

**IBAM (MPI) 2-1**

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| <b>Part and Chapter:</b>      | <b>V.EXP.6<br/>CAC (MPI) 1-20</b>                          | <b>Page No.:</b> | <b>65</b> |
| <b>PUB Approved Issue No:</b> | <b>8. Cost of Operations and Cost Containment Measures</b> |                  |           |
| <b>Topic:</b>                 | <b>Broker Commissions</b>                                  |                  |           |
| <b>Sub Topic:</b>             | <b>Effective Rate vs. Stated Rate</b>                      |                  |           |

**Preamble to IR:**

MPI states that for “in-person transactions, the effective rate exceeds the stated rate because MPI does not claw back paid commissions on cancelled or terminated policies”.

**Question:**

Please:

- a) confirm that MPI does not claw back commissions on cancelled or terminated policies only because it does not have the technological capabilities to do so;
- b) confirm that the effective rate is the negotiated commission rate and that the stated rate in regulations was reached by MPI as a means to target the effective rate, keeping in mind MPI’s inability to claw back commissions. In other words, please confirm that the stated rate is used to meet the effective rate;
- c) advise whether MPI is developing technology that will enable it to claw back commissions;
- d) advise whether MPI intends to revisit broker commission rates with IBAM in expectation of the claw back technology being available, in order to ensure that the stated/regulated rate will match the negotiated/effective rate; and

- e) advise whether MPI charges customers when cancelling a policy;
  - i. if so, how much is the customer charged per cancellation; and
  - ii. if so, will this change if/when MPI gains the ability to claw back commissions.

**Rationale for Question:**

To understand MPI's ability to claw back commissions on cancelled policies

**RESPONSE:**

- a) Confirmed. MPI does not perform claw backs from brokers for Basic and Extension policies due to the limitations (complex system changes) within the respective systems.
- b) Confirmed.
- c) MPI needs to first understand the product (Duck Creek) functionality with regards to the ability to claw back commissions, which will occur during R3a discovery.
- d) As per the IBAM – MPI Agreement on Service Delivery, if Project Nova enables MPI to reconcile commissions paid to reflect policies cancelled or otherwise amended, MPI will negotiate with IBAM in good faith concerning how such capabilities may be used when amending the IBAM – MPI Agreement on Service Delivery.
- e) Policies are cancelled in 2 ways:
  - 1- Pro-Rata** in the following situations:
    - o Deceased Customer
    - o Total Loss Vehicle
    - o Policy Changed from Multi-Year to Annual or Vice Versa
    - o When the policy rating term is not yet effective, full premiums, charges/fees and registration are credited

There is no cancellation fee or retained premium.

## **2- Short-Rate**

### **Multi-Year and Annual Policies**

MPI charges a Short Rate Cancellation fee to cover MPI's administrative expenses (for example, commissions) incurred when the policy is issued and when it is cancelled prior to the rating term expiry date. Consequently, customers who keep their policies for the full term do not subsidize other customers who cancel their policies early.

The cancellation fee consists of approximately 7% of the premium written, less 0.02% for each day the policy was in effect. The fee is incorporated into the short rate proration and only applies to policies in effect 349 days or less.

**IBAM (MPI) 2-2**

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| <b>Part and Chapter:</b>      | <b>IV.NOV.6</b>  | <b>Page No.:</b> | <b>28</b> |
| <b>PUB Approved Issue No:</b> | <b>4. Financial Forecast<br/>8. Cost of Operations and Cost Containment Measures</b> |                  |           |
| <b>Topic:</b>                 | <b>2022 Project NOVA Re-Baseline</b>   |                  |           |
| <b>Sub Topic:</b>             | <b>Broker Commissions &amp; Broker Agreement</b>                                     |                  |           |

**Preamble to IR:**

MPI states that

*"The 2022 Re-Baseline also reduced the expected savings tied to Ongoing benefits by \$54.1M. The main reason is a reduction in broker commission savings and the delay in the started date of realizing most benefits caused by the flattened delivery changes. The adjustment for broker commissions results from new delivery timelines and an updated assessment of which online transactions will be made available to customers. Online transactions will be deployed as part of Release 3B. The date to complete all deployment activities for this release was moved out 12 months. The change means that MPI will not realize the benefits of lower online commissions until completion of the deployment. The second factor affecting broker commission savings in the 2022 Re-Baseline is the number of commissionable transactions available online..."*

**Question:**

Please:

- a) advise the causes for the delay to the release of online services;
- b) confirm that the savings in broker commissions expected upon the launch of online services are derived from IBAM's agreement with MPI for lower commission rates for online transactions; and

- c) please provide a schedule demonstrating the commissions forecasted to be paid to brokers for the next ten years as compared to the commissions that would have been paid to brokers for the next ten years under the prior broker agreement, had commissions not been revised in the new Broker Agreement, and provide the total savings in commissions expected for the next ten years as a result of the new rates in the new Broker Agreement.

