverables

2 Ensure IT Financial Management facilitates priorities for investments across products and services and has flexibility to adjust to changing business plans (2 of 2)

Initiatives	Activities	Deliverables / Outcomes
Improve the cadence of IT Financial Management Reporting Processes	▪ Revise IT budget at least semiannually to align with changes in service demand and business plans ▪ Revise IT budgets at least quarterly to align with changing business priorities ▪ Generate budgets at a product line and IT product level ▪ Engage the enterprise for IT budgeting decisions ▪ Improve the cycle time for the revision of IT budgets to align with changing business models and strategy	▪ Updated budget reporting schedule
Build IT Financial Management processes to enable prioritization of IT Investments	▪ Solicit input from senior enterprise executives in IT governance forums at least semiannually to prioritize and rebalance investments in IT ▪ Build value stream mapping process linked to funding and budgeting processes to guide investments ▪ Select and prioritize investments based on business requests to IT and input from business leaders ▪ Build business case templates separately for different types of investments, including hard and soft benefits ▪ Facilitate portfolio discussions with enterprise executives to rebalance the portfolio of IT resources at least quarterly in order to prioritize investments that support the strategy. ▪ Continuously evaluate and monitor IT investments after funding, on a product/service level to optimize market value and mission accomplishment ▪ Enable delegation of financial control to managers of highly innovative products, services and business units ▪ Build defined triggers within the application function to enable reallocation of funding to higher value opportunities ▪ Assign accountability for budget and funding to product managers	▪ Business case templates ▪ Prioritization templates ▪ Product budget delegation definitions

3 Increase the scope of delivery of the integration strategy for applications and continue to document the APIs

Mgmt Domain	Applications					
Benefit	Cost Optimization	Service Alignment	Employee Productivity	User Experience	**Agility**	Risk Mitigation
Complexity	Low		Medium		**High**	

Description / Rationale

MPI has defined an integration strategy and has continued to support integration solutions and delivery throughout the organization (i.e., through the planned implementation of MuleSoft to catalog APIs at a detailed level). As Project NOVA progresses, it will be of importance to sustain the level of attention given to integration and connections between applications and increase the scope of the initiative. It is important to ensure that API management is known by enterprise architects, solution architects and applications development and support personnel. It will become increasing important to manage integration as new platforms require connectivity to data contained within the legacy application portfolio.

Initiatives	Activities	Deliverables / Outcomes
Create personnel role for API management and assign member(s) to integration and API team	**Appoint API product manager, create an Integration Strategy Enablement Team (ISET) team and assign the following responsibilities:** ▪ Define and enforce lightweight, outcome-based governance policies ▪ Minimize security, compliance and other technical risks ▪ Define KPIs to report progress ▪ Implement technologies, best practices, governance and support ▪ Promote the benefits of self-service integration ▪ Encourages adoption by the application delivery teams ▪ Collaborate with other stakeholders from the organization (including security) to manage the API portfolio ▪ Focus on improving API quality over time and encourage reuse	Formation of a defined team, personnel roles, and assignment of responsibilities
Increase the scope of the integration strategy	▪ Task the domain-level application leaders to gather their new integration requirements (assess with business leaders how integration could help them meet their innovation, agility, better insights and efficiency/cost reduction objectives. ▪ Assign to a team of integration architects the goal of defining/refining an overarching business application integration strategy that supports the requirements (work with the ISET and API platform team to implement the necessary technical and organizational capabilities) ▪ Activate a process to check with the domain application leaders whether their initiative requirements map with the overall business application integration strategy (negotiate extensions and adjustments with the organization's ISET and API platform team) ▪ Determine integration platform technology requirements (Traditional platform ESB, Integration platform as a service, Distributed integration platforms, Integration frameworks)	Evolving documentation for the integration strategy

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4 Integrate third-party risk management into the IT Security Governance, Risk and Compliance (GRC) processes

Mgmt Domain	Security and Privacy					
Benefit	Cost Optimization	Service Alignment	Employee Productivity	User Experience	Agility	**Risk Mitigation**
Complexity	Low		**Medium**		High	

Description / Rationale

MPI is in the process of implementing a risk management and compliance program. As those proactive methods to assess and mitigate risk evolve, MPI should begin to integrate third-party risk management into the processes. This will be particularly important as MPI engages with vendors, contractors and service providers during the roll out of Project NOVA and/or if MPI outsources core functions to third parties; both which may introduce risks including, but not limited to: information security/privacy, risk of breaching regulations, security risks, vendor supplier disruption and/or reputational risk.

Initiatives	Activities	Deliverables / Outcomes
Assign responsibilities to joint vendor management, I&O, and security and risk management teams	**Establish new responsibilities and tasks as follows:** ▪ **Business and I&O stakeholders jointly perform a formal risk assessment as part of all project evaluations and approvals** ▪ Track third-party performance in delivery of goods and services (performance in meeting contractual provisions may be a leading indicator of potential risk) ▪ Review business unit sponsors' reports or dashboards (look for changes in the scope of the third-party relationship, key personnel, and where the third party operates as relevant for privacy regulations) ▪ Establish process for guidance, training and triggers for escalation (demonstrate improved risk outcomes, including surfacing and remediating risks before they have a material impact on the business.) ▪ Set performance expectations in the contracts	Updated Roles and responsibilities
Expand current processes to categorize the risks of third-party organizations	**Manage third party risk as follows:** ▪ Perform business impact assessment to determine the business impact of IT continuity, IT Security and vendor risks ▪ Categorize IT vendor risks (i.e. operational, financial, data, regulatory). ▪ Include disaster recovery, business continuity for services dependent on external providers ▪ Use the data and type of service provided by the third-party to determine the right rigor of assessments ▪ Implement controls and compliance framework that enables third parties to access necessary systems and data while protecting sensitive data ▪ Implement continuous monitoring of controls and analysis of real-time monitoring feeds (such as security rating services) to manage residual risk to an acceptable level for the business. ▪ Implement due diligence for key vendors based on non-IT-related risk indicators (i.e. change in leadership at vendor organization, merger or acquisition of key vendor or vendors) ▪ Includes formal incentives in contracts for third parties to manage risk and improve security posture	Third party risk management process and policy

5 Formulate a sourcing and vendor management approach for utilizing cloud-service providers

Mgmt Domain	Sourcing, Procurement and Vendor Management					
Benefit	Cost Optimization	Service Alignment	Employee Productivity	User Experience	Agility	Risk Mitigation
Complexity	Low		Medium		High	

Description / Rationale

It is common in the for cloud-service agreements to firmly place the risks with the buyer. As MPI evolves to adopt more cloud-based services or solutions, the organization will need to proactively identify and minimize these risks which may have been otherwise overlooked through the procurement process. The development of a sourcing and vendor management approach for cloud services can help MPI adapt to minimize costs and risks of key contract terms.

Initiatives	Activities	Deliverables / Outcomes
Determine security, privacy and compliance requirements for cloud-service providers	▪ Update data sensitivity policies with reference to acceptable usage of cloud-service providers ▪ Determine applicable security, privacy regulations and corresponding security, privacy and compliance standards ▪ Publish acceptable use policies by cloud-service provider (i.e. based on lowest level of security classification)	▪ Acceptable use policies per cloud-service provider
Deploy a differentiated process optimized for the acquisition of cloud-service providers	▪ Set up guidance for minimizing configurations and following best practices recommended by cloud-service providers ▪ Build cloud application support model and governance by mapping out roles and responsibilities for IT and procurement ▪ Create and tailor vendor evaluation criteria that prioritizes maturity of cloud offerings and identify a qualified set of standard cloud offerings ▪ Assess risks which may arise through cloud operations and support (i.e. service gaps, performance expectations and service consequences, etc.) ▪ Develop a vendor risk management framework for the evaluation and selection of vendors	▪ Documentation/ Guidance for evaluation and selection of cloud vendors
Develop a vendor management approach for cloud-service providers	**Implement a process to manage vendor spending data:** ▪ Implement automated methods of tracking spending data for cloud resources, KPIs, and/or metrics ▪ Collect and analyze cloud spend data	▪ Performance metrics for cloud-service providers

5. Appendix

Reconciling Past IT Benchmark Recommendations

Past Benchmark Recommendations (FY 2018/2019)

I. **Document vision and objectives for Enterprise Architecture using a formal charter**

Completing a formal charter was part of past year's main objectives

II. **Add capacity and transition vendor management from a focus on transaction-based activities to all aspects of the vendor management lifecycle**

Operational capacity is being extended as part of increased training for skills within the team

III. **Establish a skills management and training initiative, and define additional personnel roles within EA, PPM, vendor management, applications and IT security**

Skills management and workforce planning is carried over as part of Recommendation #1 for the current benchmark

IV. **Improve application management competencies required for legacy modernization including agile application delivery and application testing for secure coding**

Agile delivery has been adopted and code quality standards are in the process of being improved

Current Benchmark Recommendations (FY 2019/2020)

1. **Conduct a skills assessment and create a workforce plan to address the new skills required within the organization**
2. **Ensure IT Financial Management facilitates priorities for investments across products and services and has flexibility to adjust to changing business plans**
3. **Increase the scope of delivery of the integration strategy for applications and continue to document the APIs**
4. **Integrate third-party risk management into the IT Security GRC processes**
5. **Formulate a sourcing and vendor management approach for utilizing cloud-service providers**

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Documents provided by MPI and reviewed by Gartner

Budgets
- ITBT Budget Overview_v14.xlsx
- ITBT Division 2020-21 Budget starting Database_Differences.xlsx
- ITBT Divisional Budget_2020-21_GOLD_FINAL.potx

External Labour
- Part_04_02_IT_02_Appendix_02_External_Labour_Update.docx
- Part_04_02_IT_02_Appendix_03_External_Labour_Trends.docx

Governance
- IT GPC Project - Executive update 2.pptx
- IT process ownership - April 28 2021.docx

IT Operations Report
- IT Dashboard - March 2021.pptx

Organization Chart
- Divisional Org Structure - April 2021.pptx

Projects
- 2012-21 Initiative Spend_Mar_2021.xlsx
- Part_04_01_VM_01_Value_Management_Chapter_Redacted.docx
- Part_04_02_IT_02_Appendix_04_Status_of_Corporate_Strategic_Initiatives_Redacted.docx

Regulatory
- Part_04_02_IT_01_Information_Technology_Chapter.docx

Strategy
- IT SUMMIT PRESENTATION.PPTX
- Part_04_02_IT_02_Appendix_01_IT_Strategy.docx

IT Maturity Score Survey Respondents

IT Domain	Name	Title / Role	E-mail Address
Strategy & Execution	Lawrence Lazarko	Director, IT	llazarko@mpi.mb.ca
Applications	Jonathan Yakel	Director, ESS	jyakel@mpi.mb.ca
Data & Analytics	Lawrence Lazarko	Director, IT	llazarko@mpi.mb.ca
Enterprise Architecture	Shawn Campbell	Director, Technical Architecture	scampbell2@mpi.mb.ca
Infrastructure & Operations	Lawrence Lazarko	Director, IT	llazarko@mpi.mb.ca
Security & Risk	Colin McDonald Rafiq Valliani	CISO Information Security Officer	cmcdonald@mpi.mb.ca rvalliani@mpi.mb.ca
Program & Portfolio Management	Stephen Ramchandar	Director, BTO	sramchandar@mpi.mb.ca
Sourcing / Procurement	Chad Muir	Director, Sourcing and Vendor Management	cmuir@mpi.mb.ca
Vendor Management	Chad Muir	Director, Sourcing and Vendor Management	cmuir@mpi.mb.ca

Stakeholder Interviewees

Name	Title / Role	E-mail Address
Lawrence Lazarko	Director, IT	llazarko@mpi.mb.ca
Jonathan Yakel Karthigeyan Pariyasamy	Director ESS / Manager, Applications	jyakel@mpi.mb.ca kpariyasamy@mpi.mb.ca
Shawn Campbell	Director, Technical Architecture	scampbell2@mpi.mb.ca
Colin McDonald / Rafiq Valliani	CISO Information Security Officer	cmcdonald@mpi.mb.ca rvalliani@mpi.mb.ca
Stephen Ramchandar	Director, BTO	sramchandar@mpi.mb.ca
Chad Muir	Director, Sourcing and Vendor Management	cmuir@mpi.mb.ca

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Glossary

- **Run:** IT resource which are consumed and focused on the continuing operation of the business
- **Grow:** IT Resources consumed and focused on developing and enhancing IT systems in support of business growth (typically organic growth or improvements in known business processes)
- **Transform:** IT resources consumed and focused on implementing information and technology systems that enable the enterprise to enter new markets, address new customer segments, create new value propositions and enact new business models

Relevant Gartner Research

- Designing and Implementing a Skills Inventory Published 27 August 2020 - ID G00733625
- IT Budgeting Fundamentals: A CIO's Guide to Securing Funding and Delivering Value Published 7 October 2020 - ID G00728580
- 3 Steps to Designing a Future-Proof Business Application Integration Strategy 26 June 2019 - ID G00390296
- Identifying High-Risk Third Parties 21 September 2020 - ID G00430914
- Tool: Checklist for Negotiating Optimal Cloud SaaS Contract Terms and Conditions - ID G00720018
- Infographic: 5 Ways Cloud Providers Could Try to Fool You — and How to Fight Back - ID G00746518

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Manitoba Public Insurance Information Technology Benchmark (FY 2020-2021)

Preliminary Findings and Recommendations Report

Version 2.0 (FINAL)
22 July 2022

MANITOBA PUBLIC INSURANCE

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Version History

Version	Date	Details
V1.0	8 July 2022	First version delivered to MPI (Working Draft)
V2.0	22 July 2022	▪ Corrections to dates within the footer and version history ▪ Page 12: Updates to indicate project NOVA costs are now included ▪ Page 22: Corrected table data ▪ Page 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32: Updates to indicate project NOVA costs are now included

Purpose of this Report

- This reports contains the final version of the findings and recommendations resulting from the analysis conducted as part of the Gartner / Manitoba Public Insurance (MPI) Annual IT Benchmark for FY 2020-2021
- The report contains an executive summary of the findings and recommendations, substantiation of the findings and details for the implementation of the recommendations

Table of Contents

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1. Introduction

Levels of investment in IT must be in balance with value derived by the business: There is a cost to maturing IT Service Management Processes

Investments in IT

- IT Personnel
- Contractors
- Hardware
- Software
- Facilities
- Managed Services

Value Delivered

- Mature IT Service Management Processes
- Satisfied business stakeholders and end users
- Reduced risk
- Progress towards business outcomes
- Profitability *
  (Applicable for commercial peers; not for MPI)

**Since MPI is a Crown Corporation, it does not aim to maximize profitability; thus profitability may be a less applicable measure of value delivered*

**Within the current and previous benchmark peer groups, a trend was found that higher levels of profitability are typically achieved for firms with higher levels of IT Spending per employee*

Gartner's Point of View on the insurance industry

Continuous market change requires longer vision and greater agility than ever for insurance CIOs.

- Current and future projected industry disruption make it **imperative that P&C and life insurers adopt business composability in order to respond to volatile conditions** and win in the future. On average, companies with high business composability report higher overall business performance.
- Business composability is a relatively new concept in insurance, with only 8% of CIOs reporting having in place enterprise strategies for the three elements: **composable thinking, composable business architecture and composable technologies.** On average, the industry is moderate across all three, especially technologies and thinking.
- Insurers are **not investing in the technical underpinning needed for business composability,** with their IT budget lagging in many regards. While they are increasing their investments in many technologies, some — such as AI and distributed cloud — are lagging.

Source: Gartner 2021

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An Information Technology Benchmark was independently performed by Gartner for MPI (3rd benchmark in a series spanning 3 fiscal years)

The objectives of the IT benchmark are to:

- Establish a baseline of IT spending and staffing based on 2020/21 fiscal year data
- Compare IT spending and staffing levels with insurance industry peers
- Communicate the level of maturity of key IT domains within MPI relative to peers
- Identify the variances for areas that may have a potential for optimization
- Create a foundation for a continual change/ improvement program

Assumptions:

- This is the third iteration in a series of benchmarks that will provide year over year comparisons
- The benchmark uses an updated methodology for the analysis of spending and staffing and IT maturity, and comparisons with the previous benchmarks are limited to common metrics

Successful Outcome:

The benchmarking report provides a fact-based assessment for communicating IT performance within MPI and contributes to informing future budget, staffing and investment decisions.

For the Information Technology Benchmark, MPI's current state was informed through three different workstreams

Work Streams

Spending and Staffing Benchmark

- Peer groups were selected based characteristics such as industry, size and geography.
- Enterprise-level benchmarks for IT spending and staffing were developed using 2019/2020 fiscal year data provided by MPI.
- Comparisons were made to the averages, 25th, and 75th percentiles of the peer group and MPI's previous year levels, where applicable.

IT Service Management Process Review (out of scope for this iteration)

- Evaluated IT domains include: Strategy & Execution, Applications, Data & Analytics, Enterprise Architecture, Infrastructure & Operations, Security & Risk, Program & Portfolio Management, Sourcing / Procurement, and Vendor Management.
- Service Management Processes were evaluated based on survey results and maturity levels were calculated and compared to peers and MPI's past year maturity level.
- Validation workshops for reviewing the assessment.

Stakeholder Analysis

- An interview was conducted with IT personnel.
- The interview was conducted to build a contextualized view towards MPI's strategy, processes, culture and past initiatives and were not used as part of the maturity assessment.

Benchmarking Approach - The recommendations contained in this report were developed in collaboration with MPI IT Management

Development Process

Benchmarking of IT Spending and Staffing

Spending, Staffing and Workload Data Collection and Analysis

Gartner benchmarking draws upon a deep repository of IT spending to identify fact-based, optimization opportunities. For MPI, Gartner conducted an analysis of spending, staffing levels and IT workloads, comparing results with peer organizations.

Discovery into the maturity of MPI's IT Service Management Processes

IT Score Surveys

Gartner IT Score Surveys assess specific IT domains, by evaluating best practice activities performed in each function, and assigning a maturity level based on responses.

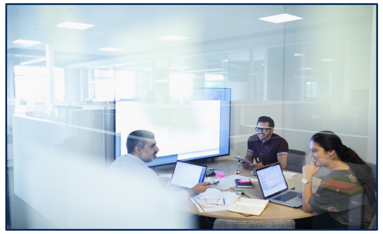
The IT Service Management Process Assessment was out of scope for this benchmark iteration.

Interview with ITBT Management

Interviews with IT Management

Gartner's interview helped understand the context behind MPI's current capabilities, identify business challenges, uncover pain points, and pin-point critical success factors.

Validation of Results with MPI



Workshops with MPI IT Management to Validate Recommendations

Recommendations are based on accurate information, and are actionable, attributable, measurable and prioritized accordingly.

2. Executive Summary

Gartner's Benchmarking Assessment Findings:
MPI is investing significantly in digital transformation, resulting in an overall level of IT spending and staffing that is higher than peers

Spending Levels

MPI's IT spending is higher than peers when project NOVA costs are included

3.1%

Above peer average for IT Spend as a Percent of OPEX

Staffing Levels

MPI's IT staffing levels are above peers when project NOVA staffing is included

6.2%

Above peer average for IT Staff as a Percent of All Staff

Staffing Levels

MPI's IT maturity levels continue to outperform peers in all nine of the IT domains

3.39

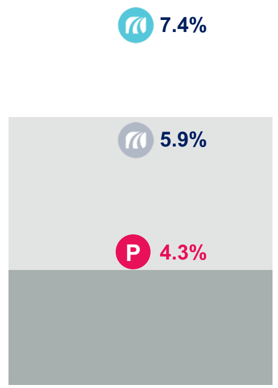
MPI's Maturity Level compared to Peer Average of 2.60

Maturity scores are assessed on a scale from 1-5, with the score of 5 representing Gartner's best practices for the IT domain

Excluding project NOVA investments, MPI's IT spending levels and staffing levels are within a normal range

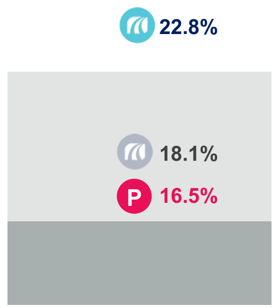
MPI's IT Spending as a percentage of OPEX is higher than the peer average

IT Spending as a Percentage of Total Operating Expense



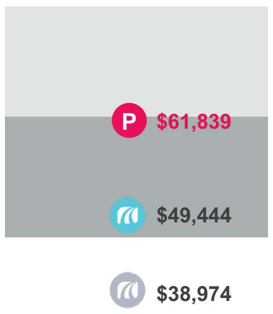
IT Staffing as a percentage of enterprise employees is higher than the peer average

IT Staffing as a Percentage of Enterprise Employees



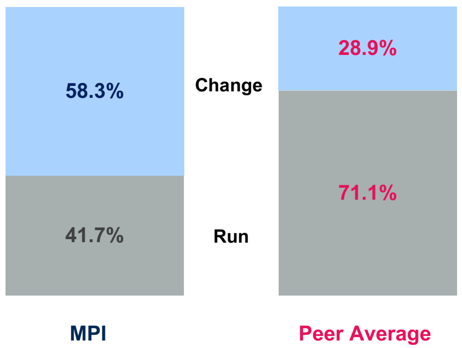
IT Spending per enterprise employee is significantly lower than average and below the 25th percentile of peer organizations if project NOVA is excluded

IT Spending per Enterprise Employee



MPI allocates a significantly larger portion of the IT budget to support changes to meet business demands

Percentage Spending on Run vs Change



MPI (including NOVA) | MPI (w/o NOVA) | P Peer Average | 25th to 50th Percentile | 50th to 75th Percentile

The interview with IT management revealed that MPI continue to deal with COVID-19 challenges while continuing to drive digital modernization

1.

MPI continues to plan for modernization of enterprise applications based on a user / customer centric design (Project NOVA)

2.

Efforts have been made to enable better use of cloud service providers through cloud strategy, cloud standards, vendor agreements and training

3.

MPI has taken steps to centralize IT budget planning and improve agility to dynamically direct funding to address changing business needs

4.

Infrastructure initiatives include procurement of managed services and preparing for the use of cloud infrastructure

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The previous recommendations on MPI's implementation roadmap are listed below:

	Recommendation	Status
1	**Conduct a skills assessment and create a workforce plan to address the new skills required within the IT organization**	**On track** ▪ Training plans for each directorate created and submitted to HR ▪ Cloud skills determine to be an imperative
2	**Ensure IT Financial Management facilitates priorities for investments across products and services and has flexibility to adjust to changing business plans**	**On Track** ▪ IT budget centralized within a single director ▪ Agile business case process enables mid-cycle changes to funding allocation
3	**Increase the scope of delivery of the integration strategy for applications and continue to document the APIs**	**On Track** ▪ Integration CoE established ▪ Contractor engages to lead integration efforts
4	**Integrate third-party risk management into the IT Security Governance, Risk and Compliance (GRC) processes**	**On Track** ▪ Risk policies established ▪ Established recognition of the need to manage third party risk
5	**Formulate a sourcing and vendor management approach for utilizing cloud-service providers**	**On Track** ▪ Market for infrastructure service provide in progress ▪ Training on deal-making with cloud service providers

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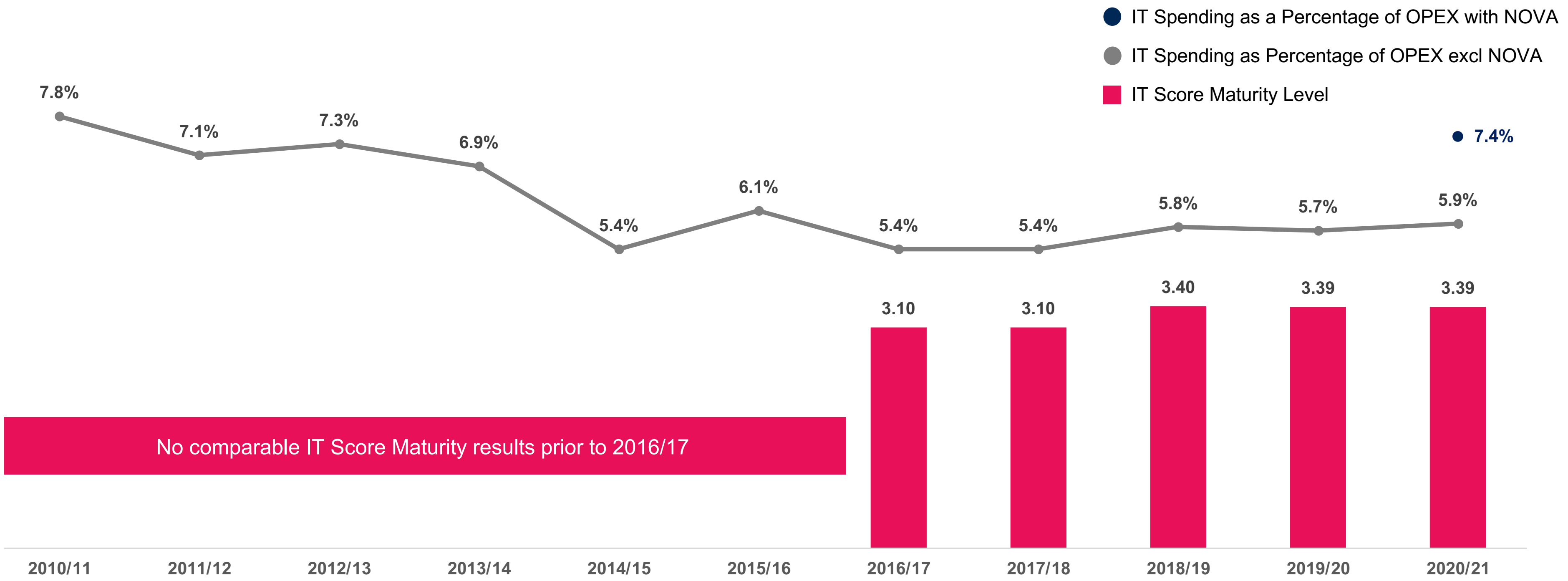
Over recent years, MPI has demonstrated a stable trend of maintaining IT spending as a proportion of total business expenses, while maintaining IT service management maturity levels

IT Spending as a Percentage of Enterprise Operating Expense and IT Score Maturity Levels



Note:
1. 2021/21 Maturity was not assessed – it was assumed to be the same as the previous year's assessment
2. Project NOVA costs were not included in previous IT budget submissions

MPI is in a period of significant change as investments are made in changing the business by implementing new digital platforms

Investments in IT

- MPI's IT spending levels are higher than peers, but are within a typical range of spending excluding investments in digital modernization
- MPI's IT staffing levels are higher than peers, and are within a typical range
- MPI's IT spending per enterprise employee is lower and below the 25th percentile of peers when NOVA project personnel are excluded

Value Delivered

- MPI has entered the build stage for modernization of legacy applications
- MPI has adapted services to changing business requirements, has adopted agile application development processes and implemented product management
- IT service management processes are more mature than peer organizations in every domain
- MPI has reduced IT security and privacy risks

Previous investments in IT have yielded high levels of maturity in IT service delivery and recent investments have positioned MPI well to deliver on its modernization strategy. Gartner considers this to be a good level of progress for the year, especially when considering COVID-19 impacts and has no general concerns. MPI's IT management team continues to execute on continuous improvement initiatives and will consider recommendations provided by Gartner for inclusion in its roadmap.

