MANITOBA PUBLIC INSURANCE

2024 GENERAL RATE APPLICATION

CLOSING SUBMISSIONS

October 26, 2023

MANITOBA
PUBLIC INSURANCE

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INTRODUCTION

In this General Rate Application (GRA), Manitoba Public Insurance (MPI) emphasized the need to refocus on its mission and mandate in the wake of uncertainty. Unfortunately, the theme of uncertainty appears consistently throughout the last few GRAs -- since the onset of the COVID-19 Pandemic in 2020.

The Public Utilities Board (PUB) heard of the challenges faced by Manitobans and MPI this year and learned that a number of these challenges will extend into the foreseeable future.

To address these challenges, MPI recognizes that it must refocus its efforts on achieving its mission and mandate. To that end, the PUB heard from Marnie Kacher, Interim President and Chief Executive Officer, that the Board of Directors gave her a clear mandate to execute against three key business objectives:

1. Meet financial objectives through a continual focus on fiscal prudence and financial management;

2. Deliver Project NOVA; and

3. Improve service delivery.

MPI is committed to working on achieving these objectives. And we believe that this commitment is exemplified by and throughout this GRA.

MPI delivers its 2024 GRA at an exceptional time in its history. The fact that it delivered a robust and largely complete application and presented more than forty witnesses and subject matter supports during a three-week oral hearing is truly a testament to the hard work and dedication of its staff and consultants. Therefore, before going through the substance of this submission, we believe it is important to reflect on the past few weeks, be cognizant of the significant effort needed to carry out this process and to acknowledge and express our sincere gratitude to all those who made it happen.

RELIEF REQUESTED

The Legal Application Chapter of the GRA[1] sets out the specific relief sought by MPI. Broadly speaking, MPI requests:

1. approval of its request for no changes to the overall rates for service;
2. no changes to Permits, Certificates, Fees and Driver Premiums;
3. approval of the expansion of the Driver Safety Rating (DSR) scale up to DSR Level +18;
4. approval of the proposed changes to discounts available under the DSR scale and the corresponding increase to the base rate to offset these changes;
5. approval of the Capital Management Plan (CMP);
6. modifications to the Fleet Rebate Program; and
7. approval of the new Vehicle for Hire (VFH) Framework.

Applied for Overall Rates for Service

As it concerns its overall rates for service, MPI applies for no changes for the next insurance year (i.e., April 1, 2024 - March 31, 2025). This request accords with Manitoba Order in Council (OIC) No. 94/2023, which states at page 3 thereof:

> *"The Corporation is directed:*
>
> *(…)*
>
> *(d) in its next General Rate Application to The Public Utilities Board, to propose no changes to the rates for*

[1] 2024 GRA e-book, pg. 22-26;

> *service, pending the completion of the organizational review…"*[2]

Although MPI applies for a 0% overall rate indication, the reality is that rates naturally change each year due to forces outside its control. Vehicle drift (i.e., the addition, removal and adjustment of vehicles within the total fleet) as well as the movement of driver within the Driver Safety Rating (DSR) scale over time results in a natural drift in premiums. Figure R1-10[3] summarizes the calculation of the required and applied for rates of the major classes and highlights the impact of drift on the required rate. For example, the average rate payable in the current insurance year (i.e., 2023/24) is $870.37. MPI projects the impact of drift on this rate to be 4.8%, thereby increasing the average rate payable in the next insurance year (i.e., 2024/25) to $912.02. By seeking no change in the overall rate indication, MPI requests that the effects of the above-described drifting be applied, without adjustment. Therefore, if approved, the average premium payable would increase next year by $41.65 compared to the previous year.

However, as illustrated by Figure RI-10, drifting impacts each major class differently. For example, the average premium for ratepayers in the Private Passenger Major Class would increase from $1,150.24 currently to $1,213.76 next year. Conversely, the average motorcycle premium would fall to $843.32, from $882.92. Finally, according to the Dislocation Reports filed by MPI with its GRA, the average premium for the Taxicab VFH subclass in Territory 1 (Winnipeg) would increase by 15.30%, from $8,885.09 to $10,128.55 while the average premium for the Private Passenger VFH subclass in Territory 1 would increase by 3.80%, from $4,225.17 to $4,684.33.[4]

It should also be noted that MPI was required to apply an average vehicle premium offset to account for changes to DSR discounts required by the PUB to bring the discounts closer to actuarially indicated targets. As highlighted by Figure RI-11[5], increasing those DSR discounts reduced the average premium payable by 4.95% (i.e.,