**Rationale for Question:**

To explore the savings in broker commissions expected from the Broker Agreement despite the delays in Project Nova.

**RESPONSE:**

- a) At inception, the NOVA team identified potential risks, some of which materialized in the fall of 2021. It then prepared and actioned mitigation plans to address those risks impacting the established release schedule. MPI carried out two program reviews that focused on de-risking NOVA by developing and implementing additional mitigation plans. The NOVA team conducted one of these reviews and McKinsey, an external vendor, conducted the other. The NOVA team review resulted in the creation of a de-risking approach that involved revising or “flattening” the delivery plan to extend various system release dates by between 12 and 20 months.
- b) Confirmed. The anticipated savings in broker commissions is directly tied to the timing of the launch of online services and the lower commissions rates associated with online transactions.
- c) Please refer to Figure 1 below for the requested schedule.

**Figure 1 Estimated Broker Commissions (10-year comparison): New rates with online transactions vs. status quo commissions**

| Line No. | Fiscal Year #                         | 1       | 2       | 3       | 4       | 5       | 6       | 7       | 8       | 9       | 10      | Total Difference |
|----------|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|
|          | Fiscal Year                           | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 |                  |
| 1        | Commission Estimate (\$Millions):     |         |         |         |         |         |         |         |         |         |         |                  |
| 2        | Status Quo - Prior Agreement          | 90.63   | 93.77   | 97.02   | 100.38  | 103.86  | 107.46  | 111.18  | 115.03  | 119.02  | 123.15  |                  |
| 3        | New Rates with Online Transactions    | 94.92   | 95.92   | 92.29   | 93.26   | 94.18   | 95.06   | 98.36   | 101.78  | 105.32  | 108.97  |                  |
| 4        | Difference                            | -4.29   | -2.15   | 4.73    | 7.13    | 9.68    | 12.40   | 12.82   | 13.26   | 13.71   | 14.17   | 81.45            |
| 5        | Assumption - % of online transactions |         | 10%     | 25%     | 30%     | 35%     | 40%     | 40%     | 40%     | 40%     | 40%     |                  |

**IBAM (MPI) 2-3**

|                               |  |                  |  |
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| <b>Part and Chapter:</b>      | <b>PUB (MPI) 1-62(b)</b>                                   | <b>Page No.:</b> |  |
| <b>PUB Approved Issue No:</b> | <b>8. Cost of Operations and Cost Containment Measures</b> |                  |  |
| <b>Topic:</b>                 | <b>Broker Commissions and the Broker Agreement</b>         |                  |  |
| <b>Sub Topic:</b>             |  |                  |  |

**Preamble to IR:**

MPI states that "*Discussions with IBAM regarding Agreement updates are on hold pending further planning on the NOVA R3B release roadmap, in order to validate timing*".

**Question:**

Please:

- a) confirm that discussions with IBAM regarding potential amendments to the Broker Agreement are, in fact, ongoing;
- b) advise when MPI expects to be in a position to validate timing on the NOVA R3B release roadmap; and
  - i. if MPI is already in such a position, please confirm timing on the release of online services.

**Rationale for Question:**

To understand MPI's timing for the launch of online services.

**RESPONSE:**

- a) Confirmed. Discussions with IBAM regarding potential amendments to the Broker Agreement are ongoing.
  
- b) R3B is currently identified for implementation in July 2024. This timing will be validated through Discovery sessions late Winter/Spring 2023.



**IBAM (MPI) 2-4**

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| <b>Part and Chapter:</b>      | <b>PUB (MPI) 1-50</b>        | <b>Page No.:</b> |  |
| <b>PUB Approved Issue No:</b> | <b>8. Cost of Operations</b> |                  |  |
| <b>Topic:</b>                 | <b>Compensation</b>          |                  |  |
| <b>Sub Topic:</b>             | <b>Commissions</b>           |                  |  |

**Preamble to IR:**

MPI stated that it is forecasting an increase of total corporate staffing from \$180.5M to \$199.4M, in part due to the “build out of core transformational initiatives to increase services to Manitobans”.

**Question:**

Please:

- a) Advise what is meant by “core transformational initiatives”; and
- b) List the core transformational initiatives and provide a description of each.

**Rationale for Question:**

To understand if the core transformation initiatives affecting corporate staffing will in turn affect the support for brokerages or the services provided by brokers in the Broker Agreement.

**RESPONSE:**

- a) Transformational initiatives are required to ensure achievement of MPI 2.0 and attainment of industry leading best-practices. MPI has now established where it wants to be through planning key requirements focused on service to Manitobans.