3. Detailed IT Benchmark Findings

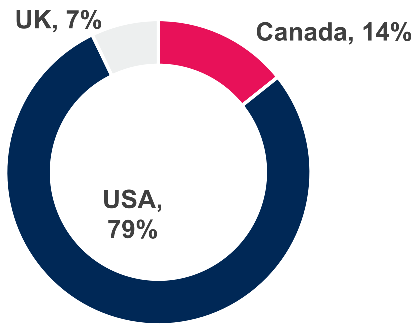
3.1 Spending and Staffing Benchmark Findings

Gartner's Spending and Staffing Benchmark compared MPI with industry peers

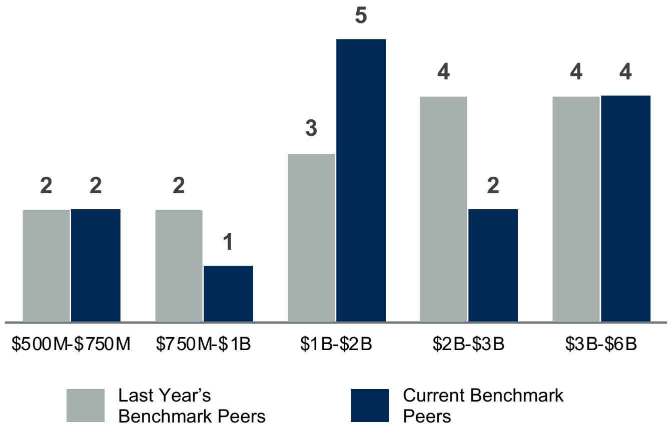
14 Insurance Industry Peers

- Predominately firms which had automotive insurance business lines
- 5 of the same organizations were the same peers from the last year's benchmark
- Firm size range from 550 to 5900 full-time employees
- Benchmark data was taken for 2021

Geographic Profile



Number of Peers by Revenue



Enterprise Metrics

Metric	MPI (2019/20)	Current Peer Average	Last Year's Peer Average
Number of Peers	-	14	15
Total Revenue	$1,559.1 M	$2,303.2 M	$2,346.0 M
Total Operating Expense	$1,196.8 M	$1,979.4 M	$2,130.2 M
Total Number of Employees	1,801	2,106	1909
Total Number of IT Employees (Including Contractors)	410	269	319
Total IT Operating and Capital Expenditure	$89.0 M	$104.5 M	$104.2 M

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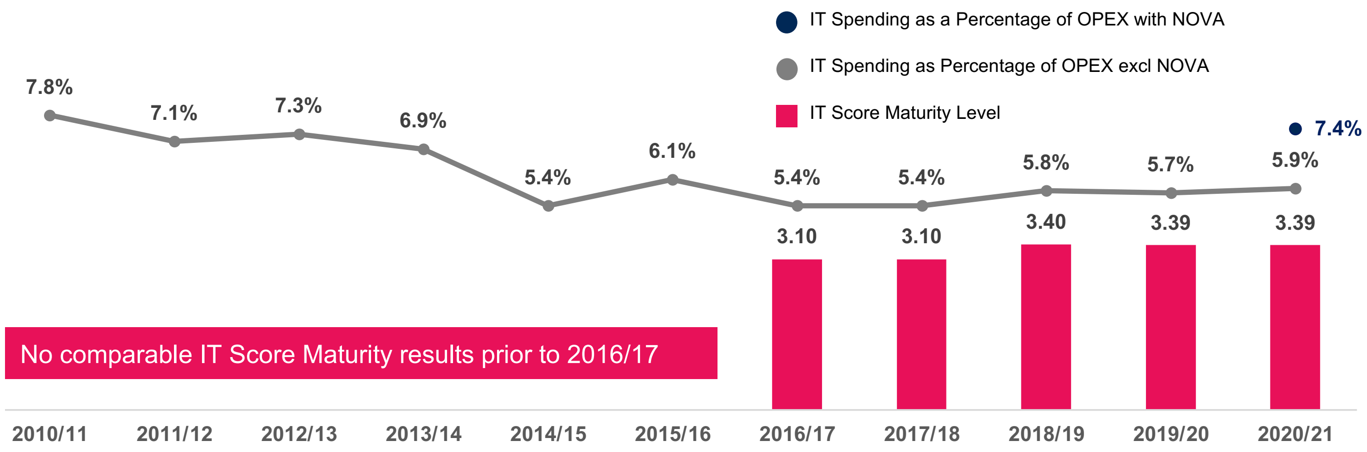
Historical Trend on IT Spending and IT Score Maturity Levels

Over recent years, MPI has demonstrated a stable trend of maintaining IT spending as a proportion of total business expenses, while maintaining IT service management maturity levels

IT Spending as a Percentage of Enterprise Operating Expense and IT Score Maturity Levels



Observations:

- IT spend as a percentage of enterprise operating expense was HIGHER in the current benchmark year compared to the previous year net of NOVA costs (5.9% vs 5.7%)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Operating Expense	$0.94 B	$0.76 B	$1.13 B	$1.23 B	$1.26 B	$1.15 B	$1.37 B	$1.29 B	$1.42 B	$1.35 B	$1.20 B
IT Expense (excl NOVA)	$73.5 M	$54.2 M	$82.3 M	$85.0 M	$68.7 M	$70.7 M	$74.8 M	$69.7M	$82.5 M	$77.4 M	$70.2 M
IT Spending as Percentage of OPEX	7.80%	7.10%	7.30%	6.90%	5.40%	6.10%	5.40%	5.40%	5.80%	5.70%	5.87%
IT Score Maturity Level	-	-	-	-	-	-	3.1	3.1	3.4	3.39	3.39

Note:

1. 2021/21 Maturity was not assessed – it was assumed to be the same as the previous year's assessment
2. Project NOVA costs were not included in previous IT budget submissions

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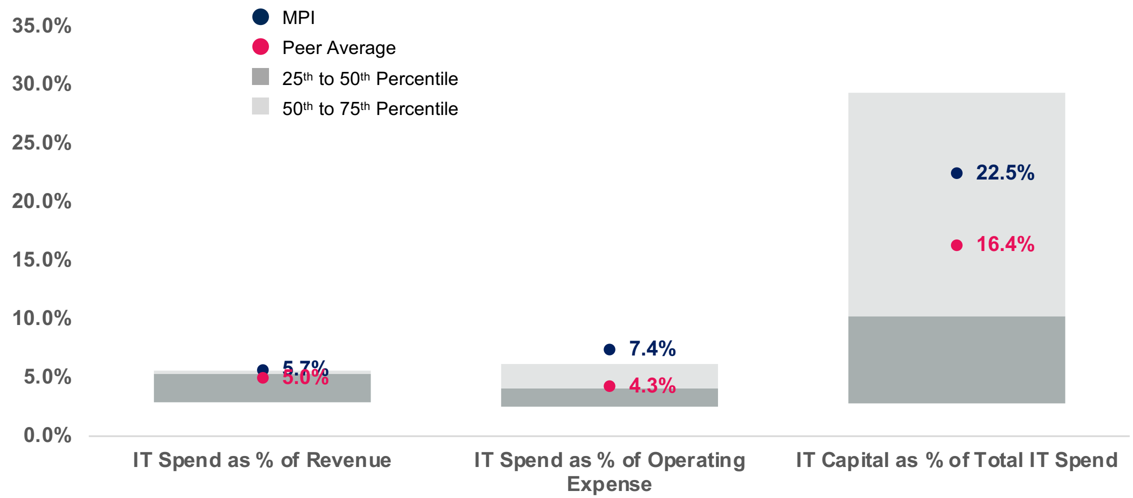
IT Spending and IT Budget Allocation

MPI's IT spending allocation as a percentage of the enterprise's operating expenses is higher compared to peers

Enterprise IT Spending Metrics



	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	Peer Average
IT Spend as a % of Revenue	5.20%	5.10%	5.71%	5.03%
IT Spend as % of Operating Cost	5.80%	5.70%	7.44%	4.31%
IT Capital as % of Total IT Spend	28.10%	21.80%	22.51%	16.37%

Observations:

- Project NOVA costs are included in MPI spending metrics
- MPI's IT spend as a percentage of the Enterprise's total operating expenses is higher compared to peer average (MPI: 7.4% vs 4.3%)
- MPI's allocation to IT capital was higher than the peer average (MPI: 22.5% vs 16.4%).
- MPI's IT Spend as a percentage of revenue is higher than peers (this metric is less relevant since MPI does not have a focus on maximizing profit)

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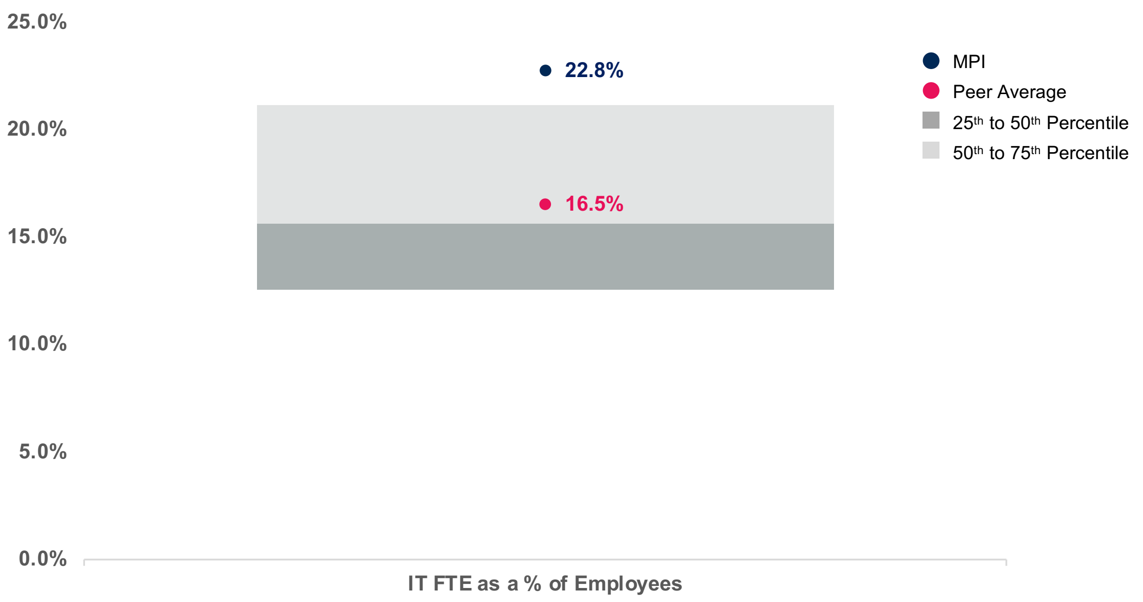
IT Staffing per Employee

MPI has a lower number of IT employees as a percentage of total employees relative to peers

IT Staffing as a Percentage of Organizational Employees



	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	Peer Average
IT FTEs as a % of Employees	18.4%	18.4%	22.8%	16.5%

Observations:

- Project NOVA staffing is included in MPI staffing metrics
- MPI has a higher percentage (MPI: 22.8% vs 16.5%) of IT employees as a percent of organizational employees relative to the peer average

Gartner

IT Spending per Employee

MPI has a significantly lower IT cost per organizational employee relative to peers

IT Spending per Employee

	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	Peer Average
Spending per Employee	$46,613	$40,946	$38,974	$61,839

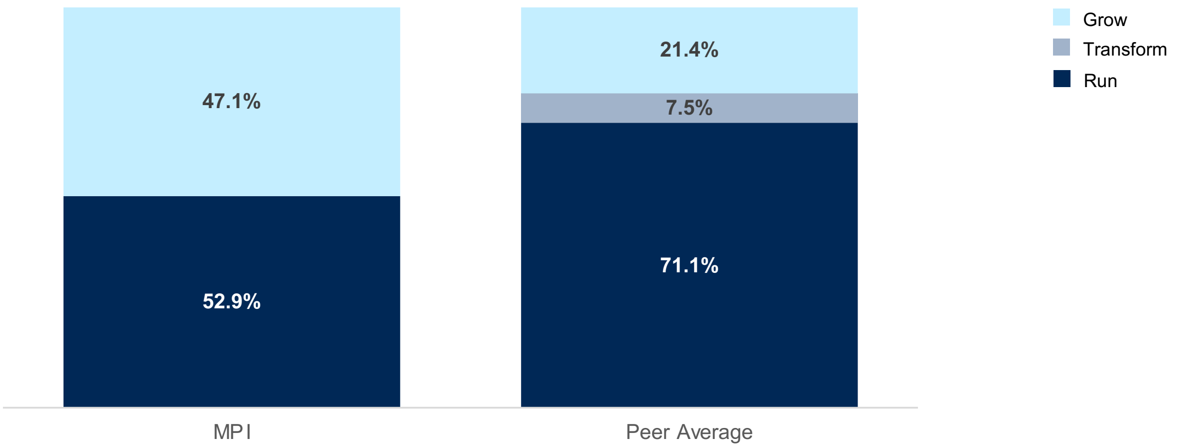
Observations:

- Project NOVA costs are included in MPI spending metrics
- MPI's IT spend per organizational employee is lower than the peer average (MPI: $49,444 vs $61,839) and between the 25th and 50th percentile of peers

‘Run’ vs ‘Change’ Spending Distribution

ITBT allocates less to ‘Running’ IT compared to peers and more budget to changing IT

Run, Grow & Transform Spending



Spending Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	Peer Average
Run	57.0%	64.7%	52.9%	71.1%
Change (Grow + Transform)	43.0%	35.3%	47.1%	28.9%

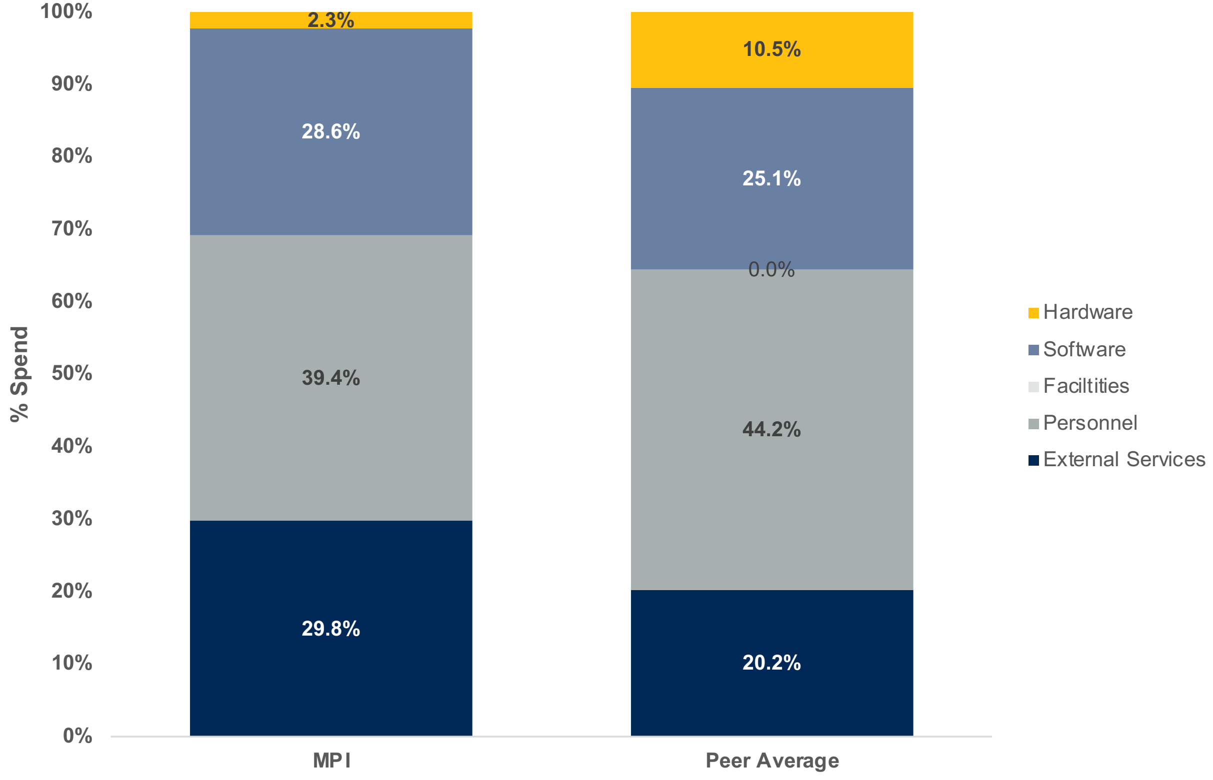
Observations:

- Project NOVA costs are included in MPI spending metrics (categorized as 100% allocation towards transforming the business)
- MPI’s IT spending allocation to ‘Change’ initiatives (i.e. Grow) is higher than the peer average (MPI: 47.1% vs 28.9%)

Asset Category Spending Distribution – High Level View

MPI's allocation of spending is higher for external services and software, but lower for hardware and personnel compared to peers

IT Spending by Asset Categories



Observations:

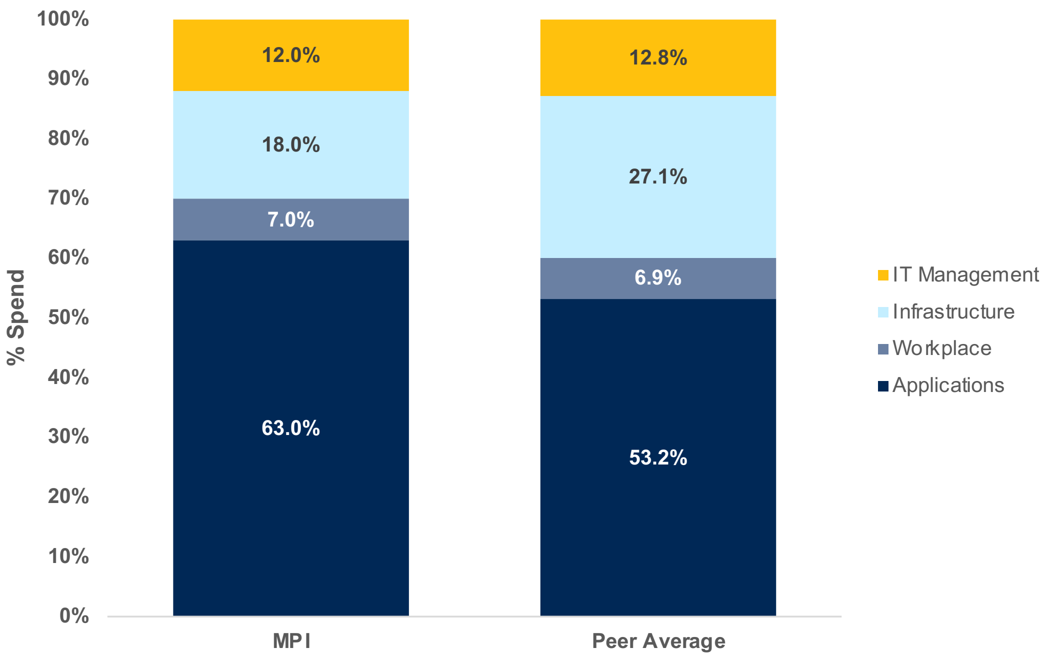
- Project NOVA costs are included in MPI spending metrics
- MPI's spending allocation to Personnel is lower relative to the peer average (MPI: 39.4% vs 44.2%).
- MPI's spending allocation to Hardware is lower relative to the peer average (MPI: 2.34% vs 10.5%).
- MPI's spending allocation to Software is higher relative to peer average (MPI: 28.6% vs 25.1%).
- MPI's spending allocation for external services is higher relative to peer average (MPI: 29.8% vs 20.2%)

Spending Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	Peer Average
Hardware	6.2%	6.4%	2.3%	10.5%
Software	17.0%	19.7%	28.6%	25.1%
Facilities	0.0%	0.0%	0.0%	0.0%
Personnel	53.9%	52.4%	39.4%	44.2%
External Services	22.8%	21.5%	29.8%	20.2%

IT Functional Spending Distribution – High Level View

MPI's allocation of spending is lower for IT Management and infrastructure, but higher for Applications and Workplace compared to peers

IT Spending by Functional Group



Observations:

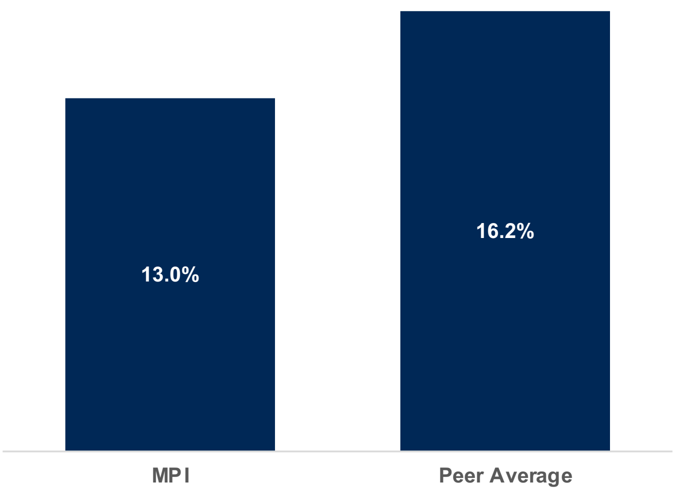
- Project NOVA costs are included in MPI spending metrics
- MPI's spending allocation to Applications is higher relative to the peer average (MPI: 63% vs 53.2%)
- MPI's spending allocation to Infrastructure is lower relative to the peer average (MPI: 18% vs 27.1%)
- MPI's spending allocation Workplace is slightly higher relative to the peer average (MPI: 7% vs 6.9%)
- MPI's spending allocation to IT Management is lower relative to the peer average (MPI: 12.0% vs 12.8%)

Spending Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	Peer Average
Infrastructure	27.1%	25.3%	18.0%	27.1%
Workplace	6.6%	7.8%	7.0%	6.9%
Applications	51.0%	52.9%	63.0%	53.2%
IT Management	15.2%	14.0%	12.0%	12.0%

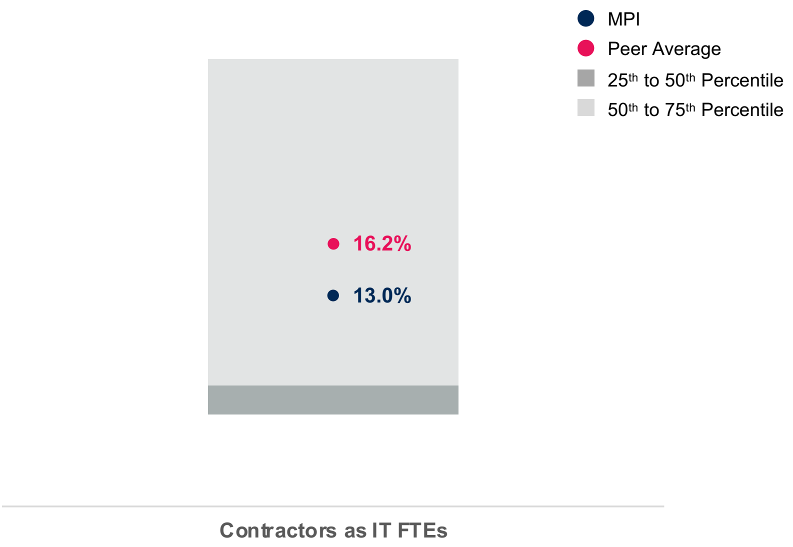
IT Staffing Distribution – Use of Contractors

MPI has a lower percentage use of contractors as part of IT staff compared to peers

Contractors as IT FTEs



Distribution of Contractors as IT FTEs



Observations:

- Project NOVA staffing is included in MPI spending metrics
- MPI uses a lower percentage of contractors as part of IT staff relative to the peer average (MPI: 13% vs 16.2)

Staff Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	Peer Average
IT Employees which are Contractors	24.9%	17.6%	13.0%	16.2%

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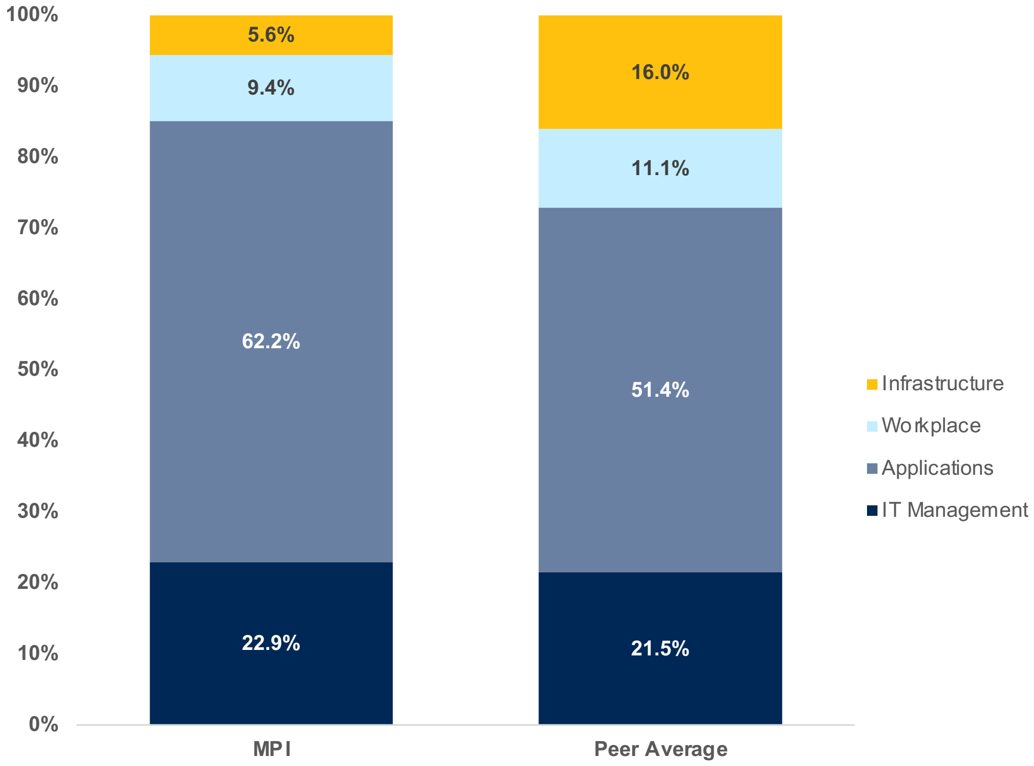
IT Staff Distribution – Functional View

MPI's allocation of staffing for Applications is higher compared to peers and is lower in all other functional areas, reflecting the legacy modernization initiatives

IT Staffing by Functional Group



Observations:

- Project NOVA staffing is included in MPI staffing metrics
- MPI's staffing distribution for Infrastructure is lower than the peer average (MPI: 5.6% vs 16%)
- MPI's staffing distribution for Workplace is lower than the peer average (MPI: 9.4% vs 11.1%)
- MPI's staffing distribution for Applications is higher than the peer average (MPI: 62.2% vs 51.4%)
- MPI's staffing distribution for IT Management is higher than the peer average (MPI: 22.9 vs 21.5%)

Staffing Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	Peer Average
Infrastructure	6.2%	7.0%	5.6%	16.0%
Workplace	9.8%	10.6%	9.4%	11.1%
Applications	59.8%	61.5%	62.2%	51.4%
IT Management	24.2%	20.9%	22.9%	21.5%

Asset Category Spending Distribution – Detailed View

IT Spending – Percentage Spending by Asset Category

Observations:

- Project NOVA costs are included in MPI spending metrics
- MPI's spend allocation for on premises software spending is similar to peers
- MPI's spend allocation of Other External Services is higher relative to the peer average and is mainly attributed to the outsourcing service contracts
- MPI's spending allocation to Personnel is lower than the peer average

Group	Spending Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	Peer Average
Hardware	Hardware	6.20%	6.40%	2.25%	10.45%
Software	Software	10.30%	12.40%	17.25%	17.29%
	SaaS	6.80%	7.30%	11.34%	7.84%
Facilities	Facilities / Occupancy	0.00%	0.00%	0.00%	0.00%
Personnel	Personnel	53.90%	52.40%	39.37%	39.37%
External Services	IaaS and Public Cloud Services	0.00%	0.00%	27.40%	27.40%
	Network Transport	2.60%	2.60%	2.39%	2.39%
	Other External Services	20.20%	18.90%	0.00%	0.00%

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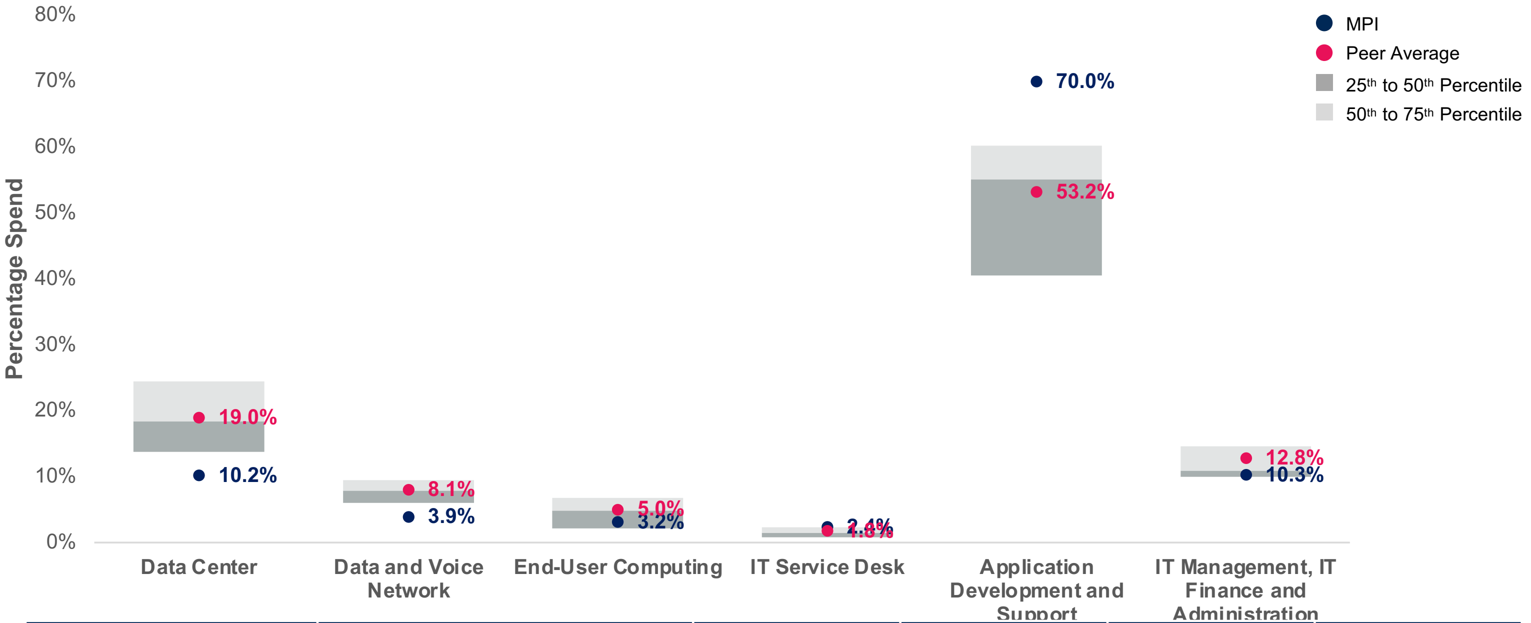
IT Functional Spending Distribution – Detailed View

IT Spending – Percentage Spending by Functional Category



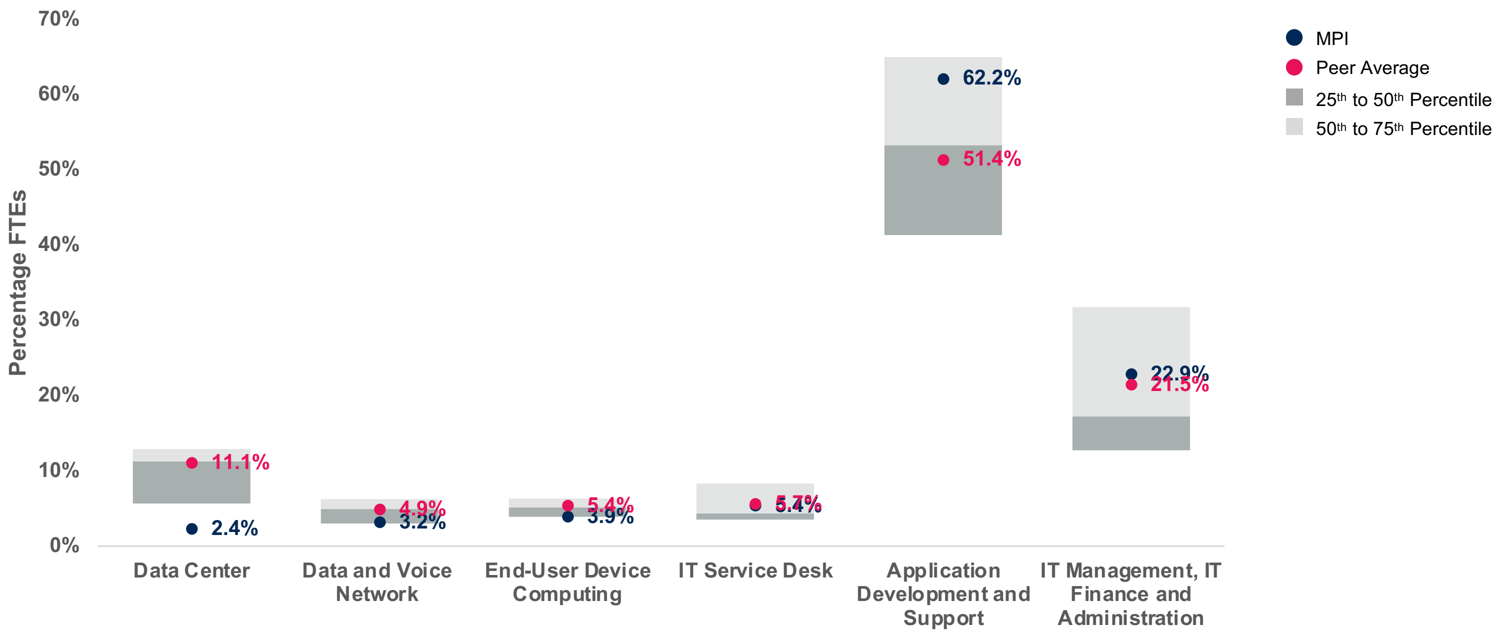
Observations:

- Project NOVA costs are included in MPI spending metrics
- MPI's spending allocation to the Applications Development and Support is higher than the peer average (MPI: 70.0% vs 53.2%)

Group	Spend Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	Peer Average
Infrastructure	Data Center	18.70%	17.80%	10.25%	5.04%
	Data and Voice Network	8.50%	7.50%	3.94%	12.85%
Workplace	End-User Device & Print Management	4.90%	5.60%	3.15%	6.30%
	IT Service Desk	1.70%	2.20%	2.36%	8.06%
Applications	Application Development and Support	51.00%	52.90%	69.99%	45.30%
IT Management	IT Management, IT Finance and Administration	15.20%	14.00%	10.31%	29.73%

IT Staff Distribution – Detailed View

IT Staffing Distribution – Percentage of FTEs by Functional Category



Observations:

- Project NOVA staffing is included in MPI staffing metrics
- MPI's allocation to Applications Development and Support is higher than the peer average (MPI: 62.2% vs 51.4%); this is within the 75th percentile of peers.
- MPI's lower staffing distribution in the Infrastructure category is mainly attributed to lower allocation to Data Center personnel relative to peers (MPI: 2.4% vs 11.1%).

Group	Staffing Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	Peer Average
Infrastructure	Data Center	2.50%	3.30%	2.36%	11.11%
	Data and Voice Network	3.70%	3.70%	3.21%	4.92%
Workplace	End-User Device Computing	4.90%	4.90%	3.94%	5.44%
	IT Service Desk	4.90%	5.70%	5.41%	5.66%
Applications	Application Development and Support	59.80%	61.50%	62.15%	51.39%
IT Management	IT Management, IT Finance and Administration	24.20%	20.90%	22.92%	21.48%

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4. Appendix

Stakeholder Interviewees

Name	Title / Role	E-mail Address
Chad Muir	Director, Sourcing and Vendor Management	cmuir@mpi.mb.ca

Glossary

- **Run:** IT resource which are consumed and focused on the continuing operation of the business
- **Grow:** IT Resources consumed and focused on developing and enhancing IT systems in support of business growth (typically organic growth or improvements in known business processes)
- **Transform:** IT resources consumed and focused on implementing information and technology systems that enable the enterprise to enter new markets, address new customer segments, create new value propositions and enact new business models

Relevant Gartner Research

- 2022 CIO and Technology Executive Agenda: An Insurance Perspective - ID G00757770

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Manitoba Public Insurance
Information Technology
Benchmark
(FY2021/22)
Validation Report
May 5th 2023
MANITOBA
PUBLIC INSURANCE
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Summary of the Gartner Benchmarks performed to date

Year	Fiscal Time Period for Analysis	Financial Analysis	Maturity Assessment	Benchmark Delivery Timeline
FY 2018/19	Mar 1 2018 - Feb 28 2019	Yes	Yes	delivered July 9th 2020
FY 2019/20	Mar 1 2019 - Mar 31 2020	Yes	Yes	delivered July 4th 2021
FY 2020/21	Apr 1 2020 - Mar 31 2021	Yes	No (scores were carried forward from prior FY)	Originally planned to deliver Feb - Apr 2022 Updated plan to deliver Apr - Jul 2022
FY 2021/22	Apr 1 2021 - Mar 31 2022	Yes	Yes	Originally planned to deliver Jun - Aug 2022 Updated plan to deliver Dec 2022 – May 2023

Gartner

Levels of investment in IT must be in balance with value derived by the business: There is a cost to maturing IT Service Management Processes

Investments in IT

- IT Personnel
- Contractors
- Hardware
- Software
- Facilities
- Managed Services

Value Delivered

- Mature IT Service Management Processes
- Satisfied business stakeholders and end users
- Reduced risk
- Progress towards business outcomes
- Profitability *
  (Applicable for commercial peers; not for MPI)

**Since MPI is a Crown Corporation, it does not aim to maximize profitability; thus profitability may be a less applicable measure of value delivered*

**Within the current and previous benchmark peer groups, a trend was found that higher levels of profitability are typically achieved for firms with higher levels of IT Spending per employee*

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An Information Technology Benchmark was independently performed by Gartner for MPI (4th benchmark in a series spanning 4 fiscal years)

The objectives of the IT benchmark are to:

- Establish a baseline of IT spending and staffing based on 2021/2022 fiscal year data
- Compare IT spending and staffing levels with insurance industry peers
- Communicate the level of maturity of key IT domains within MPI relative to peers
- Identify the variances for areas that may have a potential for optimization
- Create a foundation for a continual change/ improvement program

Assumptions:

- This is the second iteration in a series of benchmarks that will provide year over year comparisons
- The benchmark uses an updated methodology for the analysis of spending and staffing and IT maturity, and comparisons with the previous benchmarks are limited to common metrics

Successful Outcome:

The benchmarking report provides a fact-based assessment for communicating IT performance within MPI and contributes to informing future budget, staffing and investment decisions.

For the Information Technology Benchmark, MPI's current state was informed through three different workstreams

Work Streams

Spending and Staffing Benchmark

- Peer groups were selected based characteristics such as industry, size and geography.
- Enterprise-level benchmarks for IT spending and staffing were developed using financial data provided by MPI.
- Comparisons were made to the averages, 25th, and 75th percentiles of the peer group and MPI's previous year levels, where applicable.

IT Service Management Process Review

- Evaluated IT domains include: Strategy & Execution, Applications, Data & Analytics, Enterprise Architecture, Infrastructure & Operations, Security & Risk, Program & Portfolio Management, Sourcing / Procurement, and Vendor Management.
- Service Management Processes were evaluated based on survey results and maturity levels were calculated and compared to peers and MPI's past year maturity level.
- Validation workshops for reviewing the assessment.

Stakeholder Analysis

- A document review and 6+ interviews were conducted with key IT personnel.
- The interviews were conducted to build a contextualized view towards MPI's strategy, processes, culture and past initiatives.

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Benchmarking Approach - The recommendations contained in this report were developed in collaboration with MPI IT Management

Development Process

Benchmarking of IT Spending and Staffing

Discovery into the maturity of MPI's IT Service Management Processes

Interviews with ITBT Management

Validation of Results with MPI

Spending, Staffing and Workload Data Collection and Analysis

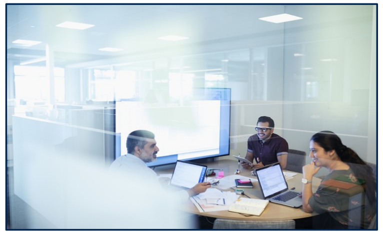
Gartner benchmarking draws upon a deep repository of IT spending to identify fact-based, optimization opportunities. For MPI, Gartner conducted an analysis of spending, staffing levels and IT workloads, comparing results with peer organizations.

IT Score Surveys

Gartner IT Score Surveys assess specific IT domains, by evaluating best practice activities performed in each function, and assigning a maturity level based on responses. For MPI, Gartner assessed the maturity of MPI's IT Service Management processes through IT Score Surveys.

Interviews with IT Management

Gartner's interviews helped understand the context behind MPI's current capabilities, identify business challenges, uncover pain points, and pin-point critical success factors.



Workshops with MPI IT Management to Validate Recommendations

Recommendations are based on accurate information, and are actionable, attributable, measurable and prioritized accordingly.

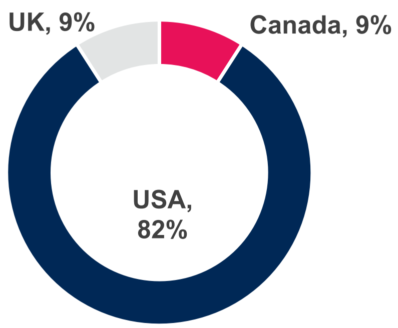
Gartner

Gartner's Spending and Staffing Benchmark compared MPI with industry peers

11 Insurance Industry Peers

- Predominately firms which had automotive insurance business lines
- 11 of the same organizations were the same peers from the last year's benchmark
- Firm size ranges from 531 to 9586 full-time employees
- Benchmark data is from 2021 and 2022

Geographic Profile



Enterprise Metrics

Metric	MPI 2021/22	Current Peer Average	Last Year's Peer Average
Number of Peers	-	11	14
Total Revenue	$1,442.9 M	$2,558.4 M	$2,303.2 M
Total Operating Expense	$1,344.6 M	$2,666.2 M	$1,979.4 M
Total Number of Employees	1,879	2,418	2,106
Total Number of IT Employees (Including Contractors)	526	304	269
Total IT Operating and Capital Expenditure	$138.5 M	$118.7 M	$104.5 M

Gartner

Gartner's Benchmarking Assessment Findings:
MPI is investing significantly in digital transformation, resulting in an overall level of IT spending and staffing that is higher than peers

Spending Levels

MPI's IT spending is higher than peers when project NOVA costs are included

5.2%

Above peer average for IT Spend as a Percent of OPEX

Staffing Levels

MPI's IT staffing levels are above peers when project NOVA staffing is included

10.8%

Above peer average for IT Staff as a Percent of All Staff

Staffing Levels

MPI's IT maturity levels continue to outperform peers in seven of the IT domains

2.93

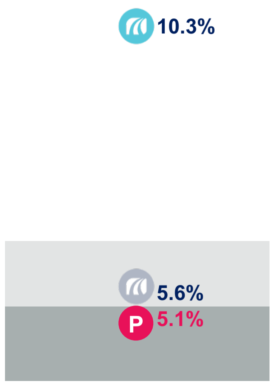
MPI's Maturity Level compared to Peer Average of 2.54

Maturity scores are assessed on a scale from 1-5, with the score of 5 representing Gartner's best practices for the IT domain

MPIs spending on IT is significantly higher than peers but similar when project NOVA investments are excluded

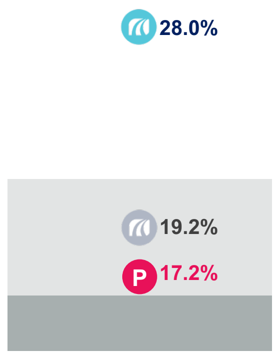
MPI's IT Spending as a percentage of OPEX is significantly higher than the peer average

IT Spending as a Percentage of Total Operating Expense



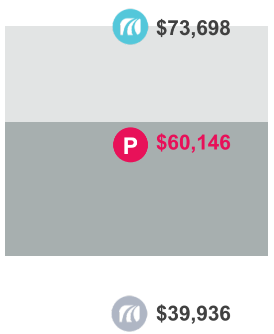
IT Staffing as a percentage of enterprise employees is significantly higher than the peer average

IT Staffing as a Percentage of Enterprise Employees



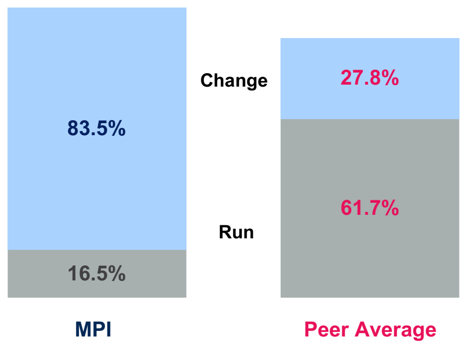
IT Spending per enterprise employee is significantly lower than average and below the 25th percentile of peer organizations if project NOVA is excluded

IT Spending per Enterprise Employee



MPI allocates a significantly larger portion of the IT budget to support changes to meet business demands

Percentage Spending on Run vs Change



MPI (including NOVA) | MPI (w/o NOVA) | P Peer Average | 25th to 50th Percentile | 50th to 75th Percentile

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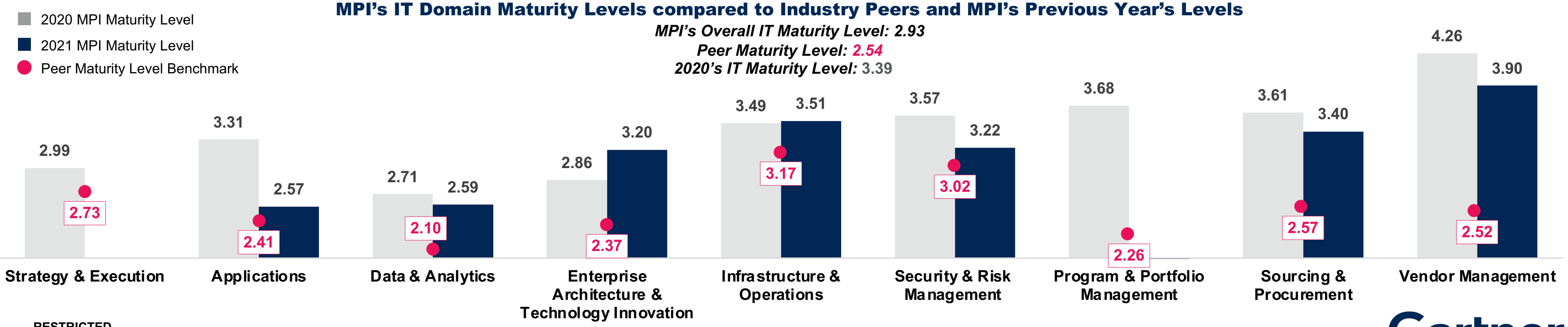
IT investments have yielded highly mature IT service management processes, which position MPI well to address changing business demands. New baselines have been established in areas which can be linked to continuous improvement initiatives.

Strategy and Execution is in the process of being assessed, and executive leadership changes have provided new directives within ***Enterprise Architecture***

A new baseline has been established for ***Applications*** delivery with a transparent assessment of the adoption of agile development

Enterprise Architecture has seen significant improvements while the baseline for ***Security and Risk Management*** has been reset

MPI are currently in the process of re-baselining capabilities in ***Program Portfolio Management***



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Note: Year-over-year maturity changes may be attributed to:
1. *Change in the levels of MPI's IT Service Delivery*
2. *Evolving criteria required to meet a level of maturity defined by Gartner*

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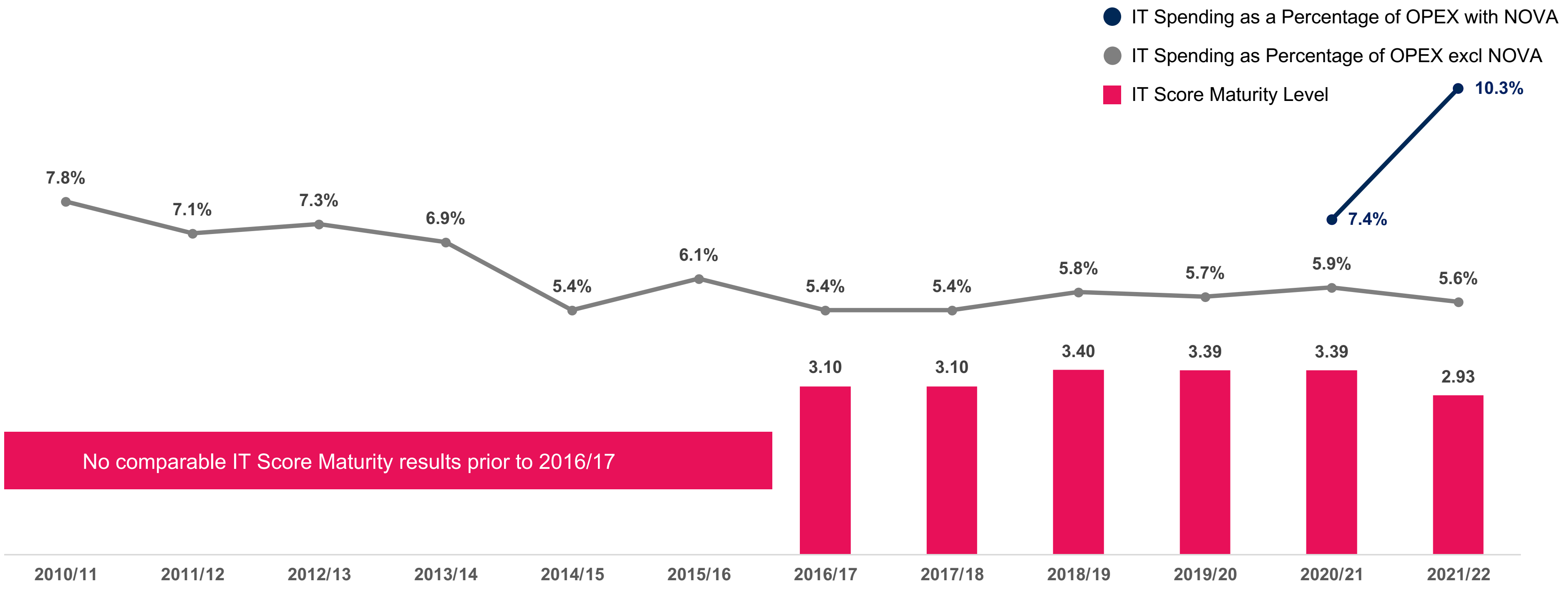
Maturity scores are assessed on a scale from 1-5, with the score of 5 representing Gartner's best practices for the IT domain

Over recent years, MPI has demonstrated a stable trend of maintaining IT spending as a proportion of total business expenses, while focusing on IT management best practices

IT Spending as a Percentage of Enterprise Operating Expense and IT Score Maturity Levels



Note:
1. 2021/21 Maturity was not assessed – it was assumed to be the same as the previous year's assessment
2. Project NOVA costs were not included in IT budget submissions prior to 2020/21


Manitoba Public Insurance Information Technology Benchmark (FY2021/22)
Findings and Recommendations Report
Final Version
13 June 2023
MANITOBA PUBLIC INSURANCE
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Table of Contents

1. Introduction

Purpose of this Report

- This report contains the findings and recommendations resulting from the analysis conducted as part of the Gartner/ Manitoba Public Insurance (MPI) Annual IT Benchmark for FY 2021/22
- The report contains an executive summary of the findings and recommendations, substantiation of the findings, and details to implement the recommendations
- A summary of the benchmarks completed to date is provided below:

Year	Fiscal Time Period for Analysis	Financial Analysis	Maturity Assessment	Benchmark Delivery Timeline
FY 2018/19	Mar 1 2018 - Feb 28 2019	Yes	Yes	Delivered July 9th 2020
FY 2019/20	Mar 1 2019 - Mar 31 2020	Yes	Yes	Delivered July 4th 2021
FY 2020/21	Apr 1 2020 - Mar 31 2021	Yes	No (scores were carried forward from prior FY)	Delivered Jul 22nd 2022
FY 2021/22	**Apr 1 2021 - Mar 31 2022**	**Yes**	**Yes**	**Delivered May 2023**

Considerations for Project Nova

- During the prior year analysis (FY2020/21), the scope of the benchmark was expanded to show the impact of Project Nova on aggregate spending
- While Project Nova spend appears in this benchmark report (FY2021/22), this report's purpose is to benchmark MPI aggregate spend and staffing levels relative to peers
- Gartner acknowledges the materiality of Project Nova for MPI, and the attention the program has received, however, comparisons to peer organizations' projects cannot be made without consideration of the scope, schedule, and budget of Project Nova
- This report does not provide an evaluation of Project Nova spend efficiency or effectiveness dimensions

Benchmarking Approach - The recommendations contained in this report were developed in collaboration with MPI IT Management

Development Process

Benchmarking of IT Spending and Staffing

Discovery into the Maturity of MPI's IT Service Management Processes

Interviews with ITBT Management

Validation of Results with MPI

Spending, Staffing and Workload Data Collection and Analysis

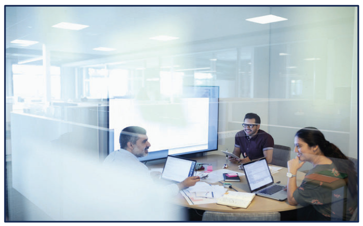
Gartner benchmarking draws upon a deep repository of IT spending to identify fact-based, optimization opportunities. For MPI, Gartner conducted an analysis of spending, staffing levels and IT workloads, comparing results with peer organizations.