[2] https://www.gov.mb.ca/asset_library/en/proactive/20222023/directive-mpi-corporation-respecting-organizational-review.pdf
[3] *Supra.* 1, pg. 2136;
[4] *Supra.* 1., pg. 2543 and 2548;
[5] *Ibid.*, pg. 2137;

from $912 to $867). To offset this reduction and ensure a 0% change to rates overall, the PUB heard that MPI increased the base rate by an overall average of 5.21%.[6]

Of course, the premium payable by each ratepayer next year will also be influenced by their own circumstances (e.g., placement on the DSR scale and things like changes in their type of vehicle, location within the province, and insured use).

Owing to the OIC, MPI could not apply for an overall rate determined in accordance with Accepted Actuarial Practice (AAP). In addition to presenting evidence outlining a 0% overall rate indication, MPI also provided evidence setting out what its provisional and updated overall AAP rate indication would have been. That said, the PUB heard that, despite a variation between the applied-for rates and rates based on AAP, MPI believes its applied-for rate is appropriate in the circumstances. As Cara Low, the Vice President, Chief Actuary and Chief Risk Officer testified during the oral hearing:

> *"Just like in the other – estimate, the predictions would – would continue to move as more experience unfolds and given the uncertainties of current times, any estimates would be vulnerable, including directionally.*
>
> *A heavier or lighter actual experience would – would put pressure on the best estimates.*
>
> *MPI is, hence, more comfortable with a zero percent rate indication, given the degree of uncertainty in current times."*[7]

The PUB heard further about this uncertainty from the Claims Forecasting Panel, which identified several events occurring following the release of their claims forecast that could impact certain trends next year. MPI therefore believes that approving its application for no overall change in rates would be just and reasonable.

[6] 2024 GRA Transcript pg. 819-820, lines 24-25 and 1-2 (see also: MPI Exhibit #65, slide 7);
[7] *Ibid.,* pg. 821, lines 8-17;

AAP Overall Rate Indication

As previously indicated, MPI presented evidence identifying what its provisional and updated AAP overall rate indication would have been had MPI applied for same. In fact, to calculate a 0% overall rate change, the PUB heard that MPI first determined the AAP rate indication, including AAP for each major class, then scaled it back to achieve the overall zero percent rate change.[8]

When MPI filed its GRA on June 15th, the provisional AAP overall rate indication was -0.13%. When MPI filed its rate update on October 4th, the final AAP overall rate indication decreased further to -1.48%. Slide 8 of MPI Exhibit #65, depicts how MPI arrived at this final AAP rate indication. The biggest impact is from updates to the expected yield rate or new money yield (from 4.22% to 5.04%, net of investments), which decreased the overall rate indication by -1.35%.

No Changes to Permits, Certificates, Fees and Driver Premiums

MPI requests no changes to miscellaneous permits and certificates or to service or transaction fees for its Basic line of business. MPI further requests no changes to driver premiums.

Approval of Changes to DSR Scale and Vehicle Premium Discounts

While OIC 94/2023 prohibits MPI from seeking an overall change in vehicle premiums, the same OIC requires MPI to comply with PUB Directives.

Directive 12.15 from PUB Order 4/23 requires all DSR discounts to be moved by one fourth of the way to the actuarially indicated target, rounded down to the nearest whole number. To comply with this Directive, while maintaining a 0% overall rate indication as required by OIC 94/2023, MPI increased the base rate by 5.21%. MPI requests approval of the applied for changes to the DSR, including changes to the DSR discounts and the introduction of DSR level +18. The impact of approving these changes is reflected in Figure RC App 6-4[9], which indicates that the biggest changes

[8] *Ibid.,* 816, lines 3-6;
[9] *Ibid.,* 2481;

would be experienced by registered owners at DSR level +12 and above, with DSR level +18 set to receive a discount of 48%. The PUB heard that MPI used "synthetic data"[10] to determine the discounts for DSR levels +1 to +20, then used the newly created discount scale to establish the target towards which the current discounts would move. Next year, MPI will seek approval for the introduction of DSR level +19, followed by +20 the year after.