The key transformational activities are rooted in servicing Project Nova and achieving key mandates.

The challenge is getting there. The challenges are addressed by having and retaining people with the competency and capacity to execute its plan. Applying Enterprise Risk Management principles, MPI has identified "People Risks" as one of its major risks. As stated in the Overview chapter, MPI operated for the past decade with an actuarial team consisting of just one actuary. According to the 2022 Financial Post 500 listing, MPI is the 10<sup>th</sup> largest Property & Casualty insurer in Canada. And while its actuarial services team did extraordinary work considering its limited capacity and resources, it has become clear that continuing to do so would put MPI at risk. For example, as noted in prior GRAs, MPI does not use Generalized Linear Modelling (which is an industry best practice). Another example, MPI has experienced difficulty in responding to PUB directives, attributable entirely to capacity issues. These results are unacceptable to MPI and highlight the fact that no matter how resolute and hardworking its varied departments are, MPI needed to transform and augment its FTE base to ensure core foundation activities are achieved that service all Manitobans, including stakeholders. MPI has noted these key resource gaps within Finance, HR, IT, and various other functions.

b) Core Transformational Activities

Project Nova is the core transformational activity within MPI, one that will enhance and increase fundamental services provided to Manitobans. All the software that MPI currently uses to complete customer transactions will be replaced by NOVA, namely:

- i. Insurance Work Station (IWS)
- ii. Autopac On-Line (AOL)
- iii. Driver Licensing System (DLS)
- iv. Claims Administration and Reporting System (CARS)
- v. Specialty Insurance Services (SIS)

MPI will introduce new software called Celtic for vehicle registration and driver licensing information (replacing IWS and DLS). Duck Creek On Demand insurance software will be used for Autopac products, Special Risk Extension policies and for physical damage claims (replacing AOL, CARS and SIS). These out-of-the-box software solutions will allow MPI to build its own business rules.

**MPI 2.0** is the transformational mindset based on internal projects meant to transform MPI into a leader by providing value to customers in keeping with the following aspirations:

- Customer experience drives improvements;
- Improvements must make financial sense;
- Create a culture of continuous improvement through empowerment and automation;
- Be a fast follower of industry best practices and trends; and
- Actively engage stakeholders along the way.

**IBAM (MPI) 2-5**

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| <b>Part and Chapter:</b>      | <b>PUB (MPI) 1-114 Attachment A</b>            | <b>Page No.:</b> | <b>18</b> |
| <b>PUB Approved Issue No:</b> | <b>8. Cost Containment</b>                     |                  |           |
| <b>Topic:</b>                 | <b>Customer Service</b>                        |                  |           |
| <b>Sub Topic:</b>             | <b>Broker Commissions and Broker Agreement</b> |                  |           |

**Preamble to IR:**

MPI has stated that to “continue focus on the broker experience” is not an immediate priority and empowering front-line employees is a “big bet”.

**Question:**

Please:

- a) advise the reason that focusing on the broker experience is not an immediate priority for MPI;
- b) advise what is meant by “big bet”;
- c) advise the reason that empowering front-line employees is a “big bet”;
- d) advise if MPI has any forecasting or estimates regarding how many customers will call into MPI or to brokers to ask questions while performing online transactions;
- e) advise if MPI expects that there will be a reduction or increase on demand of non-transactional enquiries (i.e., questions that do not result in a transaction being effected by the person answering the questions) from customers on MPI service centres, MPI contact centres and brokers upon the launch of online services; and

- f) advise if MPI has considered any increased demand on service centres or contact centres with regard to enquiries prior to a customer completing an online transaction in regard to its forecasting for FTE requirements and cost of operations;
- g) advise if and how MPI will be advising individual online customers that there are third parties offering extension products and that those third party extension products may be better suited to an individual customer; and
- h) advise the revenue brought in, for each of Driver and Vehicle Licensing, Basic and Extension, through each of service centres, brokers, and contact centres for the past five years and forecast the revenue by each for the next five years.

**Rationale for Question:**

To understand the strategy involving brokers and employees and how that may affect broker services and, in turn, broker commissions.