IT Score Surveys

Gartner IT Score Surveys assess specific IT domains, by evaluating best practice activities performed in each function, and assigning a maturity level based on responses. For MPI, Gartner assessed the maturity of MPI's IT Service Management processes through IT Score Surveys.

Interviews with IT Management

Gartner's interviews helped understand the context behind MPI's current capabilities, identify business challenges, uncover pain points, and pin-point critical success factors.



Workshops with MPI IT Management to Validate Recommendations

Recommendations are based on accurate information, and are actionable, attributable, measurable, and prioritized accordingly.

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2. Executive Summary

An Information Technology Benchmark was independently performed by Gartner for MPI

The objectives of the IT benchmark are to:

- Establish a baseline of IT spending and staffing based on 2021/22 fiscal year data
- Compare IT spending and staffing levels with insurance industry peers
- Communicate the level of maturity of key IT domains within MPI relative to peers
- Identify the variances for areas that may have a potential for optimization
- Create a foundation for a continual change/improvement program

Assumptions:

- This is the 4th iteration in a series of benchmarks that provides year-over-year comparisons

Successful Outcome:

The benchmarking report provides a fact-based assessment for communicating IT performance within MPI and contributes to informing future budget, staffing and investment decisions

Gartner's view of MPI's current state was informed by three distinct workstreams

Workstreams

Spending and Staffing Benchmark

- Peer groups were selected based on characteristics such as industry, size, and geography
- Enterprise-level benchmarks for IT spending and staffing were developed using 2021/22 fiscal year data provided by MPI
- Comparisons were made to the averages, 25th, and 75th percentiles of the peer group and MPI's previous year levels, where applicable

IT Service Management Process Review

- IT domains included: Strategy & Execution, Applications, Data & Analytics, Enterprise Architecture, Infrastructure & Operations, Security & Risk, Program & Portfolio Management, Sourcing/Procurement, and Vendor Management
- Service Management Processes were evaluated based on survey results and maturity levels were calculated and compared to peers and MPI's past year maturity level
- Validation workshops for reviewing the assessment

Stakeholder Analysis

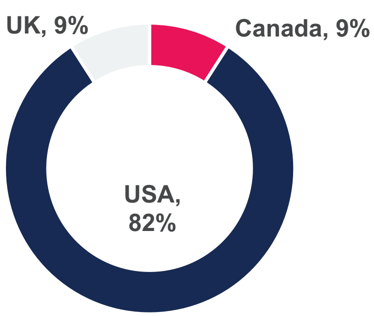
- A document review and 6+ interviews were conducted with key IT personnel
- The interviews were conducted to build a contextualized view towards MPI's strategy, processes, culture, and past initiatives and were not used as part of the maturity assessment

Gartner's Spending and Staffing Benchmark compared MPI with industry peers

11 Insurance Industry Peers

- Predominately firms which had automotive insurance business lines
- 11 of the same organizations were the same peers from the last year's benchmark
- Firm size range from 531 to 9,586 full-time employees
- Benchmark data is from 2021 and 2022

Geographic Profile



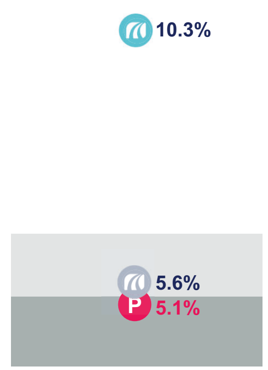
Enterprise Metrics

Metric	MPI 2021/22	Current Peer Average	Last Year's Peer Average
Number of Peers	-	11	14
Total Revenue	$1,442.9 M	$2,558.4 M	$2,303.2 M
Total Operating Expense	$1,344.6 M	$2,666.2 M	$1,979.4 M
Total Number of Employees	1,879	2,418	2,106
Total Number of IT Employees (Including Contractors)	526	304	269
Total IT Operating and Capital Expenditure	$138.5 M	$118.7 M	$104.5 M

MPIs IT spending and staffing is within a normal range net of Project Nova costs[1]

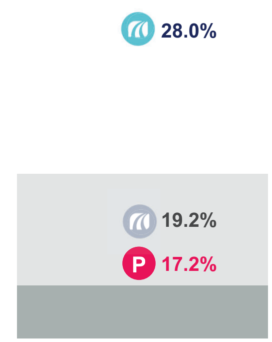
MPI's IT Spending as a percentage of OPEX is within a normal range net of Project Nova costs

IT Spending as a Percentage of Total Operating Expense



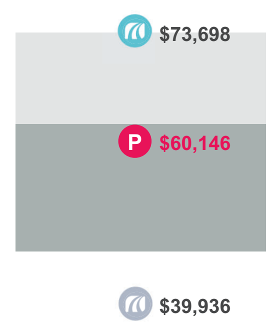
IT Staffing as a percentage of enterprise employees is within a normal range net of Project Nova headcount

IT Staffing as a Percentage of Enterprise Employees



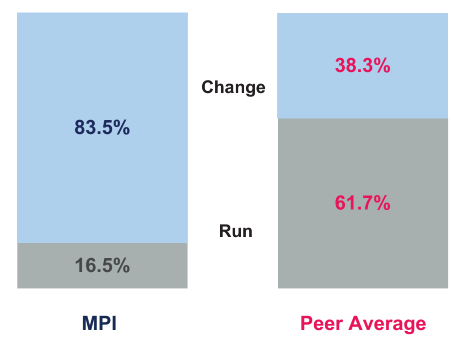
IT Spending per enterprise employee is significantly lower than average net of Project Nova costs

IT Spending per Enterprise Employee



MPI allocates a significantly larger portion of the IT budget to support changes to meet business demands, reflecting the investments in Project Nova

Percentage Spending on Run vs Change



MPI (including Nova) | MPI (w/o Nova) | P Peer Average | 25th to 50th Percentile | 50th to 75th Percentile

1. Refer to page 5 for details on the handling of Project Nova in this analysis

Levels of investment in IT must be in balance with value derived by the business: There is a cost to maturing IT Service Management Processes

Investments in IT

- IT Personnel
- Contractors
- Hardware
- Software
- Facilities
- Managed Services

Value Delivered

- Mature IT Service Management Processes
- Satisfied business stakeholders and end users
- Reduced risk
- Progress towards business outcomes
- Profitability *
  (Applicable for commercial peers; not for MPI)

**Since MPI is a Crown Corporation, it does not aim to maximize profitability; thus profitability may be a less applicable measure of value delivered*

**Within the current and previous benchmark peer groups, a trend was found that higher levels of profitability are typically achieved for firms with higher levels of IT Spending per employee*

IT investments have yielded mature IT service management processes, which position MPI well to address changing business demands. New baselines have been established in 7 of 9 areas.

Strategy and Execution **is being formalized, and executive leadership changes have provided new directives within** ***Enterprise Architecture***

Applications **has seen a complete reorganization and a true adoption of agile development**

Enterprise Architecture **has seen significant improvement, with efforts to align technical roadmaps to business requirements**

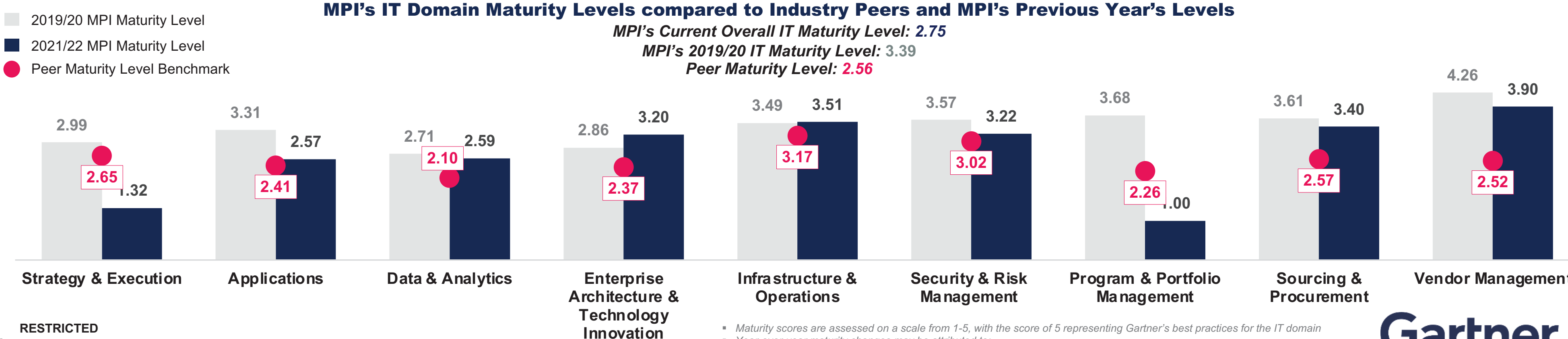
MPI is currently in the process of significantly re-baselining capabilities in ***Program Portfolio Management***

MPI's IT Domain Maturity Levels compared to Industry Peers and MPI's Previous Year's Levels

MPI's Current Overall IT Maturity Level: ***2.75***

MPI's 2019/20 IT Maturity Level: *3.39*

Peer Maturity Level: ***2.56***



- *Maturity scores are assessed on a scale from 1-5, with the score of 5 representing Gartner's best practices for the IT domain*
- *Year-over-year maturity changes may be attributed to:*
  - *Change in the levels of MPI's IT Service Delivery*
  - *Evolving criteria required to meet a level of maturity defined by Gartner*

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IT has reset the baseline measurement of its service delivery capabilities and built roadmaps to address gaps

1.

Roadmaps have been created in each domain based on re-baselined capabilities

2.

MPI continues to plan for modernization of enterprise applications based on a user/ customer centric design (Project Nova)

3.

Transformation is led by a chief transformation officer, portfolio managers have been appointed, but Project and Portfolio Management capabilities do not exist

4.

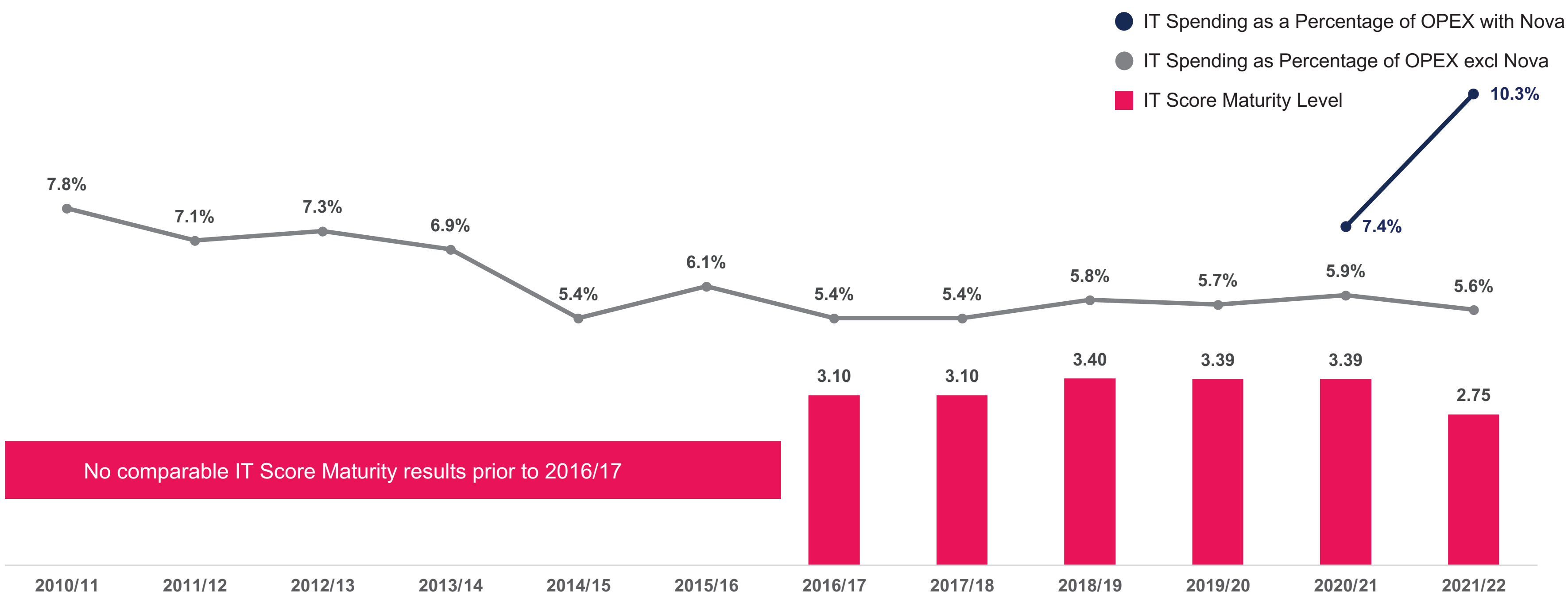
The IT operating model has been redefined to include guiding principles, standards, and metrics

The new recommendations for MPI's implementation roadmap are listed below:

1. Develop a complete view of MPI's project portfolio, supported by centralized governance and documented PPM processes and standards
2. Map initiatives and processes to measurable business impacts, prioritizing efforts based on an organizational strategy
3. Enable self-service reporting and automation as a means of addressing resource limitations and growing demand, aligning D&A efforts to strategic outcomes
4. Apply best practices to attract and retain hires, evaluating critical skill gaps, and staffing process fit against a workforce plan
5. Formalize a documented vendor risk management and supplier management framework

Over recent years, MPI has demonstrated a stable trend of maintaining IT spending as a proportion of total business expenses, while focusing on IT management best practices

IT Spending as a Percentage of Enterprise Operating Expense and IT Score Maturity Levels



Note:
1. 2021/21 Maturity was not assessed – it was assumed to be the same as the previous year's assessment
2. Project Nova costs were not included in IT budget submissions prior to 2020/21

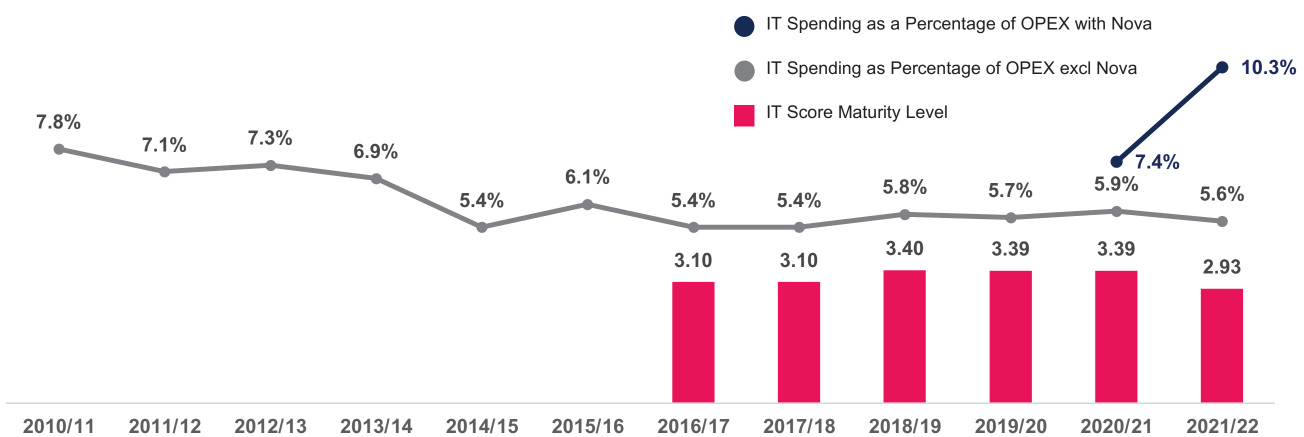
3. Detailed IT Benchmark Findings

3.1 Spending and Staffing Benchmark Findings

Historical Trend on IT Spending and IT Score Maturity Levels

Over recent years, MPI has demonstrated a stable trend of maintaining IT spending as a proportion of total business expenses, while focusing on IT management best practices

IT Spending as a Percentage of Enterprise Operating Expense and IT Score Maturity Levels



Observations:

- IT spend as a percentage of enterprise operating expense was lower in the current benchmark year compared to the previous year net of Nova costs (5.6% vs 5.9%)
- IT spend as a percentage of enterprise spending was higher including project Nova costs (10.3% vs 7.4%)

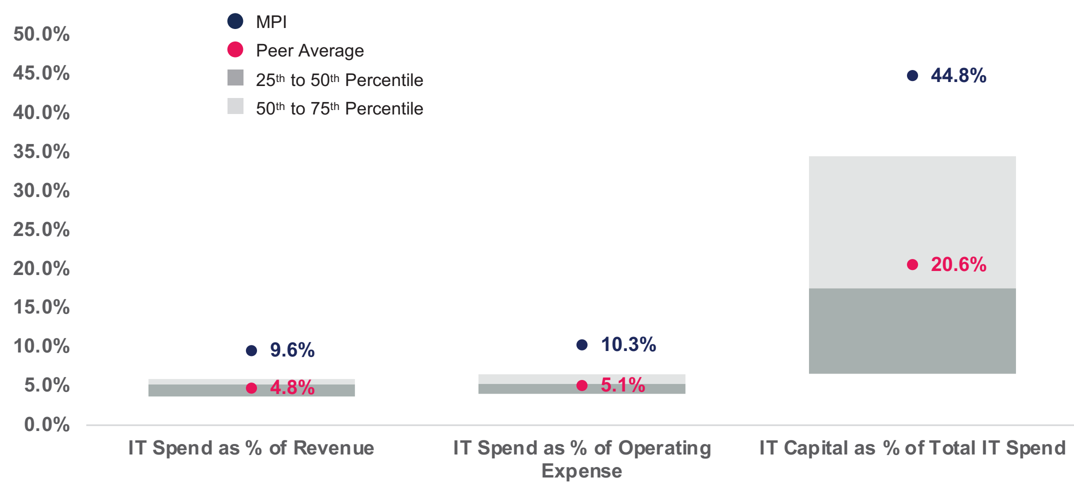
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Operating Expense	$0.94 B	$0.76 B	$1.13 B	$1.23 B	$1.26 B	$1.15 B	$1.37 B	$1.29 B	$1.42 B	$1.35 B	$1.20 B	$1.34 B
IT Expense	$73.5 M	$54.2 M	$82.3 M	$85.0 M	$68.7 M	$70.7 M	$74.8 M	$69.7M	$82.5 M	$77.4 M	$70.2 M	$138.5 M
IT Spending as Percentage of OPEX	7.80%	7.10%	7.30%	6.90%	5.40%	6.10%	5.40%	5.40%	5.80%	5.70%	7.44%	10.30%
IT Score Maturity Level	-	-	-	-	-	-	3.1	3.1	3.4	3.39	3.39	3.39

Note:
1. 2021/21 Maturity was not assessed – it was assumed to be the same as the previous year's assessment
2. Project Nova costs were not included in previous IT budget submissions

IT Spending and IT Budget Allocation

MPI's IT spending allocation as a percentage of the enterprise's operating expenses is higher compared to peers

Enterprise IT Spending Metrics



	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	MPI (2021/22)	Peer Average
IT Spend as a % of Revenue	5.20%	5.10%	5.71%	9.60%	4.79%
IT Spend as % of Operating Cost	5.80%	5.70%	7.44%	10.30%	5.11%
IT Capital as % of Total IT Spend	28.10%	21.80%	22.51%	44.83%	18.29%

Observations:

- Project Nova costs are included in MPI spending metrics
- MPI's IT spend as a percentage of the Enterprise's total operating expenses is higher compared to peer average (MPI: 10.3% vs 5.1%)
- MPI's allocation to IT capital was higher than the peer average (MPI: 44.8% vs 18.3%).
- MPI's IT spend as a percentage of revenue is higher than peers (this metric is less relevant since MPI does not have a focus on maximizing profit)

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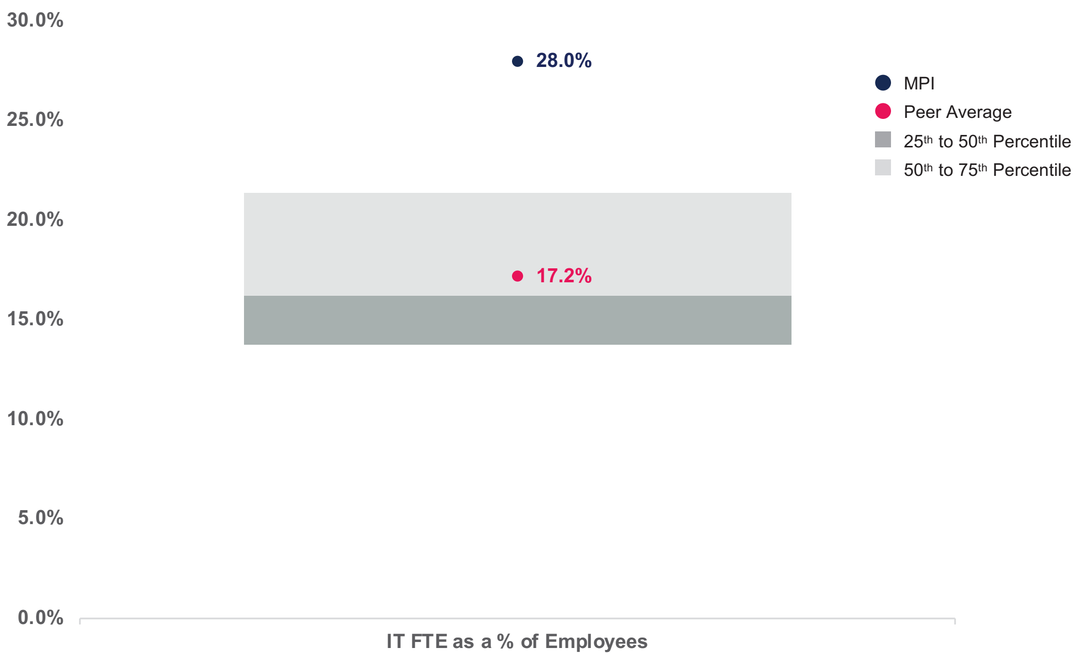
IT Staffing per Employee

MPI has a higher number of IT employees as a percentage of total employees relative to peers

IT Staffing as a Percentage of Organizational Employees



	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	MPI (2020/21)	Peer Average
IT FTEs as a % of Employees	18.4%	18.4%	22.8%%	28.0%	17.2%

Observations:

- Project Nova staffing is included in MPI staffing metrics
- MPI has a higher percentage (MPI: 28% vs 17.2%) of IT employees as a percent of organizational employees relative to the peer average

IT Spending per Employee

MPI has a higher cost per organizational employee relative to peers

IT Spending per Employee

	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	MPI (2021/22)	Peer Average
Spending per Employee	$46,613	$40,946	$38,974	$73,698	$60,146

Observations:

- Project Nova costs are included in MPI spending metrics
- MPI's IT spend per organizational employee is higher than the peer average (MPI: $73,698 vs $60,146)

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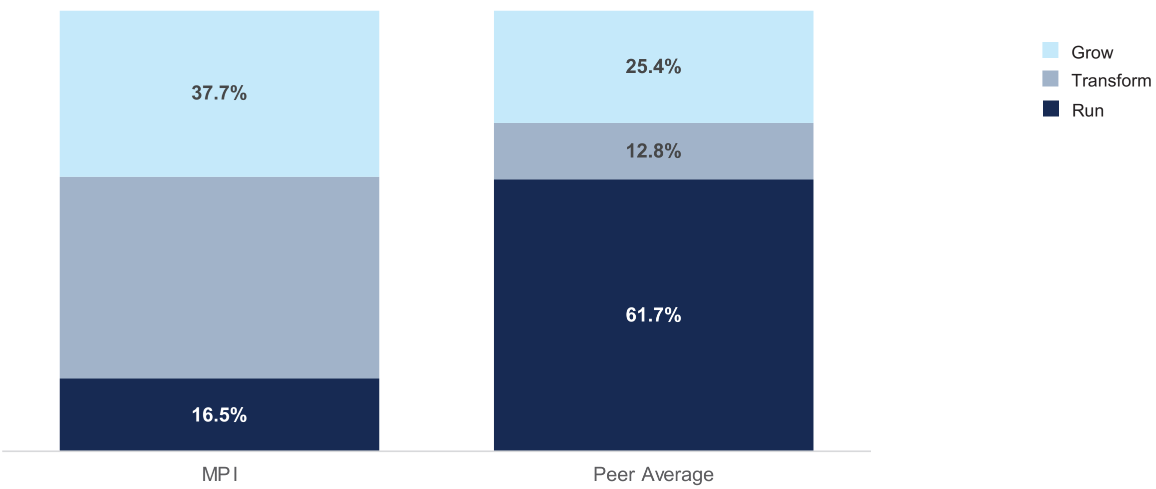
“Run” vs “Change” Spending Distribution

MPI allocates significantly more funding to changing IT compared to peers and a smaller proportion of the budget to running IT

Run, Grow & Transform Spending



Spending Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	MPI (2021/22)	Peer Average
Run	57.0%	64.7%	52.9%	16.5%	61.7%
Change (Grow + Transform)	43.0%	35.3%	47.1%	83.5%	38.3%

Observations:

- Project Nova costs are included in MPI spending metrics (categorized as 100% allocation towards transforming the business)
- MPI’s IT spending allocation to “Change” initiatives is higher than the peer average (MPI: 83.5% vs 38.3%)