Approval of Capital Management Plan (CMP)

Last year, the PUB dismissed the request put forward by MPI for approval of a new CMP and directed MPI to file a revised CMP that included specific criteria and processes under which MPI will apply for a capital rebate.[11] This year, MPI introduced a new iteration of that CMP and similarly requests that the PUB approve this iteration for use in this GRA and going forward. The details of this new CMP are discussed further hereafter.

Applying the new CMP, MPI did not seek a capital build or a rebate, based on the Minimum Capital Test (MCT) ratio of the Basic Rate Stabilization Reserve at the beginning of the current fiscal year (i.e., 2023/24), as set out in the audited financial statements, which indicate an MCT ratio as at March 31, 2023 of 111%,[12] or less than the 120% threshold for a rebate prescribed under section 18(4)(a) of *The Manitoba Public Insurance Corporation Act,*[13] but higher than the 100% MCT rebuild trigger identified at section 18(5) of the Act.

Modifications to the Fleet Rebate Program

Last year, the PUB directed MPI to file an analysis and proposal for modifications to the fleet program to better reflect cost causation.[14] In this GRA, MPI presented an interim, more equitable solution that allocates net rebates based on the proportion of fleet policies in each major class and seeks its approval pending the results of a full

[10] 2024 GRA Transcript, pg.819, lines 10-12;
[11] PUB Order 4/23, Directives 12.11 and 12.12;
[12] *Ibid.,* 4789;
[13] C.C.S.M. c., P215;
[14] PUB Order 4/23, Directive 12.6.;

review of the fleet program. MPI expects to commence its review this year and update the PUB on it in the 2025 GRA.[15]

The PUB heard that those who participate in the fleet program (i.e., have 10 or more vehicles registered to them) are eligible for DSR merit. However, they do not receive DSR discounts; instead, they receive a rebate or surcharge based on their loss experience.[16] Where the fleet experience is better than what the premiums charge would support, the result is a reduction in premiums for all vehicles in the same Major Class (whether they have a fleet).[17] While it does not impact the overall rate indication, the PUB did hear from the Ratemaking Panel, during the oral hearing, that the program must be revenue neutral to be actuarially sound (a larger issue that cannot be addressed via this interim solution).[18]

Approval of the new Vehicle for Hire (VFH) Policy Framework

Directive 12.10 from PUB Order 4/23 required MPI to file a revised VFH policy framework which explains the blanket policy, ensures that it does not result in cross-subsidization and ensures that all VFH operators are able to access the technology required to participate in the said blanket policy. In this GRA, MPI requests approval of its revised VFH policy, which includes:

1. the Transportation Network Company (TNC) Blanket Policy framework and methodology (except the per kilometer rate);

2. a Directive from the PUB that commercially sensitive kilometers travelled data belonging to TNCs supporting the per kilometer rate be received by the PUB in the 2025 GRA (and in perpetuity thereafter) in strict confidence and to the exclusion of the public and all representatives, counsel and consultants of any Interveners; and

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[15] 2024 GRA, Part VII, RC Appendix 7;
[16] 2024 GRA Transcript, pg. 816-817, lines 19-25, 1-4; and pg. 843, lines 5-8;
[17] 2024 GRA Transcript, pg. 817, 5-12;
[18] 2024 GRA Transcript, pg. 915-916, lines 15-25, 1-10;

3. decommissioning the time band model and replacing it with a full time VFH use (concurrently with the introduction of the TNC Blanket Policy).

The PUB heard that MPI will be unable to implement this new VFH Framework without approval of each of these elements.[19] Further details of the VFH Framework and the specific requests are provided hereafter.

FORECASTING OF CLAIMS AND RATEMAKING

This year, MPI presented separate witness panels for the topics of Claims Forecasting and Ratemaking. While ratemaking relies on the claims forecasting process, the issues are separate and are therefore discussed separately herein.

Forecasting of Claims

This year, the Claims Forecasting Panel reminded the PUB of their importance to the ratemaking process. The PUB heard that, for 2024/25, approximately 76% of the total required premium goes to paying for the cost of claims (including Allocated Loss Adjustment Expenses or ALAE).[20] For MPI, that translates to nearly a billion dollars. Therefore, although small adjustments to forecasted trend rates may seem small, given the amounts at issue, even a small change in claims trends have significantly impact the indicated rates.[21]