**RESPONSE:**

Please note that the quotes in the IR preamble were made by KPMG to facilitate executive discussion, as referenced in *PUB (MPI) 1-114 – Attachment A*:

*MPI has stated that to "continue focus on the broker experience" is not an immediate priority and empowering front-line employees is a "big bet".*

- a) **advise the reason that focusing on the broker experience is not an immediate priority for MPI;**

Although KPMG had prioritized broker experience later in the roadmap, MPI has moved this earlier due to its importance on customer experience. MPI and IBAM are already collaborating to:

1. design systematic methods for gathering, documenting, and weighing broker experience feedback; and
2. gather broker insights on customer experience improvement opportunities to identify strategies that could benefit both customer and broker experiences.

b) **advise what is meant by “big bet”;**

This phrase is not fully defined by KPMG but would seem to suggest that big bet initiatives have potential to deliver large progress with large effort.

c) **advise the reason that empowering front-line employees is a “big bet”;**

This phrase is not defined by KPMG, but corresponding interpretation indicate that this initiative includes large value with large effort. It incorporates multiple projects and deliverables, including:

1. Baseline needs and conducting feedback sessions
2. Development of standardized training plan
3. Rolling out e-learning modules
4. Scaling to all transaction types

d) **advise if MPI has any forecasting or estimates regarding how many customers will call into MPI or to brokers to ask questions while performing online transactions;**

MPI does not yet have this information as the work on the NOVA release pertaining to customer online transactions, including discovery, has not fully started.

e) **advise if MPI expects that there will be a reduction or increase on demand of non-transactional enquiries (i.e. questions that do not result in a transaction being affected by the person answering the questions) from**

**customers on MPI service centres, MPI contact centres and brokers upon the launch of online services;**

MPI does not yet have this information as the work on the NOVA release pertaining to customer online transactions, including discovery, has not fully started.

- f) **advise if MPI has considered any increased demand on service centres or contact centres with regard to enquiries prior to a customer completing an online transaction in regard to its forecasting for FTE requirements and cost of operations;**

MPI will develop this plan using input received from customers and employees during the release process for launching customer online transactions.

- g) **advise if and how MPI will be advising individual online customers that there are third parties offering extension products and that those third party extension products may be better suited to an individual customer; and**

MPI will develop this plan following industry best practice input during the release process for launching customer online transactions.

- h) **advise the revenue brought in, for each of Driver and Vehicle Licensing, Basic and Extension, through each of service centres, brokers, and contact centres for the past five years and forecast the revenue by each for the next five years.**

Based on limitations within its systems and the availability of granularity of data, MPI does not forecast revenue for Driver Vehicle Licensing, Basic and Extension, through the service centers/brokers/contact centers on normal basis. Rather, its 5 year forecasts occur at the line of business level. Accordingly, gathering and producing this information will require significant time and IT resources (approximately 5-7 business days) and MPI will provide as soon as it is available.

**IBAM (MPI) 2-6**

|                               |  |                  |           |
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| <b>Part and Chapter:</b>      | <b>PUB (MPI) 1-114 Attachment A</b>            | <b>Page No.:</b> | <b>20</b> |
| <b>PUB Approved Issue No:</b> | <b>8. Cost Containment</b>                     |                  |           |
| <b>Topic:</b>                 | <b>Customer Service</b>                        |                  |           |
| <b>Sub Topic:</b>             | <b>Broker Commissions and Broker Agreement</b> |                  |           |

**Preamble to IR:**

MPI states that it will focus on empowering the front-line employee until mid-2023 and will “continue focus on the broker experience from early 2024 and beyond”.

**Question:**

Please:

- a) Advise why empowering front-line employees ends in mid-2023 and what is the deliverable or target that MPI is seeking to meet by mid-2023 in this regard; and
- b) Advise why the broker experience is not being focused on until 2024 and advise what the “continued focus” will be on.

**Rationale for Question:**

To understand the strategy involving brokers and employees and how that may affect broker services.

**RESPONSE:**

Please note that the quotes in the IR preamble were made by KPMG to facilitate executive discussion as referenced in PUB (MPI) 1-114 – Attachment A:



*MPI states that it will focus on empowering the front-line employee until mid-2023 and will "continue focus on the broker experience from early 2024 and beyond".*

- a) **Advise why empowering front-line employees ends in mid-2023 and what is the deliverable or target that MPI is seeking to meet by mid-2023 in this regard; and**

These advisements were developed by KPMG for discussion purposes. Currently, MPI has built out a continuous front-line employee empowerment process to advance customer and employee experience by:

1. Developing a mechanism for capturing employee and customer experience on a continuous basis to identify training opportunities and tools for furthering positive interactions;
2. Documenting and weighing the most impactful training opportunities across customer journeys by both customer and employee experience perspectives; and
3. Developing out a plan to roadmap training items and other enablers to further employee empowerment.

- b) **Advise why the broker experience is not being focused on until 2024 and advise what the "continued focus" will be on.**

These advisements were developed by KPMG for discussion purposes. Currently, MPI is incorporating broker experience input into the same framework used to empower front-line employees. Specifically, MPI and IBAM are working to:

1. Develop mechanisms for capturing broker experience on a continuous basis (referred to as the Voice of Broker program);

2. Design mechanisms for weighing opportunities for both customer experience and broker experience improvements; and
3. Design a method for prioritizing opportunities to enhance customer and broker experience.