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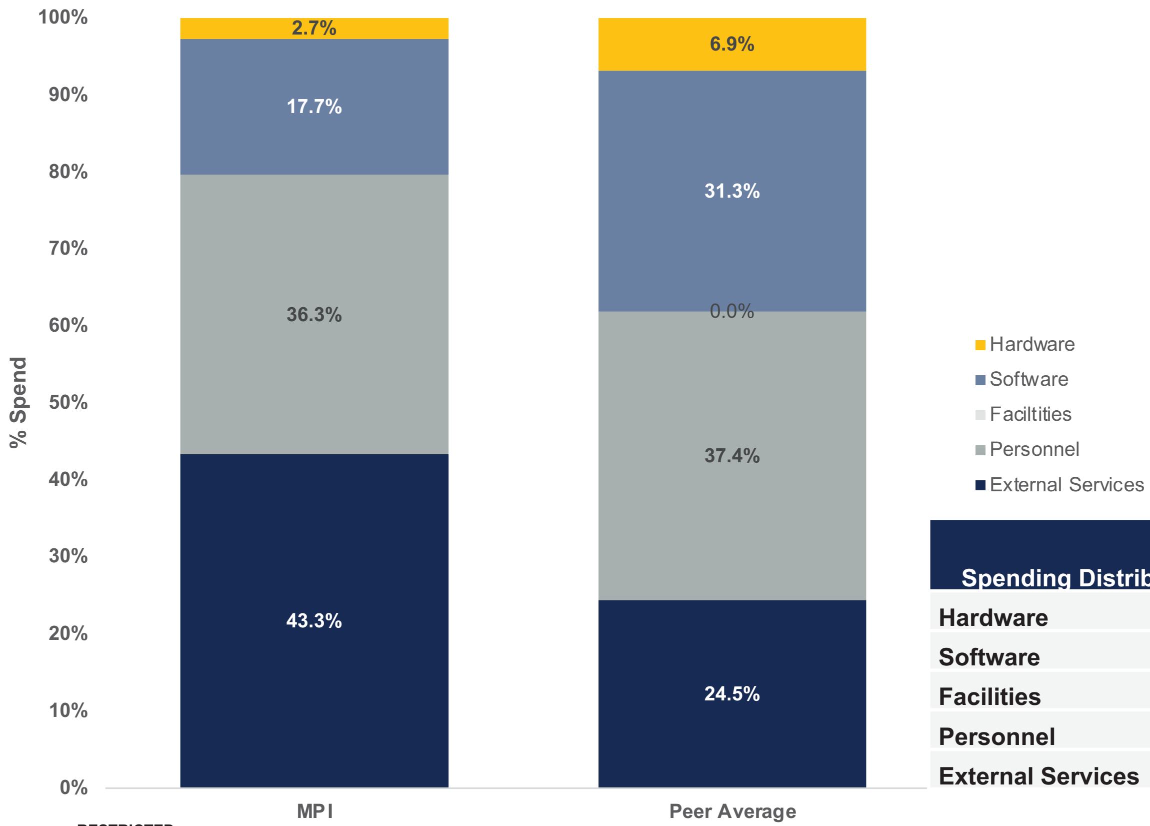
Asset Category Spending Distribution – High Level View

MPI's allocation of spending is higher for external services and software, but lower for hardware and personnel compared to peers

IT Spending by Asset Categories



Observations:

- Project Nova costs are included in MPI spending metrics
- MPI's spending allocation to Personnel is lower relative to the peer average (MPI: 36.3% vs 37.4%).
- MPI's spending allocation to Hardware is lower relative to the peer average (MPI: 2.7% vs 6.9%).
- MPI's spending allocation to Software is higher relative to peer average (MPI: 17.7% vs 31.3%).
- MPI's spending allocation for External Services is higher relative to peer average (MPI: 43.3% vs 24.5%)

Spending Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	MPI (2021/22)	Peer Average
Hardware	6.2%	6.4%	2.3%	2.7%	6.9%
Software	17.0%	19.7%	28.6%	17.7%	31.3%
Facilities	0.0%	0.0%	0.0%	0.0%	0.0%
Personnel	53.9%	52.4%	39.4%	36.3%	37.4%
External Services	22.8%	21.5%	29.8%	43.3%	24.5%

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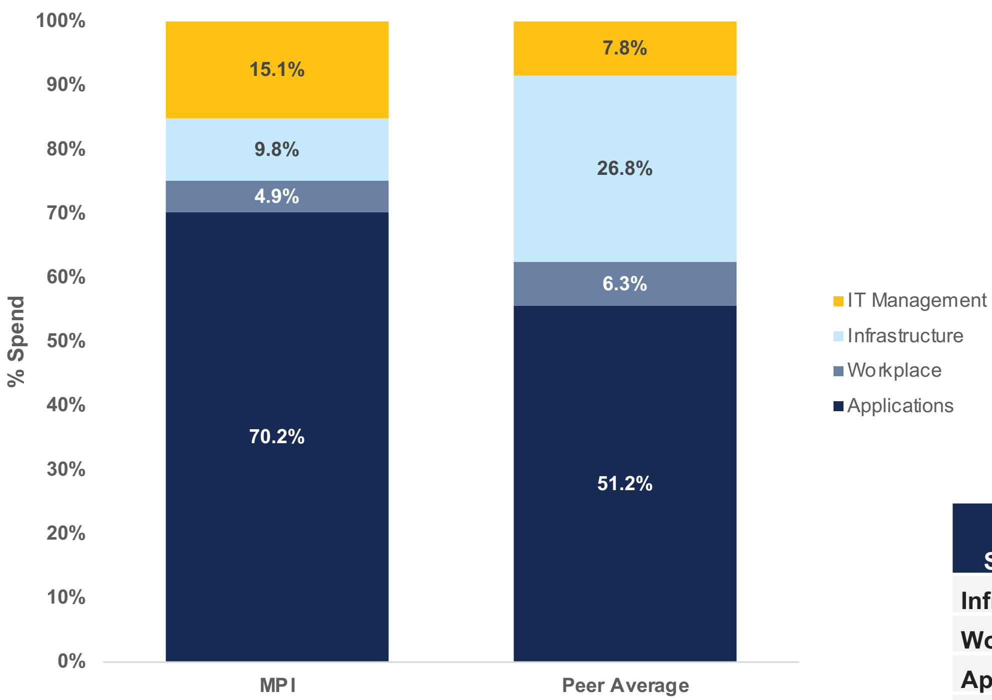
IT Functional Spending Distribution – High Level View

MPI's allocation of spending is lower for all categories, but higher for Applications compared to peers

IT Spending by Functional Group



Observations:

- Project Nova costs are included in MPI spending metrics
- MPI's spending allocation to Applications is higher relative to the peer average (MPI: 70.2% vs 51.2%)
- MPI's spending allocation Workplace is lower relative to the peer average (MPI: 4.9% vs 6.3%)
- MPI's spending allocation to Infrastructure is lower relative to the peer average (MPI: 9.8% vs 26.8%)
- MPI's spending allocation to IT Management is lower relative to the peer average (MPI: 15.1% vs 15.7%)

Spending Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	MPI (2021/22)	Peer Average
Infrastructure	27.1%	25.3%	18.0%	9.8%	26.8%
Workplace	6.6%	7.8%	7.0%	4.9%	6.3%
Applications	51.0%	52.9%	63.0%	70.2%	51.2%
IT Management	15.2%	14.0%	12.0%	15.1%	15.1%

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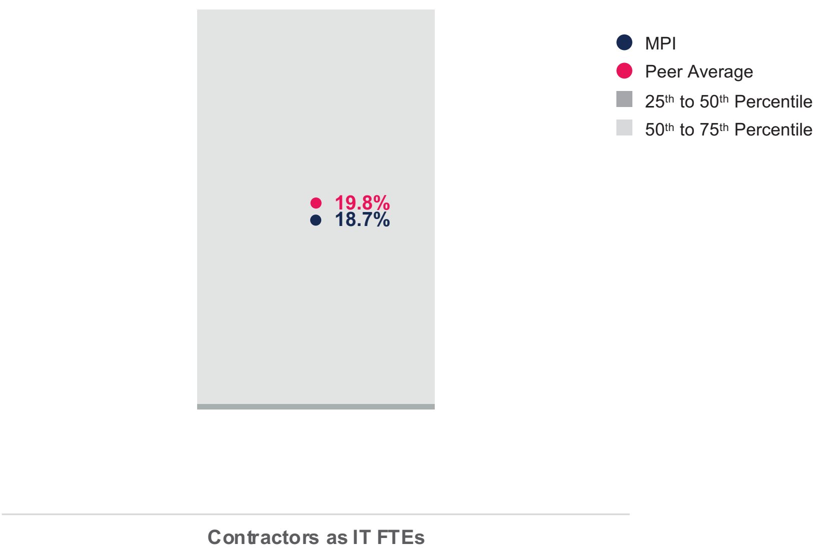
IT Staffing Distribution – Use of Contractors

MPI has a lower percentage use of contractors as part of IT staff compared to peers

Distribution of Contractors as IT FTEs



Staff Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	MPI (2021/22)	Peer Average
IT Employees which are Contractors	24.9%	17.6%	13.0%	18.7%	19.8%

Observations:

- Project Nova staffing is included in MPI spending metrics
- MPI uses a lower percentage of contractors as part of IT staff relative to the peer average (MPI: 18.7% vs 19.8%)

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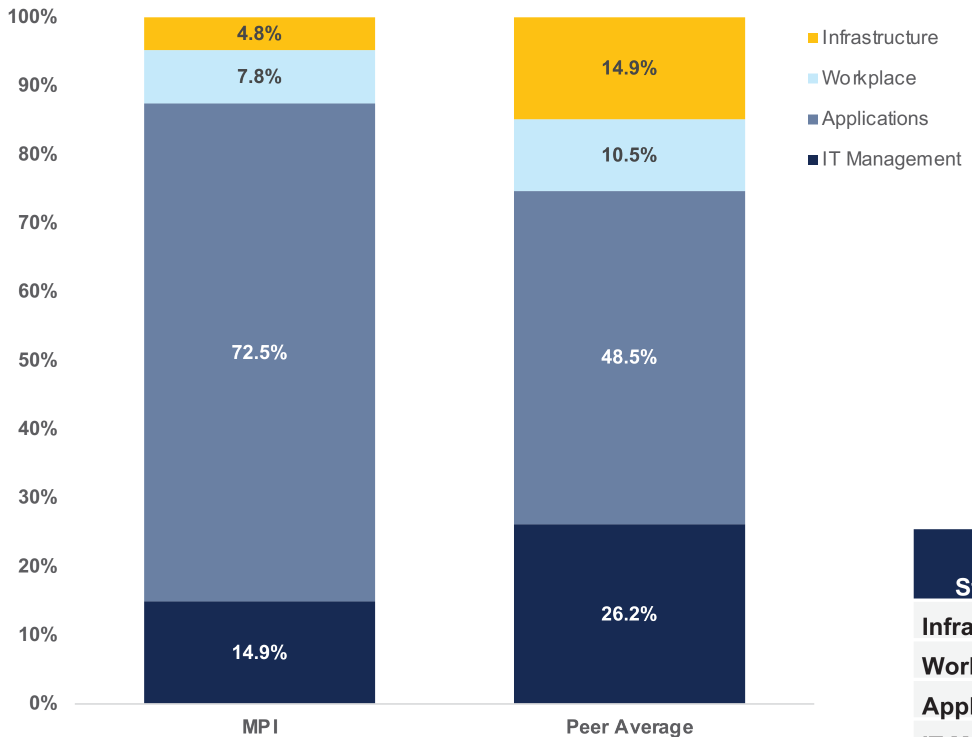
IT Staff Distribution – Functional View

MPI's allocation of staffing for Applications is higher compared to peers and is lower in all other functional areas, reflecting the legacy modernization initiatives

IT Staffing by Functional Group



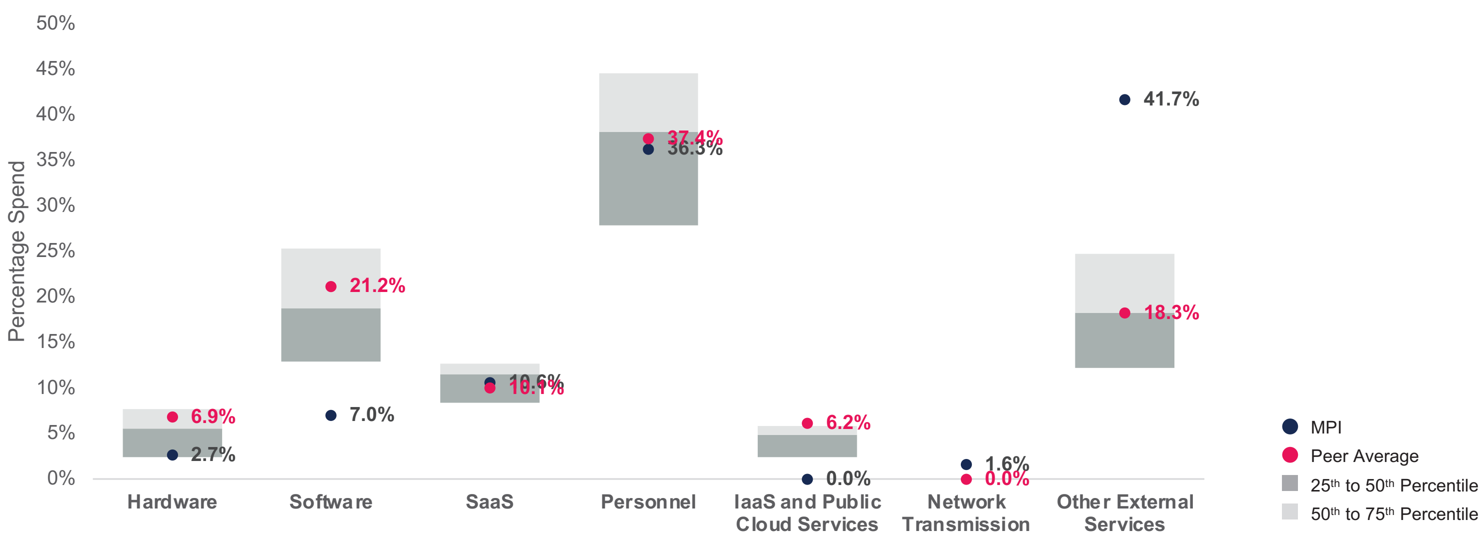
Observations:

- Project Nova staffing is included in MPI staffing metrics
- MPI's staffing distribution for Infrastructure is lower than the peer average (MPI: 4.8% vs 14.9%)
- MPI's staffing distribution for Workplace is lower than the peer average (MPI: 7.8% vs 10.5%)
- MPI's staffing distribution for Applications is higher than the peer average (MPI: 72.5% vs 48.5%)
- MPI's staffing distribution for IT Management is higher than the peer average (MPI: 14.9% vs 26.2%)

Staffing Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	MPI (2021/22)	Peer Average
Infrastructure	6.2%	7.0%	5.6%	4.8%	14.9%
Workplace	9.8%	10.6%	9.4%	7.8%	10.5%
Applications	59.8%	61.5%	62.2%	72.5%	48.5%
IT Management	24.2%	20.9%	22.9%	14.9%	26.2%

Asset Category Spending Distribution – Detailed View

IT Spending – Percentage Spending by Asset Category



Observations:

- Project Nova costs are included in MPI spending metrics
- MPI's spend allocation for on premises software spending is lower than peers (7.0% vs 21.2%)
- MPI's spend allocation on other external services is higher relative to the peer average and is mainly attributed to the outsourcing service contracts (41.7% vs 18.3%)

Group	Spending Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	MPI (2021/22)	Peer Average
Hardware	**Hardware**	6.20%	6.40%	2.25%	2.71%	6.85%
Software	**Software**	10.30%	12.40%	17.25%	7.04%	21.21%
	SaaS	6.80%	7.30%	11.34%	10.63%	10.05%
Personnel	**Personnel**	53.90%	52.40%	39.37%	36.30%	37.43%
External Services	**IaaS and Public Cloud Services**	0.00%	0.00%	0.00%	0.00%	6.17%
	Network Transport	2.60%	2.60%	2.39%	1.64%	0.00%
	Other External Services	20.20%	18.90%	27.40%	41.70%	18.28%

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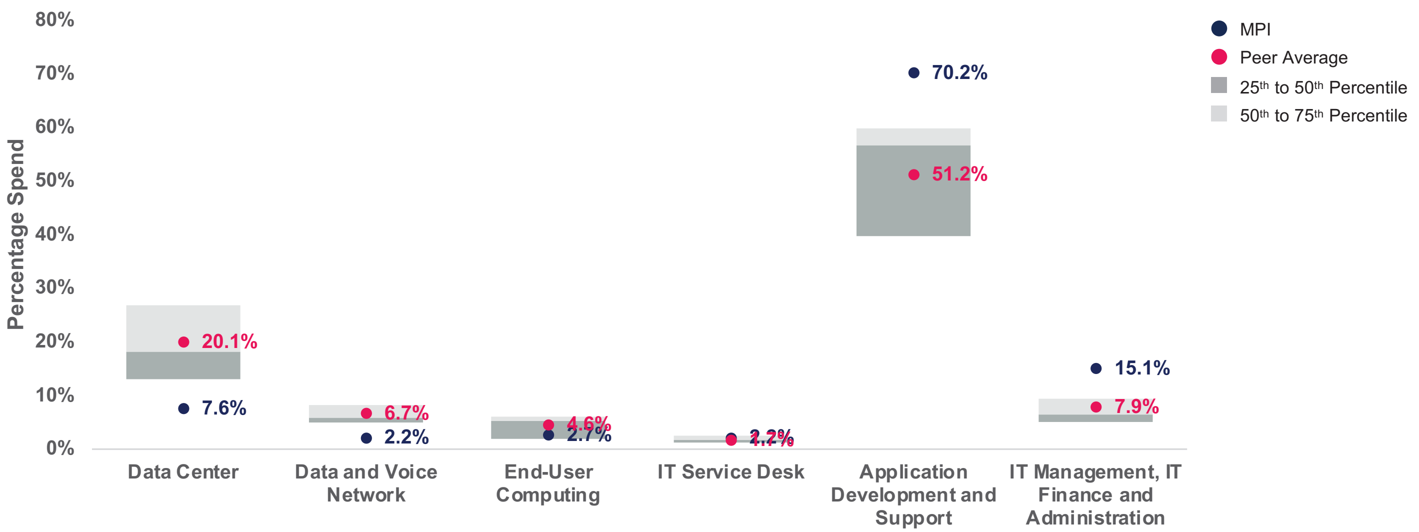
IT Functional Spending Distribution – Detailed View

IT Spending – Percentage Spending by Functional Category



Observations:

- Project Nova costs are included in MPI spending metrics
- MPI's spending allocation to the Applications Development and Support is higher than the peer average (MPI: 70.2% vs 51.2%)

Group	Spending Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	MPI (2021/22)	Peer Average
Infrastructure	Data Center	18.70%	17.80%	10.25%	7.59%	20.06%
	Data and Voice Network	8.50%	7.50%	3.94%	2.17%	6.73%
Workplace	End-User Device & Print Management	4.90%	5.60%	3.15%	2.71%	4.61%
	IT Service Desk	1.70%	2.20%	2.36%	2.17%	1.69%
Applications	Application Development and Support	51.00%	52.90%	69.99%	70.24%	51.22%
IT Management	IT Management, IT Finance and Administration	15.20%	14.00%	10.31%	15.13%	7.90%

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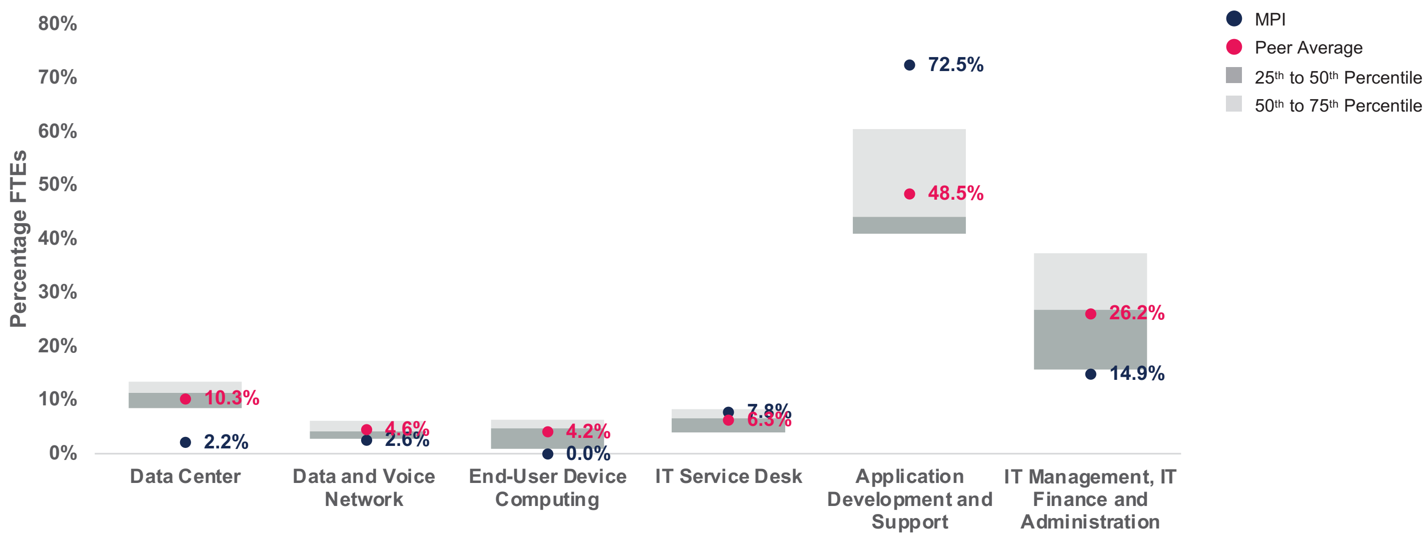
IT Staff Distribution – Detailed View

IT Staffing Distribution – Percentage of FTEs by Functional Category



Group	Staffing Distribution	MPI (2018/19)	MPI (2019/20)	MPI (2020/21)	MPI (2021/22)	Peer Average
Infrastructure	Data Center	2.50%	3.30%	2.36%	2.17%	10.31%
	Data and Voice Network	3.70%	3.70%	3.21%	2.60%	4.56%
Workplace	End-User Device Computing	4.90%	4.90%	3.94%	0.00%	4.15%
	IT Service Desk	4.90%	5.70%	5.41%	7.80%	6.31%
Applications	Application Development and Support	59.80%	61.50%	62.15%	72.48%	48.51%
IT Management	IT Management, IT Finance and Administration	24.20%	20.90%	22.92%	14.90%	26.16%

Observations:

- Project Nova staffing is included in MPI staffing metrics
- MPI's allocation to Applications Development and Support is higher than the peer average (72.5% vs 48.5%)
- MPI's lower staffing distribution in the Infrastructure category is mainly attributed to lower allocation to Data Center personnel relative to peers (MPI: 2.2% vs 10.3%)
- MPI's IT Management, IT Finance and Administration personnel are lower than peers (14.9% vs 26.2%)

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3.2 IT Service Management Process Review Findings

IT Maturity Level Methodology

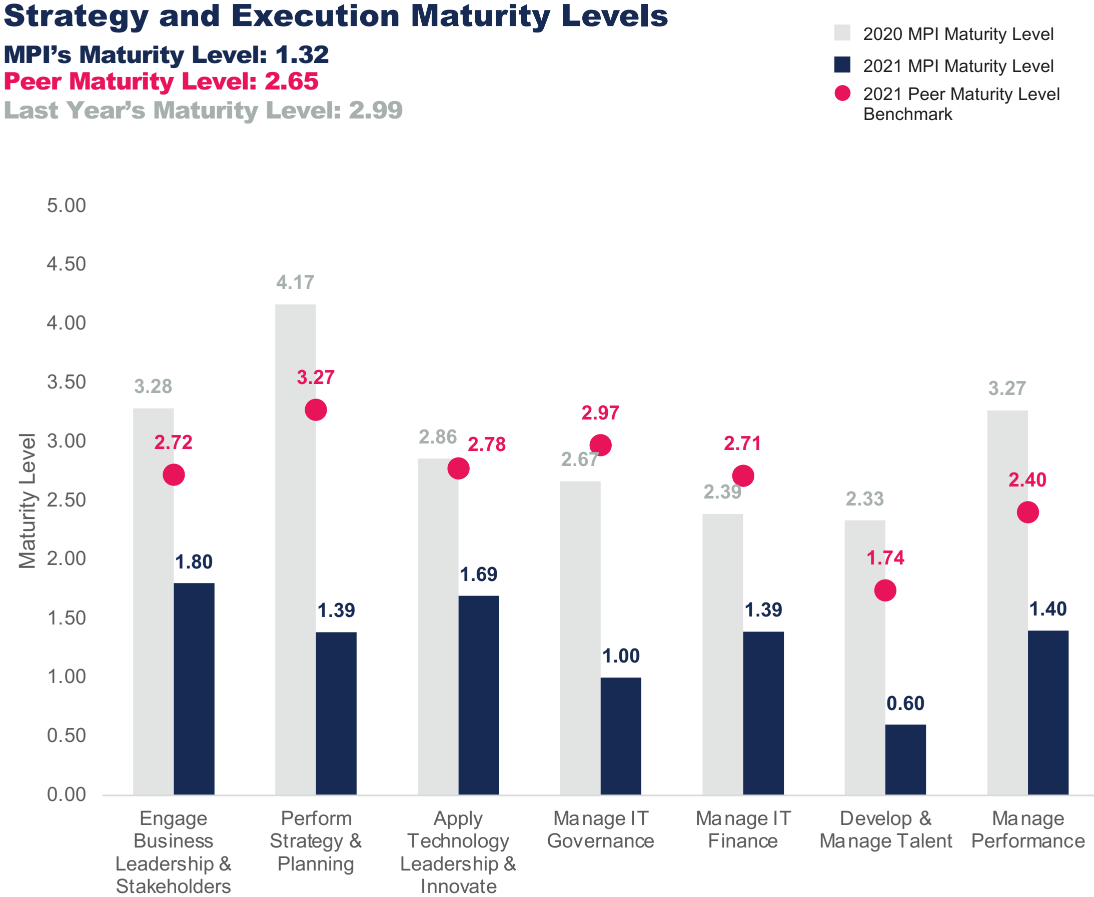
- Maturity assessment results were collected via surveys using Gartner's proprietary IT Score Assessment Tool.
- MPI respondents for surveys were selected from MPI's IT management team, based on ownership and expertise in the particular domain.
- IT Maturity surveys evaluated 9 IT Domains, which are comprised of 51 Functions and 208 Activities.

- Maturity levels are measured on a scale ranging from Level 1 (Lowest) to Level 5 (Highest), and depict how advanced MPI's development in a domain, function, or activity are relative to Gartner's Best Practice Research. These maturity level descriptions are dependent on the specific domain being assessed and may be subject to yearly updates to reflect modern best practices.
- Maturity level results were compared to a peer group which was selected based on survey responses from insurance companies which are 1B - 3B USD in size.
- For reporting simplification, only domain and functional level have been presented.
- ***Requirement to meet Gartner's defined level of maturity, and subsequently the IT survey questions evolve each year to reflect the changing industry standards as it pertains to IT service delivery worldwide.*** *As a result, the changes of IT maturity scores year-over-year, may be a result of: 1) Changes in the levels of MPI's IT Service Delivery or 2) Evolving criteria required to meet a particular level of maturity as defined by Gartner.*
- Recommendations were developed based on the assessment of the IT Domains, Functions, and Activities. Gartner's recommendations were guided by the level of importance to the organization (i.e., Activity Priority Index), the maturity level relative to peers and other factors such as MPI's organizational objectives, industry trends, and insights uncovered through interview discussions and document review.