In the 2023 GRA, MPI introduced new additions to its Actuarial, Investments and Risk (AIR) Division, specifically, its Business Insights and Analytics Team, whose responsibilities include analyzing data for trends and providing insights to decision-makers.[22] And, in this GRA, the PUB witnessed first-hand the benefit of these additional resources. MPI presented a new Claims Forecasting Chapter, providing a dedicated loss trending analysis and accident year claims forecasting as well as additional clarity between the claims forecasting process and ratemaking.[23] *Oliver*

[19] MPI Transcript, pg. 375, lines 12-17;
[20] CAC Exhibit #11;
[21] 2024 GRA Transcript, pg. 687, lines 13-19;
[22] MPI Exhibit #64, Slide 6;
[23] MPI Exhibit #64, Slide 9;

Wyman acknowledged these methodological improvements with its representative, Rajesh Sahasrabuddhe, testifying:

> *"So, as we reviewed the 2024 General Rate Application, we did observe several changes from the 2023 General Rate Application. And the – the first four (4) are, in particular, are quite important and really – they're really consistent with our view of best practices for developing the rate.*
>
> *So, we, -- you know – we – look very favourably on those changes that – that MPI has – has instituted. So, number 1 is the increased use of statistical analysis. I think we discussed this last year about how that's a better approach to separate signal and noise from – from the claims data.*
>
> *Revised coverage grouping, we – we believe that the approach where there was a little bit – there was more aggregation of coverage groupings provides more credibility to the data, rather than reviewing some of the costs as – as finely as – MPI used to.*
>
> *The use of accident year weighting in estimating loss costs, we believe that provides a more robust starting point for the projection of future losses…*
>
> (…)
>
> *The application of a COVID-19 work-from-home adjustment, again, these are -- the – this -- the experience period underlying the rates is – is obviously, as we know, quite unusual. We had a once -- hopefully, a once in a lifetime event in the COVID-19 pandemic and recognizing that and incorporating the -- incorporating the unusual nature of the event, we think is -- is important in -- in developing - developing an -- an estimate of the rates.*

> *The other items, again, we -- we also think are improvements…"*[24]

Claims forecasting involves estimating the future cost of claims (i.e., loss costs or pure premiums), which requires a prediction on the probability that specific types of claims will occur in the future (frequency) and the average amount those claims will cost (severity).[25] And sometimes, the data tells different stories. As Ms. Low described it, claims forecasting is an art and a science:

> *"The science is the math that goes into the modelling, and the art is understanding and interpreting the data and making the correct selections."*[26]

Does more recent data support the emergence of a new trend? Are past trends still relevant and predictive of the future? The PUB heard that actuaries employ different tools, including regression models, statistical measures, research and visual analysis to help understand the predictive nature of their data. Too conservative and ratepayers will pay the price through higher rates than required to sustain the insurer. Too optimistic and the insurer fails to recover sufficient revenue to cover its costs.[27]

For the PUB, the task is to balance or choose among the following (potentially inconsistent) regulatory principles:

- cost of service standard – which requires the PUB to set rates that allow the regulated entity to recover the cost of its regulated operations;

- intergenerational equity – which provides that customers in one period should not incur the costs of providing services to customers in another period; and

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[24] 2024 GRA Transcript, pg. 1988-1989, lines 12-25, 1-25;
[25] 2024 GRA Transcript, pg. 690, lines 5-12;
[26] 2024 GRA Transcript, pg. 686, lines 9-12;
[27] 2024 GRA Transcript, pg. 690, lines 13-19;

- rate stability and predictability – which provides that rates for service should be stable and predictable to the extent possible.[28]

Forecasting is estimating for the future. As Ms. Low described it: "When we look at our claims forecast, we're looking at what we think is our best estimate."[29] Oliver Wyman agreed that no forecast is likely to be 100% accurate, that forecasting is an estimate of the future and that the future will surly differ from that future.[30] In fact, as Ms. Low added: "…the only thing we know about a forecast is it's going to be wrong. Just how wrong is it going to be?"[31] MPI believes it is essential that the PUB always be mindful of these facts. Neither MPI nor Oliver Wyman will predict the future with perfect accuracy. But the standard at play is not perfection; it is reasonableness. And the applicable standard is reasonableness because the PUB is tasked with approving just and reasonable rates. Therefore, if MPI forecasts are reasonable, all things equal, the rates should be as well.

MPI submits that the PUB should consider the following when considering what is a reasonable forecast:

1. are the forecasts the product of industry accepted analysis?[32]

2. are the forecasts considerate of material contextual factors, such as macro-economic influences, weather, management action etc.?