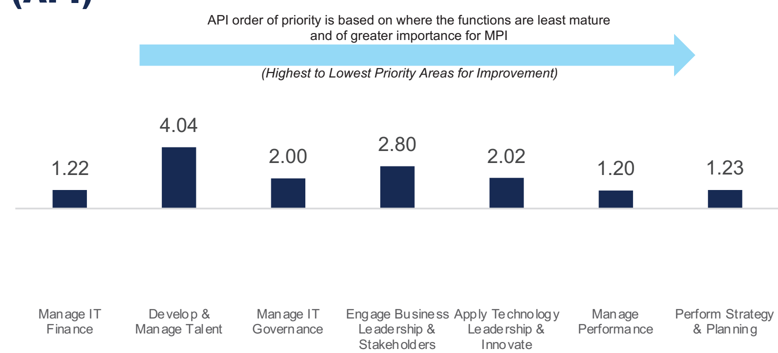
Strategy and Execution

Strategy and Execution Maturity Levels

MPI's Maturity Level: 1.32
Peer Maturity Level: 2.65
Last Year's Maturity Level: 2.99



Strategy and Execution Activity Priority Index (API)



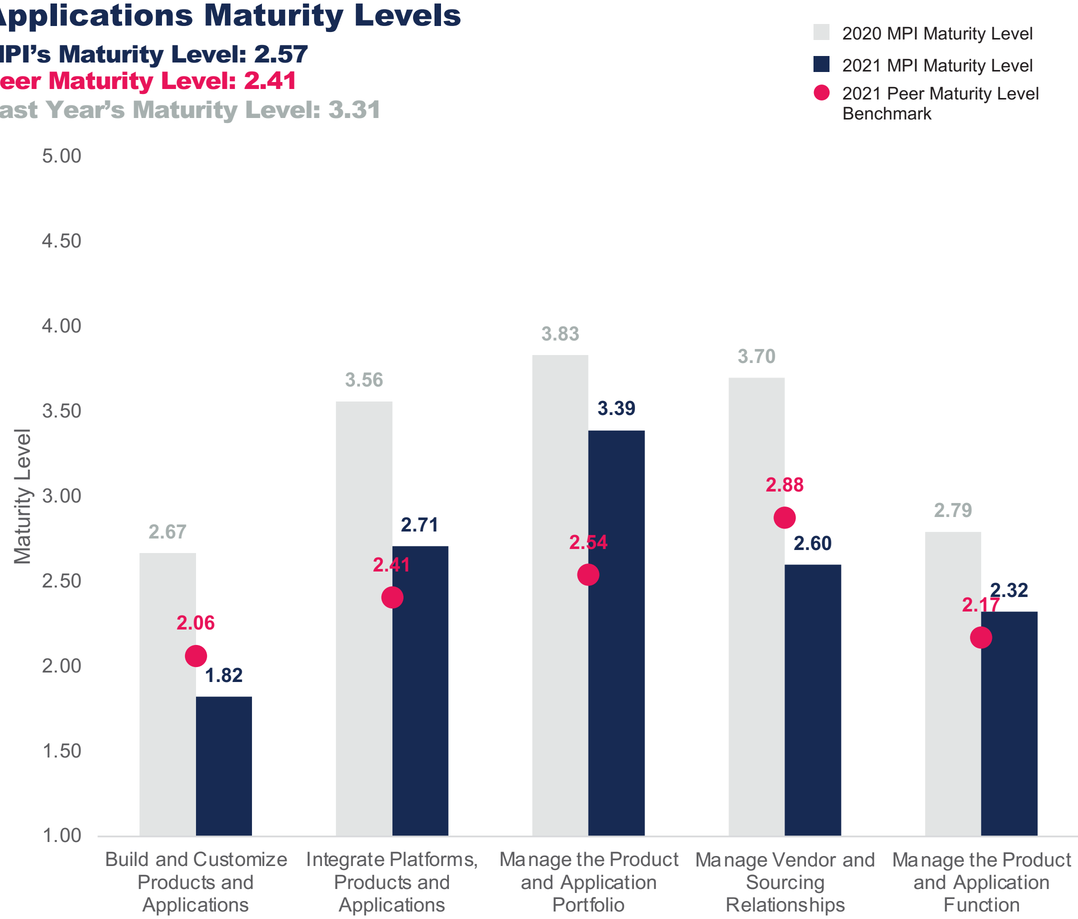
Observations:

- Overall maturity is lower than the peer benchmark.
- Overall maturity has decreased from the previous year's maturity levels.
- MPI's maturity is below the peer benchmarks across all functions.
- Note: Incomplete survey response for some functional areas (questions answered as "Don't Know").

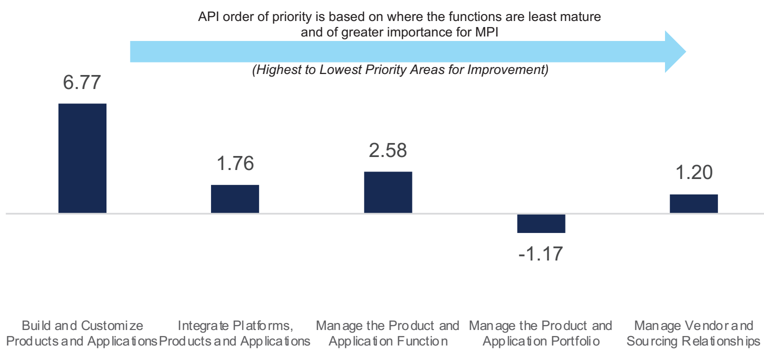
Applications

Applications Maturity Levels

MPI's Maturity Level: 2.57
Peer Maturity Level: 2.41
Last Year's Maturity Level: 3.31



Applications Activity Priority Index (API)



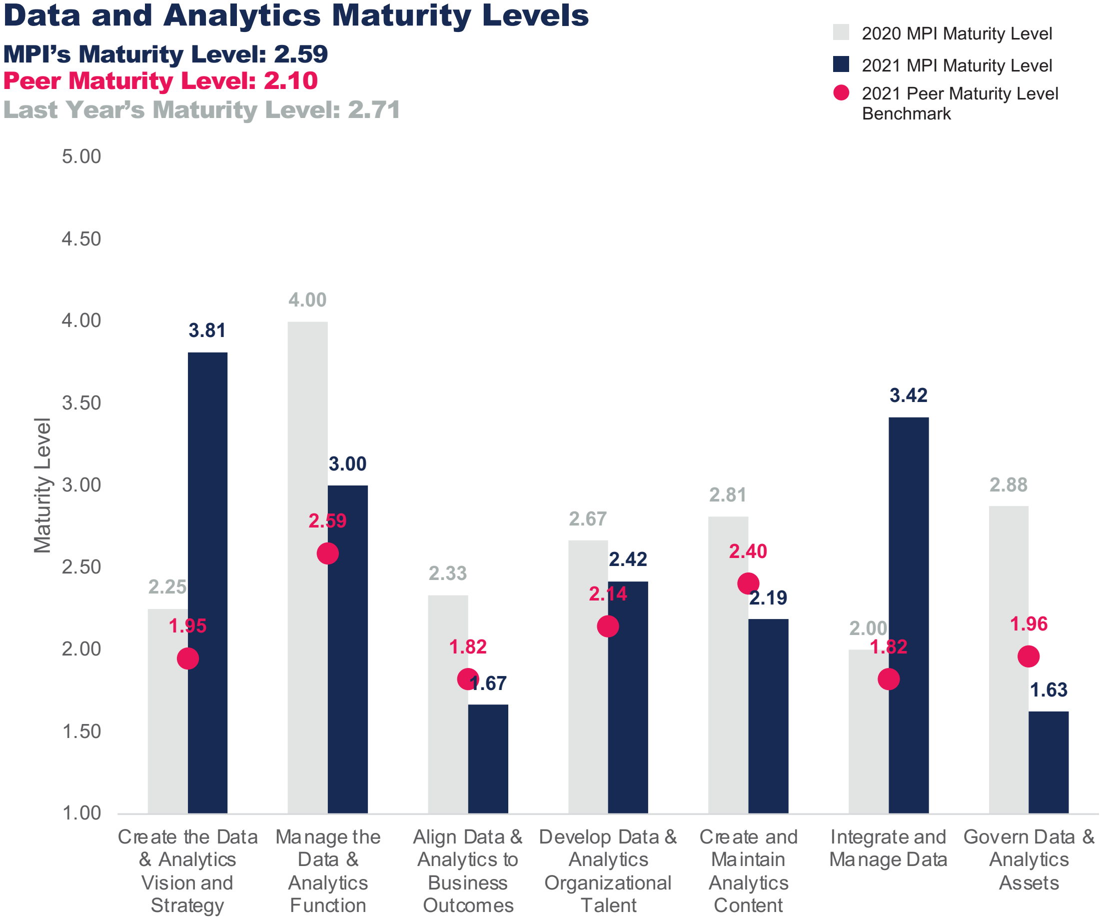
Observations:

- Overall maturity exceeds the peer benchmark.
- Overall maturity has decreased from the previous year's maturity levels.
- MPI's maturity are below the peer benchmarks in the following function:
  - Build and Customize Products and Applications
  - Manage Vendor and Sourcing Relationships

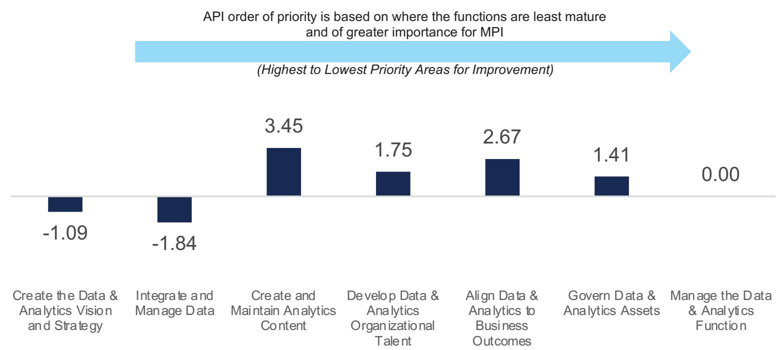
Data and Analytics

Data and Analytics Maturity Levels

MPI's Maturity Level: 2.59
Peer Maturity Level: 2.10
Last Year's Maturity Level: 2.71



Data and Analytics Activity Priority Index (API)



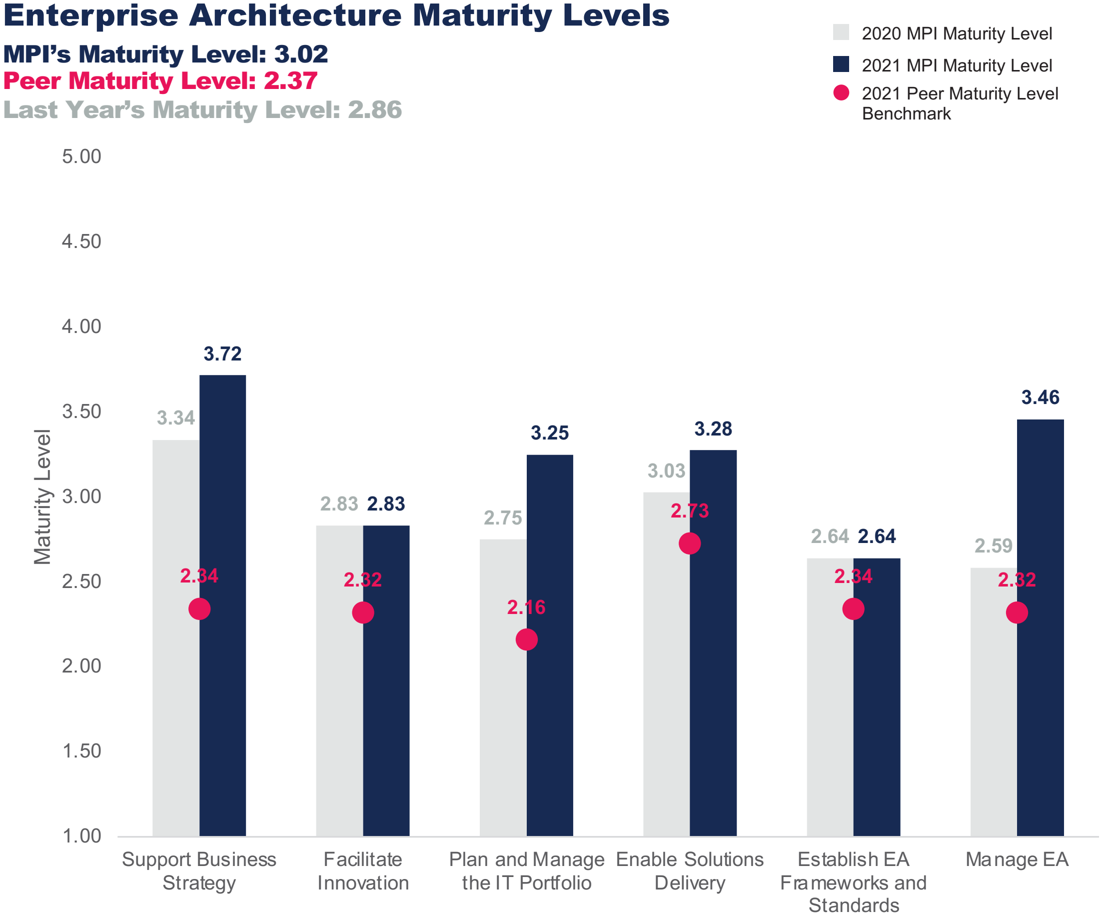
Observations:

- Overall maturity exceeds the peer benchmark.
- Overall maturity has decreased from the previous year's maturity levels.
- MPI's maturity are below the peer benchmarks in the following function:
  - Align Data & Analytics Business Outcomes
  - Create and Maintain Analytics Content
  - Govern Data & Analytics Assets

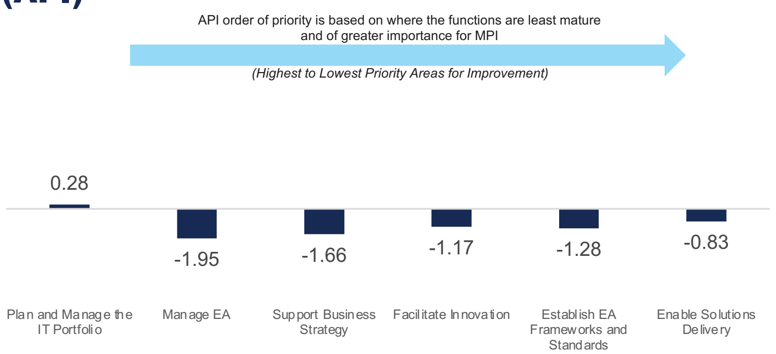
Enterprise Architecture (EA)

Enterprise Architecture Maturity Levels

MPI's Maturity Level: 3.02
Peer Maturity Level: 2.37
Last Year's Maturity Level: 2.86



Enterprise Architecture Activity Priority Index (API)



Observations:

- Overall maturity exceeds the peer benchmark.
- Overall maturity has increased from the previous year's maturity levels.

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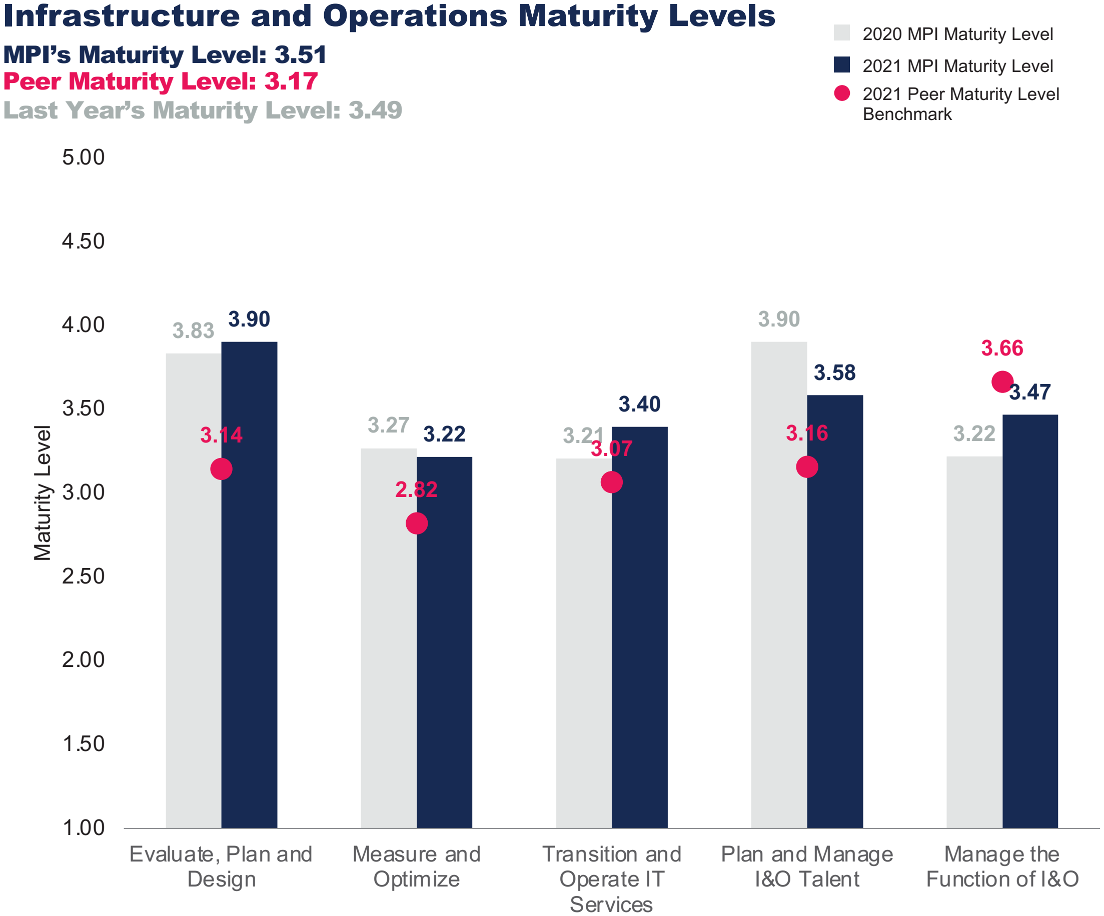
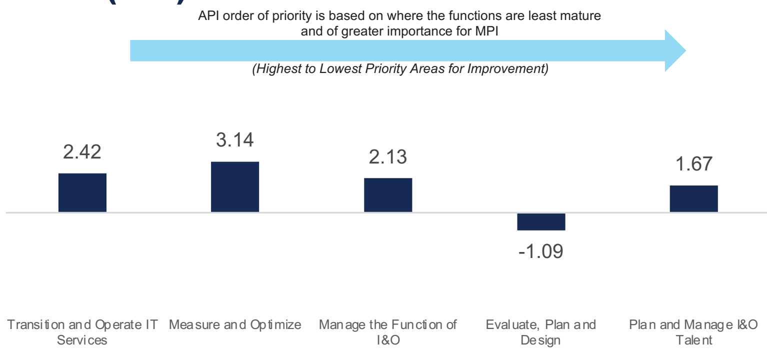
Infrastructure and Operations

Infrastructure and Operations Maturity Levels

MPI's Maturity Level: 3.51
Peer Maturity Level: 3.17
Last Year's Maturity Level: 3.49



Infrastructure and Operations Activity Priority Index (API)



Observations:

- Overall maturity exceeds the peer benchmark.
- Overall maturity has decreased from the previous year's maturity levels.
- MPI's maturity is below the peer benchmark in the following function:
  - Manage the Function of I&O

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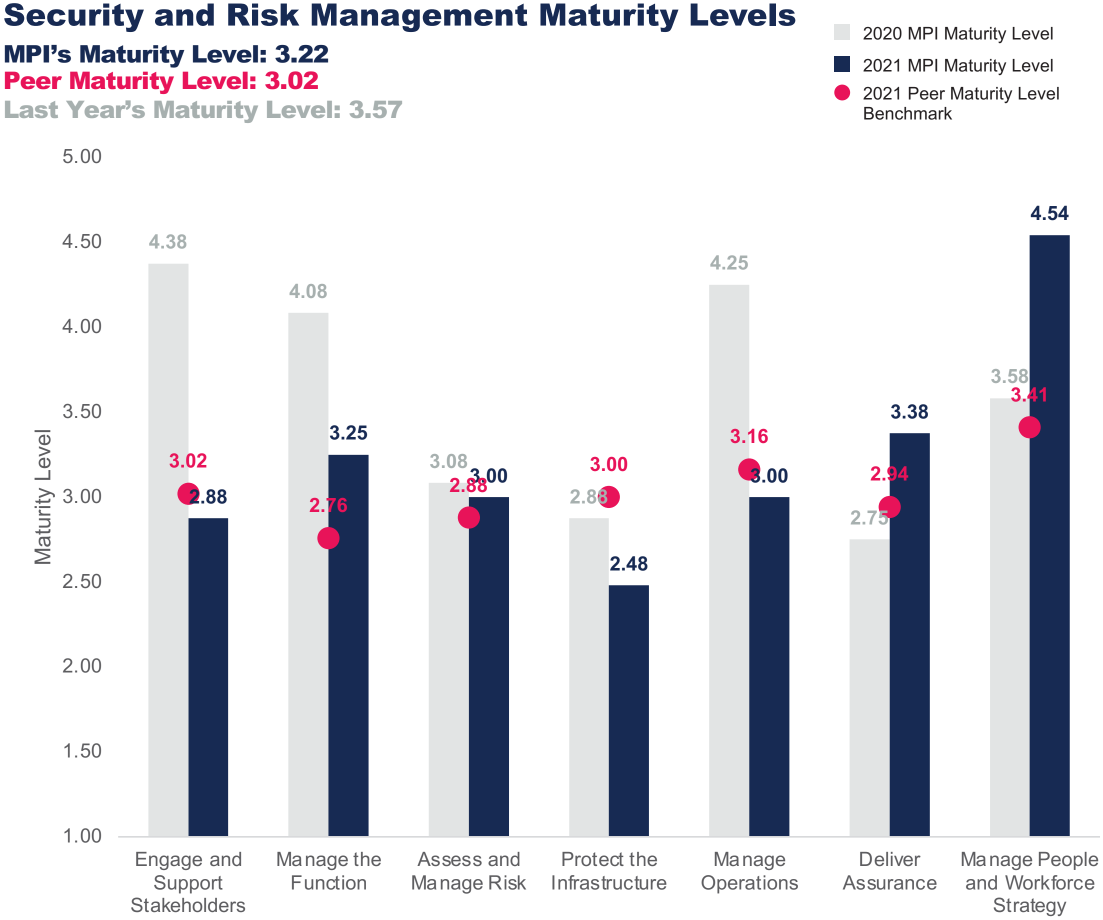
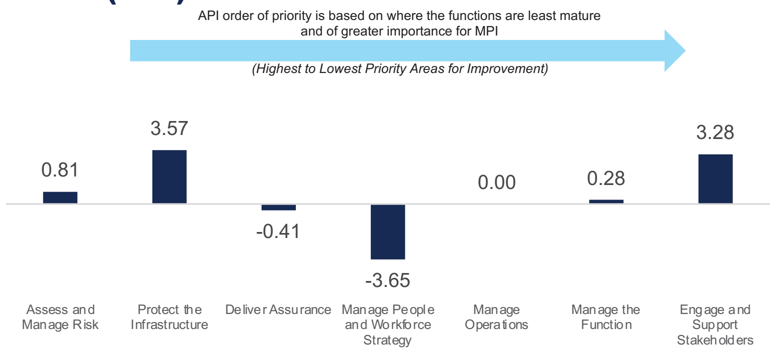
Security and Risk Management

Security and Risk Management Maturity Levels

MPI's Maturity Level: 3.22
Peer Maturity Level: 3.02
Last Year's Maturity Level: 3.57



Security and Risk Management Activity Priority Index (API)



Observations:

- Overall maturity exceeds the peer benchmark.
- Overall maturity has decreased from the previous year's maturity levels.
- MPI's maturity is below the peer benchmark in the following function:
  - Engage and Support Stakeholders
  - Protect the Infrastructure
  - Manage Operations

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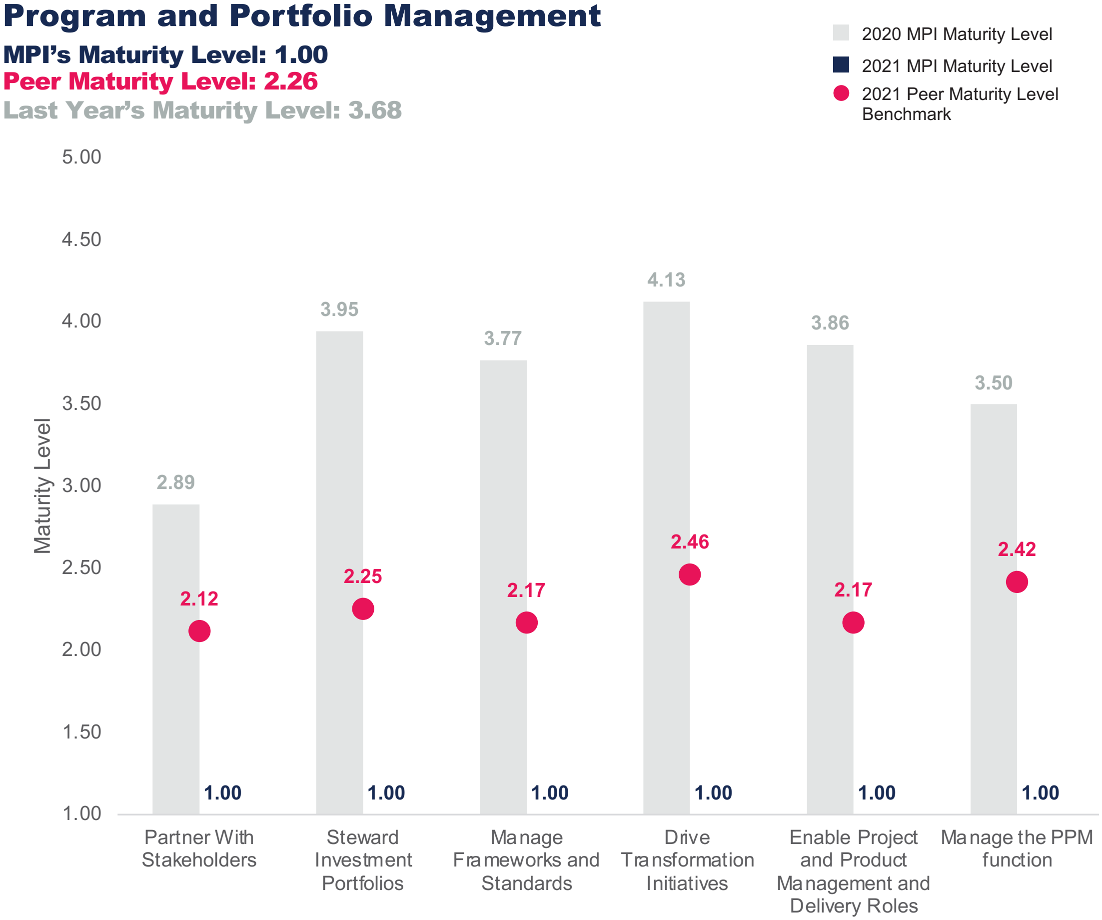
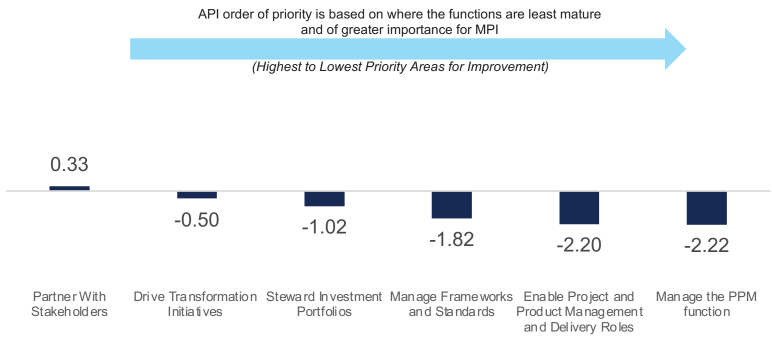
Program and Portfolio Management

Program and Portfolio Management

MPI's Maturity Level: 1.00
Peer Maturity Level: 2.26
Last Year's Maturity Level: 3.68



Program and Portfolio Management Activity Priority Index (API)



Observations:

- Overall maturity is below the peer benchmark.
- Overall maturity has decreased from the previous year's maturity levels.
- MPI's maturity are below the peer benchmarks in all functions.

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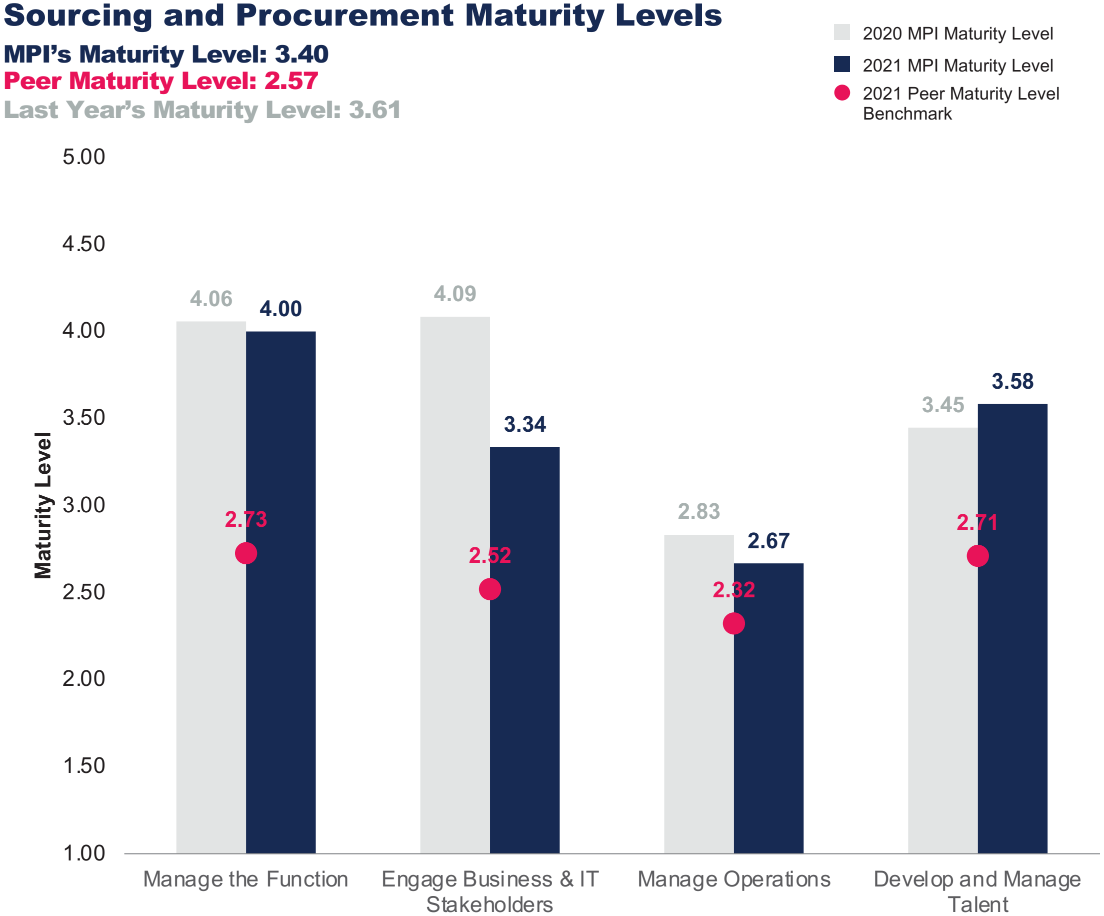
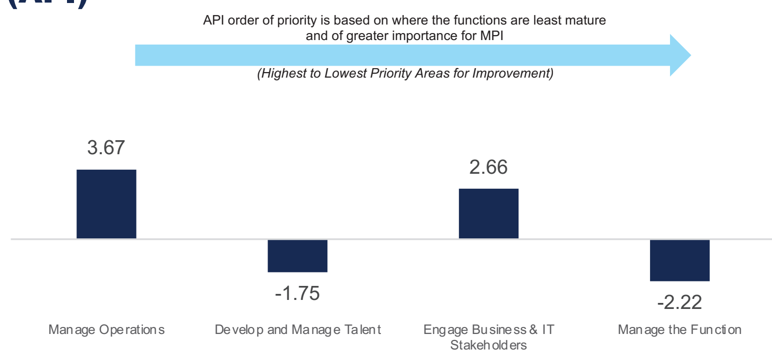
Sourcing and Procurement

Sourcing and Procurement Maturity Levels

MPI's Maturity Level: 3.40
Peer Maturity Level: 2.57
Last Year's Maturity Level: 3.61



Sourcing and Procurement Activity Priority Index (API)



Observations:

- Overall maturity exceeds the peer benchmark.
- Overall maturity has decreased from the previous year's maturity levels.

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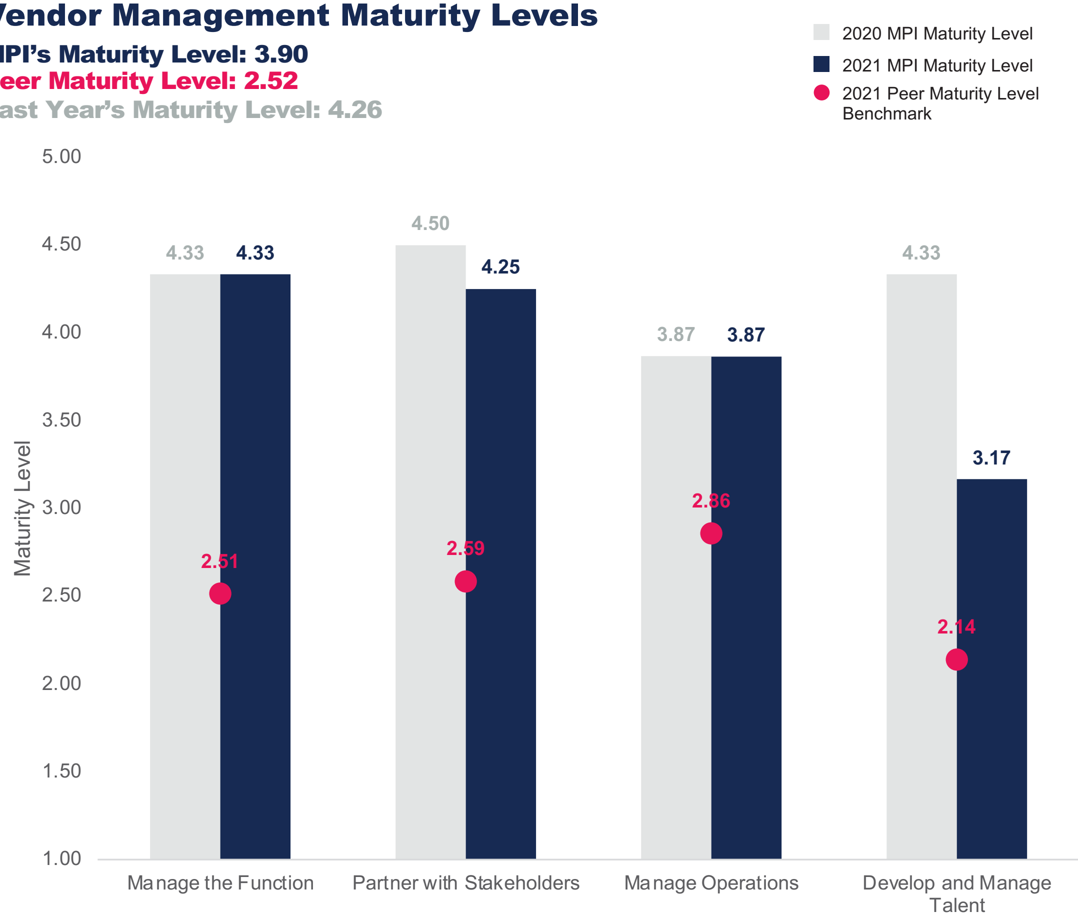
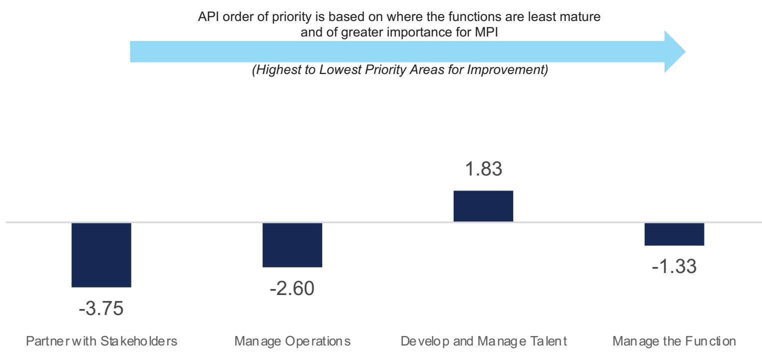
Vendor Management

Vendor Management Maturity Levels

MPI's Maturity Level: 3.90
Peer Maturity Level: 2.52
Last Year's Maturity Level: 4.26



Vendor Management Activity Priority Index (API)



Observations:

- Overall maturity exceeds the peer benchmark.
- Overall maturity has decreased from the previous year's maturity levels.

Summary of Changes in Functional Level of IT Maturity Over the Past Year

Largest Increases in Maturity

IT Domain	Functional Level	2019 MPI Maturity Level	2020 MPI Maturity Level	Peer Benchmark	YoY Maturity Difference
Data & Analytics	Create the D&A Vision and Strategy	2.25	3.81	1.95	1.56
Data & Analytics	Integrate and Manage Data	2.00	3.42	1.82	1.42
Security & Risk Management	Manage People and Workforce Strategy	3.58	4.54	3.41	0.96
Enterprise Architecture & Technology Innovation	Manage EA	2.59	3.46	2.32	0.87
Security & Risk Management	Deliver Assurance	2.75	3.38	2.94	0.63
Enterprise Architecture & Technology Innovation	Plan and Manage IT Portfolio	2.75	3.25	2.16	0.50
Enterprise Architecture & Technology Innovation	Structure Business Strategy	3.34	3.72	2.34	0.38
Enterprise Architecture & Technology Innovation	Enable Solutions Delivery	3.03	3.28	2.73	0.25
Infrastructure & Operations	Manage the Function of I&O	3.22	3.47	3.66	0.25
Infrastructure & Operations	Transition and Operate IT Services	3.21	3.40	3.07	0.19
Sourcing & Procurement	Develop and Manage Talent	3.45	3.58	2.71	0.14
Infrastructure & Operations	Evaluate, Plan and Design	3.83	3.90	3.14	0.07

Largest Decreases in Maturity

IT Domain	Functional Level	2019 MPI Maturity Level	2020 MPI Maturity Level	Peer Benchmark	YoY Maturity Difference
Program & Portfolio Management	Drive Transformation Initiatives	4.13	1.00	2.46	-3.13
Program & Portfolio Management	Steward Investment Portfolios	3.95	1.00	2.25	-2.95
Program & Portfolio Management	Enable Project and Product Management and Delivery Roles	3.86	1.00	2.17	-2.86
Strategy & Execution	Perform Strategy & Planning	4.17	1.39	3.27	-2.78
Program & Portfolio Management	Manage Frameworks and Standards	3.77	1.00	2.17	-2.77
Program & Portfolio Management	Manage the PPM Function	3.50	1.00	2.42	-2.50
Program & Portfolio Management	Partner With Stakeholders	2.89	1.00	2.12	-1.89
Strategy & Execution	Manage Performance	3.27	1.40	2.40	-1.87
Strategy & Execution	Develop & Manage Talent	2.33	1.00	1.74	-1.73
Strategy & Execution	Manage IT Governance	2.67	1.00	2.97	-1.67
Security & Risk Management	Engage and Support Stakeholders	4.38	2.88	3.02	-1.50
Security & Risk Management	Engage and Support Stakeholders	4.38	2.88	3.02	-1.50

Note: Year-over year maturity changes may be attributed to:
1. *Change in the levels of MPI's IT Service Delivery*
2. *Evolving criteria required to meet a level of maturity defined by Gartner*

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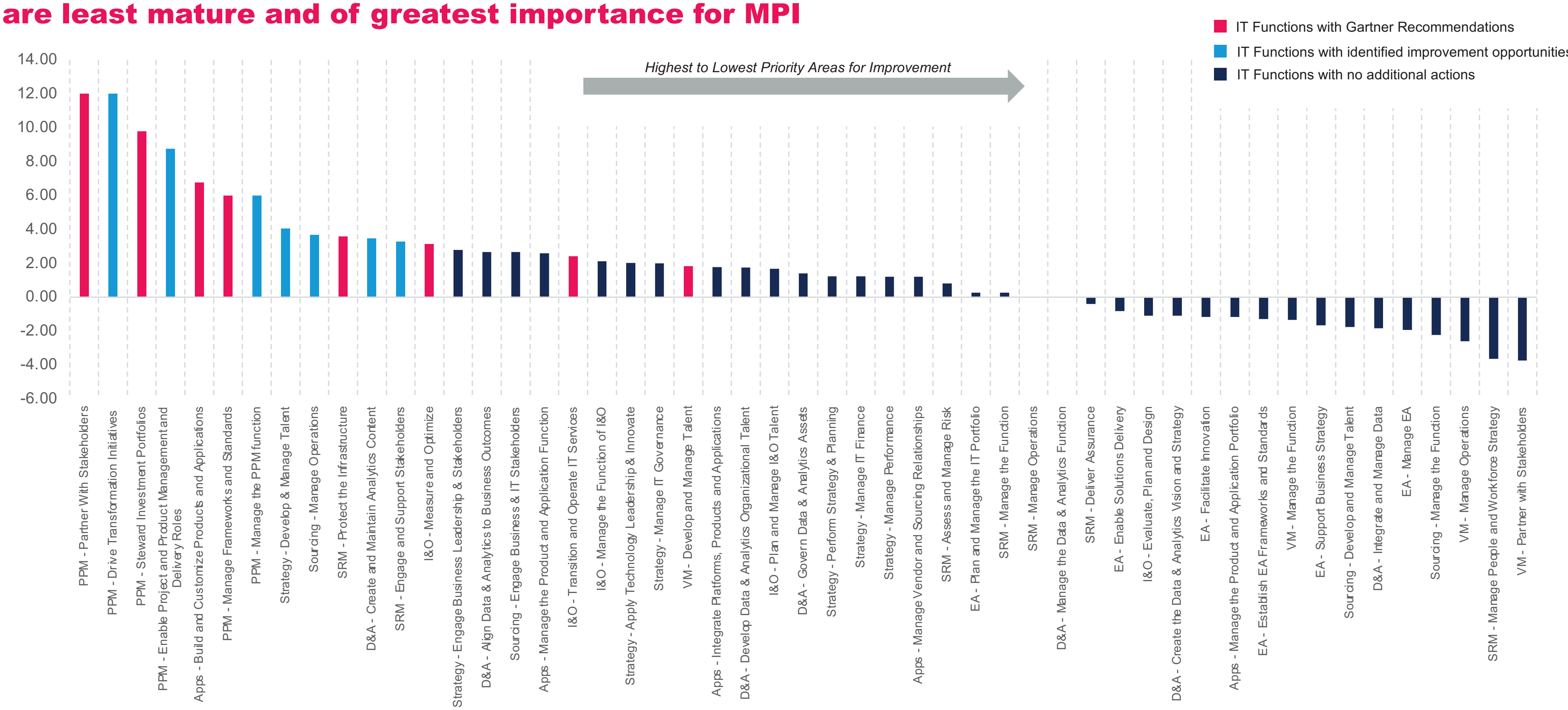
Improvement Opportunities: Activity Priority Index (API)

The Activity Priority Index (API) represents an order of priority for the IT functions, based on which are least mature and of greatest importance for MPI



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List of Improvement Opportunities (1 of 8)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
1	Strategy and Execution	Develop & Manage Talent	Important to key objectives	Develop IT Workforce Strategy. ▪ Develop the long-term, enterprise-wide IT workforce plan and revise it regularly as business needs change with engagement from IT and business leaders. Develop Skills and Competencies. ▪ Integrate IT career paths with talent assessments that identify employees' skills gaps and prepare them for future roles and new organizational needs through learning and development activities.
2	Strategy and Execution	Apply Technology Leadership & Innovate	Important to key objectives	Apply Analysis & Innovate. ▪ Establish innovation as a formal business capability with business ownership that drives business model evolution. Optimize the IT Operating Model. ▪ Define and document the IT operating model for the IT organization to clarify IT's role and value proposition in the business. Optimize all components of the IT operating model collectively, as a system, driven by strategic planning. Leverage Technology. ▪ Inventory and map relationships between applications and infrastructure to increase efficiencies and resource utilization in delivering projects and support. ▪ Map business architecture to identify opportunities to optimize business capabilities and the enterprise operating model. Develop the Technology Roadmap. ▪ Include IT across the enterprise in the technology roadmap that covers information systems, data and analytics, customer experience, and analytics and IoT platform. ▪ Define responsibility for updating the IT roadmap for every dimension and layer. Update the IT roadmap regularly, as often as needed.

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List of Improvement Opportunities (2 of 8)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
3	Strategy and Execution	Manage IT Governance	Important to key objectives	Operate IT Governance Framework. ▪ Apply an adaptive IT governance framework that balances the risk and reward of IT investments and enables agile IT decision-making across the enterprise. Manage IT Risk. ▪ Assign accountability for IT risk and enforce an integrated IT risk discipline that considers both risk and reward across IT decision-making from a business perspective. ▪ Assign accountability for continuously assessing IT risks with a focus on the defensibility of decisions with key stakeholders.
4	Strategy and Execution	Engage Business Leadership & IT Stakeholders	Important to key objectives	Market IT Capabilities. ▪ Develop a plan to consistently engage and learn about changing needs and define IT value contribution. Assess and Manage Business Demand. ▪ Establish a formal relationship management role responsible for engaging with business stakeholders to assess and shape demand. Enable Business IT Capabilities. ▪ Work with HR and business leaders to develop enterprise-wide digital skills, mindsets, and competencies.

List of Improvement Opportunities (3 of 8)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
5	Applications	Build and Customize Products and Applications	Important to key objectives	Applications Manage the Delivery Methodology. ▪ Ensure that each agile team adheres to defined SLAs for support work. Applications Manage Release Process and Release Frequency. ▪ Develop a formal release process. ▪ Streamline automated release processes to handle application release and configuration. Manage Test Process and Automation. ▪ Optimize processes such that failed releases automatically roll back or their features are disabled by the production environment. ▪ Add automated tests whenever a defect is found in manual testing or production. ▪ Integrate smoke test into nightly builds. Establish Code Quality Standards. ▪ Perform static analysis of code.
6	Applications	Manage the Product and Application Function	Important to key objectives	Monitor Product and Application Portfolio. ▪ Ensure that business stakeholders have taken ownership of the product and application portfolio and regularly monitor its fitness.
7	Data and Analytics	Create and Maintain Analytics Content	Important to key objectives	Create and Maintain Enterprise-wide Reports. ▪ Provide enterprise reports that are interactive, so that users can sort and filter to customize their own view.
8	Data and Analytics	Align Data & Analytics to Business Outcomes	Somewhat Important to key objectives	Establish an Enterprise KPI & Metrics Framework. ▪ Assign an owner to each tracked metric. Quantify the Value. ▪ Create a ROI model for each data & analytics project.

List of Improvement Opportunities (4 of 8)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
9	Infrastructure and Operations	Measure and Optimize	Very Important to key objectives	Monitor Infrastructure and Operations Performance. ▪ Define service levels (such as availability and response time) at the application or project level. ▪ Use KPIs for automated problem detection and for future resource planning. Align I&O Metrics With Business Goals. ▪ Use information about business unit goals to define success metrics for new projects. ▪ Analyze IT end-user satisfaction, measured through regularly scheduled or incident-triggered surveys. Automate Operations. ▪ Advance automation as a formal discipline, e.g., I&O includes an automation role (such as automation engineer).
10	Infrastructure and Operations	Transition and Operate IT Services	Very Important to key objectives	Transition Services. ▪ Use approaches such as swarming, self-service, and AI techniques such as chatbots to improve service support. Ensure Future Service Availability. ▪ Creating a complete topology view for alert, event, and incident contextualization.

List of Improvement Opportunities (5 of 8)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
11	Infrastructure and Operations	Manage the Function of I&O	Very Important to key objectives	Develop I&O Strategy. ▪ Use internal customer experience metrics along with technology-focused performance metrics to update infrastructure strategies and roadmaps based on what customers really want and need. Design and Evolve Organizational Models. ▪ Regularly update organizational models to enhance collaboration and drive alignment with business goals.
12	Project and Portfolio Management	Partner With Stakeholders	Very Important to key objectives	Engage Project Sponsors. ▪ Collaborate with sponsors to define their standard roles, responsibilities, and decision ownership in initiatives.
13	Project and Portfolio Management	Drive Transformation Initiatives	Important to key objectives	Define Programs. ▪ Proactively define projects to manage resource and technical dependencies (e.g., dependencies on subject matter experts, dependencies on technical architecture, application environment and infrastructure) related to a common business objective.
14	Project and Portfolio Management	Enable Project and Product Management and Delivery Roles	Important to key objectives	Develop Project and Product Management Skills and Competencies. ▪ Provide and incentivize learning and development opportunities. Support Agile Delivery Teams. ▪ Engage in the evolution of agile delivery practices.
15	Project and Portfolio Management	Manage the PPM Function	Important to key objectives	Manage the Mandate of the PPM Function. ▪ Create a formally defined or documented mandate or charter. ▪ Track and report project metrics and leading indicators of benefit delivery to the initiative's key stakeholders in order to trigger any necessary corrective action.

List of Improvement Opportunities (6 of 8)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
16	Project and Portfolio Management	Steward Investment Portfolios	Important to key objectives	Steward Investment Allocation. ▪ Provide guidance/training to business stakeholders on creating business cases for their initiatives as part of the organization's investment allocation process. ▪ Collaborate with key business and IT stakeholders to define business capability-informed funding models. Facilitate Prioritization Within Portfolios. ▪ Supply portfolio decisionmakers with standard evaluation criteria to assess and prioritize initiatives within the portfolio based on their relative impact on strategic business objectives. ▪ Provide a dependency view across the entire organization to help portfolio decisionmakers make work (re)prioritization and sequencing decisions. ▪ Provide tools and coaching to help other delivery roles effectively identify and mitigate initiative-level risks. ▪ Apply risk management rigor based on the initiative's size and complexity, with larger and more complex initiatives receiving disproportionate rigor.
17	Project and Portfolio Management	Manage Frameworks and Standards	Important to key objectives	Promote Delivery Methodologies. ▪ Define standard methodology for delivering initiatives for the organization. ▪ Aggregate feedback on process and methodology improvement from project/product managers, delivery teams, and stakeholders to identify and address the most impactful improvement areas.

List of Improvement Opportunities (7 of 8)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
18	Security & Risk Management	Protect the Infrastructure	Important to key objectives	Secure the Network and Perimeter. ▪ Explore machine learning capabilities to improve threat detection based on historic behavior. Secure the Endpoints. ▪ Use application control on endpoints to restrict applications that can be installed by users using either allow or deny lists. Secure Applications. ▪ Include deterministic security testing (SAST and/or DAST) before deployment as part of a formalized secure development life cycle. ▪ Implement application security monitoring on all critical applications. Secure Data. ▪ Develop a map of data assets and access policies, including both structured and unstructured data. ▪ Identify sensitive datasets based on risk, considering the impact of regulatory compliance or intellectual property loss. ▪ Deploy data protection technology to control access to sensitive data, as well as basic data monitoring, prevention, and audit control.

List of Improvement Opportunities (8 of 8)

#	Domain	Function	Importance Level (1-4)	Activity and Improvement Opportunities
19	Security & Risk Management	Engage and Support Stakeholders	Important to key objectives	Structure Cross-Functional Risk Relationships. ▪ Establish clear and formal roles and responsibilities for SRM across all business functions. ▪ Clearly define criteria for participating in and influencing business decisions with risk implications across the decision-making process. ▪ Implement a consistent methodology to identify, analyze, and evaluate risk to aid business decision-making.
20	Sourcing and Procurement	Manage Operations	Important to key objectives	Manage Vendor Spend Data. ▪ Use IT vendor spend analytics to support the development of total cost of ownership (TCO) reports. ▪ Analyze and report IT vendor spend data to identify cost optimization opportunities and financial forecasting. ▪ Explore use of automation methods for tracking IT vendor spend data, contract life cycle management (CLM), and software asset management (SAM).
21	Sourcing and Procurement	Engage Business and IT Stakeholders	Very Important to key objectives	Communicate Value Proposition. ▪ Measure and provide project-specific documented evidence of value delivered.

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3.3 Stakeholder Interview Findings

Strategy and Execution

Findings

- Efforts have been made to further formalize the strategy practice, including building out roadmaps and advancing understanding of divisional plans, ensuring alignment to MPI 2.0.
- MPI is moving towards a lean portfolio management approach, standing up lean principles and mechanisms.
- While MPI is currently organized by divisions, it is evaluating the possibility of organizing around value streams.
- Progress has been made in defining an operating model which includes performance metrics, principles, and standards.
- The strategy function currently reports to the Chief Transformation Officer (CTO).
- Although Nova is separated from the strategy work within scope, the impact of Nova on divisions is taken into consideration.
- MPI's strategy includes a focus on continuous improvement and quarterly planning reviews with senior leadership, including portfolio managers aligned by division.

Applications

Findings

- MPI has undergone significant change, including a complete reorganization – working towards building maturity around prioritization of initiatives based on business needs, aligning teams to value streams.
- Quarterly planning session/three-month sprints are used to support iterative development and product management.
- Product owners and scrum masters have been centralized, creating communities of practice and reducing siloes.
- An Enterprise Application Management (EAM) has been restructured and five new departments have been created.
- Three Centers of Excellence (CoEs) have been established for digital solutions, quality, and integration. These CoEs have helped build standards, frameworks, and governance across development platforms.
- MPI has prioritized maturing its agile practices towards built-in quality, working towards positioning its quality CoE as being a partner to development streams rather than a gatekeeper.
- Key initiatives planned for the quality CoE include testing automation, while improving MPI's ability to map processes traced to business stories (used to structure requirements).
- MPI has centralized its systems architecture under the SDO (software development and operations) in order to increase rigor and improve architecture thought leadership.
- Efforts have been made to forecast technical debt and enablers as part of the organization's roadmaps and business priorities, improving roadmap accuracy and reducing churn when prioritizing work.

Infrastructure & Operations

Findings

- The I&O department at MPI has grown significantly, from zero to 38 FTEs.
- MPI has approved a cloud first strategy and is currently in the middle of a cloud migration (Azure) and digital transformation. To support these changes, the I&O department has established a Cloud Center of Excellence.
- A key aspect of the I&Os role has been managing and documenting services delivered by IBM, working towards a five-year roadmap to migrate date out of IBM data centers.
- Cost savings for the planned migration are estimated to be ~$25 million (taking into consideration additional staffing costs). In addition to reducing costs, improved responsiveness to business needs is seen as another important benefit, enabling MPI to decrease the time it takes to have a new server available from 6-8 weeks to less than a day.
- Attracting and retaining talent is a priority for MPI. There is currently a reliance on consultants to supplement the I&O team's needs.
- The I&O department seeks to increase the use of automation, creating new environments for Nova, doing more scripting, and improving the ease and timeliness of KPI reporting as well as build requests for new solutions.

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Data & Analytics

Findings

- The organization's data analytics capabilities are supported by 28 FTEs, including three managers reporting to MPI's new director of D&A.
- Data and analytics is divided into three key areas: data governance and architecture, data operations and business intelligence, and service delivery.
- MPI has a data governance framework in place and is in the process of drafting a new data strategy with an increased focus on business needs and value, e.g., talking to data modelers and actuaries to understand the business and data quality issues.
- Once the roadmap is developed, MPI plans to maintain quarterly reviews to ensure that the roadmap remains accurate and relevant.
- Microsoft Purview is used to support data governance, in addition to Idera which is also used as a cataloguing tool.

Enterprise Architecture

Findings

- EA has been adapting its operating model in order to better align business capabilities to technical capabilities, meaning a significant shift in accountability as MPI works towards formalizing its EA function.
- MPI has developed an EA charter, documenting its mission and values as well as roles and assigning accountability for procedures and functions to architects.
- Maintaining reference architectures and reducing technology debt is a priority for the EA function, focusing on ensuring compliance to reference architecture and conducting periodic TIME assessments (~50 systems decommissioned for project Nova).
- System architects ensure that EPM entries are managed and updated to understand the health of key systems (system families owned by system architects).
- MPI has made investments in building the EA team, with three new enterprise architects (to deliver VP needs), as well as two solution architects focusing on the development team.
- EA's overall approach signifies a shift in how it supports the business, moving towards making EA a trusted advisor and partner to the business, helping champion large-solution deliveries and seeking to understand the business's long-term goals to align workloads and ensure EA has the right capabilities to support such goals.
- KPIs and performance measurement are in their early stage as EA gradually builds its ability to measure value (e.g., total cost of ownership, infrastructure and technology footprints). A target operating model has yet to be defined.

Security & Risk

Findings

- A hybrid model is used consisting of in-house, contractors, and managed services for MPI's Security Operations Center (SOC).
- Security operations include penetration testing, threat intelligence, security monitoring, and 24/7 staff to monitor security incidents. MPI's internal team is responsible for security incident management and conducting vulnerability assessments (network incidents are a separate team).
- MPI has prioritized recruitment and talent management efforts to build its security team and improve risk management/ assurance. The organization's compliance structure is an area for improvement.
- The security function has made progress by designing security patterns and defining risk management policies and standards.
- MPI conducts security maturity assessments quarterly using the NIST framework, actively monitoring improvement against defined targets reported to the CIO.
- A five-year roadmap of security initiatives has been defined, as well as a dashboard of key security metrics.

Program & Portfolio Management

Findings

- The project management team consists of 9 FTEs (project/resource coordinators, control analysts). MPI has experienced significant organizational churn, particularly for leadership roles.
- PPM lacks a portfolio view of initiatives, central governance, and standardized communication processes (PPM team is in the early stages of addressing these gaps and updating documentation).
- The review process is not consistently applied (instances of projects going into pipeline while circumventing review). Project benefits are not routinely tracked.
- MPI is in the early stages of introducing lean portfolio management practices within a scaled agile framework (SAFe), involving weekly alignment meetings.
- MPI business leaders conduct planning meetings on a quarterly basis, i.e., Program Increment Planning (PI). Decisions from weekly alignment meetings go to monthly meetings (VP committee) for approval before reaching the program backlog.
- Ongoing (re-)prioritization and removal of items is a key aspect of managing the backlog, as well as a focus on transparency (tracking votes for key decisions). Linkage to objectives is an important prioritization decision factor.
- Project financials are presented to senior leadership, in addition to a quarterly board report. Project status, resource allocation, risks and their mitigation strategy are formally documented.
- MPI is moving towards measuring performance at the team level rather than for individual resources and working to break down siloes.
- PowerBI is used for reporting (ADL as data repository tool).

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Sourcing, Procurement, and Vendor Management

Findings

- The vendor management function is involved in strategic planning, identifying goals around contract negotiation, and setting guiding principles as part of cloud training.
- The function consists of three vendor management analysts and a contract advisor focused on Nova contracts.
- MPI does not currently have a supplier management program with scorecards (part of future roadmap).
- Responsibility for vendor management and strategic sourcing have both been aligned to IT, with a focus on understanding agreements with IBM and moving towards cloud.
- MPI is in the process of standing up SharePoint online (Azure), with roadmap exercises conducted in August 2021.
- Maturity is early stage for vendor risk management.
- Long-term roadmap initiatives include focusing on improving the timeliness of the RFP process, being more proactive with resourcing, and getting the organization ready for cloud, including staff cloud training.
- While SharePoint is currently used as a repository for contracts, the organization is looking to move towards a contract management solution.

4. Detailed Recommendations

1 Develop a complete view of MPI's project portfolio, supported by centralized governance and documented PPM processes and standards.

Mgmt Domain	Program & Portfolio Management					
Benefit	Cost Optimization	Service Alignment	Employee Productivity	User Experience	Agility	Risk Mitigation
Complexity	Low		Medium		High	

Description / Rationale
MPI currently lacks a consolidated view of its project portfolio, as well as a project submission/review process which clearly links projects to strategic business objectives. Instances are cited where projects circumvent the formal review process. It is recommended that MPI consider opportunities to streamline the review process with a risk-based approach.

Initiatives	Activities	Deliverables / Outcomes
Develop a complete view of MPI's project portfolio, supported by centralized governance	▪ Establish foundational elements of PPM including a clear view of all enterprise-wide projects and initiatives. ▪ Create a PPM charter and establish a PPM function. ▪ Define personnel roles for PPM. ▪ Establish PPM governance process (roles and responsibilities, forums, decision rights).	▪ Project inventory/dashboard ▪ Formalized PPM charter and governance.
Document PPM processes and standards, tying project review to strategic objectives	▪ Review and update outdated documentation to accurately reflect PPM processes and standards. ▪ Provide guidance/training to business stakeholders on creating business cases for their initiatives as part of the organization's investment allocation process (linking projects to impacts and benefits). ▪ Enable PPM to track and report project impacts and benefits post completion, consistently capturing lessons learned.	▪ PPM standards and processes documentation.
Implement risk-based project review processes, weighing business impact and strategic alignment	▪ Assess strategic alignment and business impact when reviewing projects. For instance, a project that scores below a certain strategic alignment level (which usually happens when a project is broader in scope) must be justified by a higher business impact score to receive funding. ▪ Implement a project risk monitoring plan by allocating resources to manage a project risk register, responding to changing risk factors or events, and reporting on risk compliance. ▪ Develop a risk-tiering system that identifies the type of risk, the likelihood of its occurrence, its impact to strategic goals, and the approach to risk mitigation. Measure impacts in terms of cost, impact to operations, and reputation.	▪ Project review criteria and documented review process. ▪ Project impact/risk scoring methodology for approval and prioritization.

2 Map initiatives and processes to measurable business impacts, prioritizing efforts based on an organizational strategy.

Mgmt Domain	Applications					
Benefit	Cost Optimization	Service Alignment	Employee Productivity	User Experience	Agility	Risk Mitigation
Complexity	Low		Medium		High	

Description / Rationale
Build maturity in domain areas such as applications, I&O, and PM by mapping initiatives and process to measurable business impacts and metrics. Provide strategic direction by developing a technology roadmap which includes long-term and short-term goals, including a documented framework for project prioritization criteria. Identify opportunities to apply automation and KPIs for data-driven decision-making.

Initiatives	Activities	Deliverables / Outcomes
Align project metrics with business goals, measuring benefits realized.	▪ Use information about business goals to define success metrics for new projects. ▪ Analyze IT end-user satisfaction, measured through regularly scheduled or incident-triggered surveys. ▪ Use internal customer experience metrics along with technology-focused performance metrics to update infrastructure strategies and roadmaps based on what customers really want and need. ▪ Track and report project metrics and leading indicators of benefit delivery to the initiative's key stakeholders to trigger any necessary corrective action. ▪ Measure and provide project-specific documented evidence of value delivered.	▪ Project submission/review process to include documented metrics tied to business outcomes.
Facilitate prioritization guided by organizational strategy	▪ Supply portfolio decisionmakers with standard evaluation criteria to assess and prioritize initiatives within the portfolio based on their relative impact on strategic business objectives. ▪ Provide a dependency view across the entire organization to help portfolio decisionmakers make work (re)prioritization and sequencing decisions. ▪ Regularly update organizational models to enhance collaboration and drive alignment with business goals.	▪ Standardized evaluation criteria to assess and prioritize projects/ initiatives.
Develop the technology roadmap	▪ Include IT across the enterprise in the technology roadmap that covers information systems, data and analytics, customer experience, and analytics and IoT platform. ▪ Define responsibility for updating the IT roadmap regularly (with cadence based on organizational need). ▪ Identify opportunities for leveraging automation (e.g., failed releases automatically roll-back or their features are disabled by the production environment, add automated tests whenever a defect is found in manual testing or production, use KPIs for automated problem detection and for future resource planning).	▪ IT roadmap informed by strategic objectives and KPIs. ▪ Increased use of automation (e.g., problem detection).

3 Enable self-service reporting & automation as a means of addressing resource limitations and growing demand, aligning D&A efforts to strategic outcomes.

Mgmt Domain	Data & Analytics					
Benefit	Cost Optimization	Service Alignment	Employee Productivity	User Experience	Agility	Risk Mitigation
Complexity	Low		Medium		High	

Description / Rationale
MPI has undergone significant organizational change and has identified the need for increased automation and self-service capabilities to improve data-driven decision-making across the organization. Areas of opportunity include improving enterprise-wide reporting and elevating the role of innovation through clear ownership and measurement of ROI, as well as more input from the business towards prioritizing strategic initiatives.

Initiatives	Activities	Deliverables / Outcomes
Create and maintain enterprise-wide reporting.	▪ Provide enterprise reports that are interactive, where users can sort and filter to customize their own view. ▪ Evaluate D&A use cases that focus on a transition from a predominantly labor-based approach for simple and repetitive tasks to a more automated one, effectively freeing up talent for more challenging initiatives. ▪ Improve knowledge retention and automation by capturing human expertise (like data integration) and human understanding (like domain expertise) in reusable components/decision tools.	▪ Self-service reporting.
Optimize the D&A operating model.	▪ Define and document the D&A function’s operating model, clarifying its role and value proposition as driven by strategic planning. ▪ Ensure that the D&A function's operating model is enterprise-wide in scope and defines interdependencies across initiatives. ▪ Develop a time-phased plan to progress from the current state to the desired future state D&A operating model. ▪ Key operating model components include the development of design patterns and architectural principles that drive consistency and alignment of implementation.	▪ Up to date IT operating model. ▪ Strategic direction/thought leadership for data architecture.
Establish innovation as a formal business capability, aligning D&A to business outcomes and metrics.	▪ Establish innovation as a formal business capability with business ownership that drives business model evolution. ▪ Advance automation as a formal discipline, e.g., I&O includes an automation role (such as automation engineer). ▪ Make training programs available to staff to build capacity in coding and automation. ▪ Develop a plan to consistently engage and learn about changing needs and define IT value contribution. ▪ Establish a formal relationship management role responsible for engaging with business stakeholders to assess and shape demand. ▪ Work with HR and business leaders to develop enterprise-wide digital skills, mindsets, and competencies. ▪ Establish an enterprise KPI/metrics framework, with an assigned owner to each tracked metric. ▪ Create a ROI model for each data & analytics project.	▪ Focus on innovation driven by strategic outcomes and business needs. ▪ Clear accountability for key metrics/KPIs, measuring ROI on investment for D&A projects.

4 Apply best practices to attract and retain hires, evaluating critical skill gaps and staffing process fit against a workforce plan.

Mgmt Domain	Strategy & Execution					
Benefit	Cost Optimization	Service Alignment	Employee Productivity	User Experience	Agility	Risk Mitigation
Complexity	Low		Medium		High	

Description / Rationale
MPI has experienced significant organizational churn, particularly in leadership roles across IT domains. Stakeholder interviews have identified outstanding skill gaps as well as opportunities to better algin existing staffing processes to urgent hiring needs and employee values. As recommended during MPI's previous IT maturity assessment, the organization should conduct a skills gap analysis and develop a workforce plan.

Initiatives	Activities	Deliverables / Outcomes
Evaluating critical skill gaps against a workforce plan	▪ Develop the long-term, enterprise-wide I&T workforce plan and revise it regularly as business needs change with engagement from IT and business leaders. ▪ Integrate IT career paths with talent assessments that identify employees' skills gaps and prepare them for future roles and new organizational needs through learning and development activities. ▪ Provide and incentivizes learning and development opportunities	▪ Workforce plan and skills gap analysis aligned to strategic objectives.
Apply best practices to attract and retain hires.	▪ Leverage skills gap analysis and strategic objectives as inputs into prioritizing staffing efforts. ▪ As part of workforce planning, use formal criteria to determine whether talent needs are best addressed through internal development, new hires, external sourcing or some combination. ▪ Continue current efforts in providing existing employees with training opportunities and participation in knowledge sharing. Include individual development plans to close skills gaps as part of employee coaching and mentoring. ▪ Use feedback from employees/potential hires to inform decision-making. Where possible, consider ways to align company culture with employee values and work preferences, like work from home.	▪ Targeted internal development opportunies and hiring. ▪ Formal criteria to evaluate how to address talent needs.
Align staffing processes to business needs.	▪ Gather and analyze feedback on existing staffing processes, including measures of timeliness and ability to meet critical/urgent business needs. ▪ Identify areas where staffing processes could be adapted to improve responsiveness. ▪ Consider opportunities to leverage technology to improve talent management and improve agility (e.g. streamlining HR's existing transactional workload, leverage automation technology to manage core HR processes and policies)	▪ Documented staffing processes. ▪ Consider leveraging talent managed tools to streamline HR processes.

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5 Formalize a documented vendor risk management and supplier management framework.

Mgmt Domain	Vendor Management / Sourcing & Procurement					
Benefit	Cost Optimization	Service Alignment	Employee Productivity	User Experience	Agility	Risk Mitigation
Complexity	Low		Medium		High	

Description / Rationale
MPI has yet to develop a documented risk management and supplier management framework, towards a consistent methodology to identify, analyze and evaluate vendor/supplier risk to aid business decision-making. Opportunities exist to further training and accountability around risk management as well as formalize processes around supplier management, including areas such as IT vendor spend analytics

Initiatives	Activities	Deliverables / Outcomes
Establish a vendor risk management and supplier management framework.	▪ Define clear and formal responsibilities for vendor risk management and supplier management. ▪ Implement a consistent methodology to identify, analyze, and evaluate vendor/supplier risk to aid business decision-making. ▪ Use IT vendor spend analytics to support the development of total cost of ownership (TCO) reports. ▪ Analyze and report IT vendor spend data to identify cost optimization opportunities and financial forecasting. ▪ Explore use of automation methods for tracking IT vendor spend data, contract life cycle management (CLM), and software asset management (SAM).	▪ Vendor risk management framework. ▪ Supplier management framework.
Manage IT Risk through improved accountability and training.	▪ Assign accountability for IT risk and enforce an integrated IT risk discipline that considers both risk and reward across IT decision-making from a business perspective. ▪ Assign accountability for continuously assessing IT risks with a focus on the defensibility of decisions with key stakeholders. ▪ Provides tools and coaching to help delivery roles effectively identify and mitigate initiative-level risks. ▪ Apply risk management rigor based on the initiative's size and complexity, with larger and more complex initiatives receiving disproportionate rigor.	▪ Documented description of IT risk management roles and responsibilities. ▪ Training plan to build IT risk management skills and improve adherence to organizational standards/processes.
Establish an adaptive IT governance framework that includes vendor and supplier risk management.	▪ Apply an adaptive IT governance framework balancing the risk and reward of IT investments, enabling agile IT decision-making across the enterprise. Assess the strategic and tactical fit of a governance mechanism with enterprise requirements in a continual way through internal evaluation. Implement and monitor governance mechanisms across the five recognized levers: rules, roles, processes, structures, and culture. ▪ Implement a vendor risk monitoring plan by allocating resources to manage a vendor risk register, responding to changing risk factors or events, and reporting on risk compliance. ▪ Develop a vendor risk-tiering system that identifies the type of risk, the likelihood of its occurrence, its impact and the vendor's approach to risk mitigation. Measure impacts in terms of financial exposure, impact to operations, and reputation.	▪ Adaptive IT governance framework. ▪ Vendor risk register and risk-tiering system. ▪ Risk monitoring plan with assigned accountability.

5. Appendix

Efforts to build out new modernized applications have reached a new level of intensity at MPI, while existing IT management processes have been re-baselined

Investments in IT

- MPI's IT spending levels are significantly higher than peers, but are within a typical range of spending excluding investments in digital modernization
- MPI's IT staffing levels are higher than peers, but within a typical range when Nova staffing is considered
- MPI's IT spending per enterprise employee is lower and below the 25th percentile of peers when Nova project personnel are excluded

Value Delivered

- MPI continues to build out new, modernized applications
- MPI has adapted services to changing business requirements, adopted agile application development processes, and implemented product management
- IT service management processes are more mature than peer organizations in 7 out of 9 domains
- MPI has re-baselined its level of maturity for IT service management and brought transparency improvement plans

Previous investments in IT have yielded high levels of maturity, however, service management processes were not conducted with the level of formality required and, in many cases, were not applied universally. This new focus on transparency will bring integrity to improvement roadmaps.

The previous recommendations on MPI's implementation roadmap are listed below:

	Recommendation	Status
1	**Conduct a skills assessment and create a workforce plan to address the new skills required within the IT organization**	**On Track** ▪ Training plans for each directorate created and submitted to HR ▪ Cloud skills determined to be an imperative
2	**Ensure IT Financial Management facilitates priorities for investments across products and services and has flexibility to adjust to changing business plans**	**On Track** ▪ IT budget centralized within a single director ▪ Agile business case process enables mid-cycle changes to funding allocation
3	**Increase the scope of delivery of the integration strategy for applications and continue to document the APIs**	**On Track** ▪ Integration CoE established ▪ Contractor engages to lead integration efforts
4	**Integrate third-party risk management into the IT Security Governance, Risk and Compliance (GRC) processes**	**On Track** ▪ Risk policies established ▪ Established recognition of the need to manage third-party risk
5	**Formulate a sourcing and vendor management approach for utilizing cloud-service providers**	**On Track** ▪ Market for infrastructure service provide in progress ▪ Training on deal-making with cloud service providers

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Reconciling Past IT Benchmark Recommendations

Past Benchmark Recommendations (FY 2019/2020)

1. **Conduct a skills assessment and create a workforce plan to address the new skills required within the organization.**
2. **Ensure IT Financial Management facilitates priorities for investments across products and services and has flexibility to adjust to changing business plans.**
3. **Increase the scope of delivery of the integration strategy for applications and continue to document the APIs.**
4. **Integrate third-party risk management into the IT Security GRC processes.**
5. **Formulate a sourcing and vendor management approach for utilizing cloud-service providers.**

Completing a skills assessment and workforce plan is carried over as part of the current benchmark

Third-party risk management not yet fully integrated into IT Security GRC processes

Current Benchmark Recommendations (FY 2021/2022)

1. **Develop a complete view of MPI's project portfolio, supported by centralized governance and documented PPM processes and standards.**
2. **Map initiatives and processes to measurable business impacts, prioritizing efforts based on an organizational strategy.**
3. **Enable self-service reporting & automation as a means of addressing resource limitations and growing demand, aligning D&A efforts to strategic outcomes.**
4. **Apply best practices to attract and retain hires, evaluating critical skill gaps, and staffing process fit against a workforce plan.**
5. **Formalize a documented vendor risk management and supplier management framework.**

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IT Maturity Score Survey Respondents/Interviewees

IT Domain	Name	Title / Role	E-mail Address
Strategy & Execution	Dean Zarillo	Director, Strategy	dzarrillo@mpi.mb.ca
Applications	Peter Garn	Director, Applications	pgarn@mpi.mb.ca
Data & Analytics	Syed Qadri	Director, Data Management and Analytics	sqadri@mpi.mb.ca
Enterprise Architecture	Shawn Campbell	Director, Enterprise Architecture	scampbell2@mpi.mb.ca
Infrastructure & Operations	Dave Hunter Robin Hildawa	Manager, Agile Program Management Office	dhunter@mpi.mb.ca
Security & Risk	Salman Ashraf	Director, Corporate Information Security Officer (CISO)	sashraf@mpi.mb.ca
Program & Portfolio Management	Ed Doer	Director, PPM	edour@mpi.mb.ca
Sourcing/Procurement	Chad Muir	Director, Strategic Sourcing & Vendor Management	cmuir@mpi.mb.ca
Vendor Management	Chad Muir	Director, Strategic Sourcing & Vendor Management	cmuir@mpi.mb.ca

Glossary

- **Run:** IT resources which are consumed and focused on the continuing operation of the business
- **Grow:** IT resources consumed and focused on developing and enhancing IT systems in support of business growth (typically organic growth or improvements in known business processes)
- **Transform:** IT resources consumed and focused on implementing information and technology systems that enable the enterprise to enter new markets, address new customer segments, create new value propositions, and enact new business models

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CAC (MPI) 2-39

Part and Chapter:	**Part V IT Attachment A Gartner IT Benchmark report for FY 2021/22**	**Page No.:**	**10**
PUB Approved Issue No:	**15. Information Technology benchmarking**		
Topic:	**Insurance Industry Peers**		
Sub Topic:			

Preamble to IR:

On page 10, Enterprise Metrics, Gartner shows 'Total Number of IT employees (including Contractors) of 467 for MPI 2021/22 compared to Current Peer Average of 304, 163 fewer employees compared to MPI.

Question:

Please provide a detailed explanation for MPI employing/engaging 163 more IT employees/consultants compared to the current peer average.

Rationale for Question:

To assess the need for MPI's current IT staffing complement compared to its peers.

RESPONSE:

Without a complete understanding of the peer group, including priorities, initiatives and transformation projects, it is difficult to concretely understand the comparison. MPI has many IT initiatives including data management & analytics, modernization of IT platforms to support all areas of the business, and project NOVA. A large portion of the variance is the resources required for Project NOVA, the number of IT employees/consultants include resources dedicated to project NOVA.

CAC (MPI) 2-40

Part and Chapter:	**Part V – IT Attachment A Gartner IT Benchmark report for FY 2021/22**	**Page No.:**	**13**
PUB Approved Issue No:	**15. Information Technology benchmarking**		
Topic:	**Overall IT Maturity Level**		
Sub Topic:			

Preamble to IR:

On page 13 the report indicates a decrease in the Current Overall IT Maturity Level of 2.75 compared to 2019/20 if 3.39.

It further states: "MPI are currently in the process of significantly re-baselining capabilities in Program Portfolio Management"

Question:

Please provide a narrative discussion explaining the meaning of MPI "re-baselining capabilities in Program Portfolio Management".

Rationale for Question:

To assess the change in MPI's overall IT maturity level.

RESPONSE:

New leadership with external experience and perspective was able to review the maturity and program with a fresh perspective which lead to the decrease in the self assessment questionnaire and interview.

The assessment with a maturity level of 3.39 in 2019/20 was prior to the Scaled Agile methodology introduced to the corporation in 2021. The decline in the assessment for 2021/22 was due to several factors including:

- The introduction of the SAFe/Agile framework and without proper training and Agile foundation throughout the organization .
- Lack of a change management plan leading to employee resistance to adaptation to a changing enterprise.
- Agile methodology implemented prior to a solid foundation with advanced training and change management embedded in implementation.
- Dichotomy of beliefs in traditional and agile life cycles.
- Lacking defined identity, including, objectives, vision, purpose and value proposition.
- Minimum engagement with stakeholder.
- Implementation lacks transparency, trust and true accountability.
- Inability to identify and measure outcomes / value realized.
- Inadequate or misaligned skill sets.

CAC (MPI) 2-41

Part and Chapter:	**Part V – IT Attachment A Gartner IT Benchmark report for FY 2021/22**	**Page No.:**	**22**
PUB Approved Issue No:	**15. Information Technology benchmarking**		
Topic:	**MPI has a higher cost per organizational employee relative to peers**		
Sub Topic:			

Preamble to IR:

On page 12 the report indicates that MPI has a higher cost per organizational employee relative to peers—MPI $73,698 and Peer Average $60,146.

On page 65 it states in recommendation 4: "Apply best practices to attract and retain hires, evaluating critical skill gaps and staffing process fit against a workforce plan."

Question:

Please provide a narrative discussion explaining reasons for MPI's higher cost per organizational employee compared to its peers.

Please contrast in a narrative discussion the higher cost per organizational employee with recommendation 4 as stated in the preamble.

Rationale for Question:

To assess the reasons for the MPI's higher cost per organizational employee relative to its peers and reasons higher challenges.

RESPONSE:

Without a complete understanding of the peer group, including priorities, initiatives and transformation projects, it is difficult to concretely understand the comparison. MPI has many IT initiatives including data management & analytics, modernization of IT platforms to support all areas of the business, and project NOVA. A large portion of the variance is the resources required for Project NOVA, the number of IT employees/consultants include resources dedicated to project NOVA.

Excluding the IT costs associated with NOVA, MPI is significantly under the peer average at $39,936 IT spend per enterprise employee.