3. if the forecasts represent deviations from accepted practices or novel approaches, is there reasonable justification for the deviation or novelty?

Ultimately, MPI submits that the PUB should satisfy itself as to whether the forecasts presented by MPI fall within the range of possible selections, as determined by the standards of the industry. Importantly, if the PUB is ever inclined to not to accept a

[28] http://www.pubmanitoba.ca/v1/about-pub/regulatoryprinciples.html;
[29] 2024 GRA Transcript, pg. 690, lines 14-15;
[30] 2024 GRA Transcript, pg. 2054-2055, lines 16-25, 1-3;
[31] 2024 GRA Transcript, pg. 1499, lines 8-15;
[32] See for example the exchange at 2024 GRA Transcript, pg. 2058-2059, lines 12-25, 1-7;

forecast, it should explicitly state that it did so on the basis that it found the MPI forecast to be unreasonable and not in keeping with acceptable standards of practice.

Another important consideration for the PUB is the point in time nature of the forecasting process. MPI provides its forecast with its initial June filing. Unfortunately, due to the labour interruption, it was not possible for MPI to provide an updated forecast with its October Update. This is important, as circumstances continued to change afterwards. As the PUB heard from the Claims Forecasting Panel:

> *"The team believes that we have put together our best estimate with the knowledge that we had at that point in time, but that knowledge changes almost on a daily basis. We have more knowledge now than we did a few months ago.*
>
> *We have a labour interruption internally and external as we watch the auto industry workers across the continent who are on labour interruption, as well, and we think both of those are going to drive up severity.*
>
> *There's still uncertainty about how many Manitobans are going to return to the downtown core of Winnipeg, which has a big impact in our collision frequency.*
>
> *And we also see a re-acceleration of inflation, the CPI has risen in July and August. So there's still uncertainty about the CPI and where that's going ahead for the '24/'25 rating year.*
>
> *So the sophistication and the improvements that you're going to hear about in a minute are being introduced to balance responsiveness of what is happening within claims along with the rate stability."*[33]

Oliver Wyman testified that they reviewed the forecasting results and underlying analysis and proposed several alternative assumptions. However, it is key to note the

[33] 2024 GRA Transcript, pg. 692-693, lines 22-25, 1-19;

evidence of Oliver Wyman, which was that its alternatives were, in its view, "more appropriate" or "more reasonable".[34] Specifically, Oliver Wyman stated:

> *"MR. ANTHONY GUERRA: And where Oliver Wyman proposes an alternative forecast, is it fair to suggest that what Oliver Wyman is actually saying is that MPI's forecasts are not reasonable?*
>
> *MR. RAJESH SAHASRABUDDHE: What we're saying is we believe that our forecast is a more reasonable estimate than that's -- than that put forward by MPI.*
>
> *MR. ANTHONY GUERRA: So not necessarily that MPI's forecast is not reasonable, but that there's a better alternative. Is that fair to say?*
>
> *MR. RAJESH SAHASRABUDDHE: Correct, because ultimately the ratepayer pays a single rate, so what's the more -- most appropriate rate is what we're trying to put forward."*[35]

Therefore, MPI submits that the PUB should not discount or reject the MPI forecast assumptions where Oliver Wyman presents alternatives since, what appears to be at issue here, is not whether MPI has selected forecasting assumptions that are unreasonable.

Accident Year Weights

How much weight should MPI give to accident years 2017 and 2020? Should MPI give any weight to 2017 or 2020? These are the questions the PUB must resolve in this GRA.

The PUB heard that accident year weighting contributes to rate stability by smoothing out fluctuations in historical loss experience. MPI selected a 5-year period, extended over six rating years because it excluded the experience from the year 2020, the COVID-19 lockdown year. For the remaining 5 years, the PUB heard that MPI

[34] 2024 GRA Transcript, pg. 1998, 2020, lines 1-6, 5-17;
[35] 2024 GRA Transcript, pg. 2059, lines 8-23;

judgmentally gave equal weight (i.e., 20% credibility), to each of the accident years.[36] To be clear, MPI assigned to weight (and therefore excluded) the 2020 accident year from its future projection of loss costs for two main reasons:

1. its work from home (WFH) adjustment already unwinds the impact of WFH due to COVID-19; and

2. COVID-19 makes the 2020 accident year exceptional and irrelevant for forecasting future claims costs.[37]

What does assigning weight to an accident year mean in practical terms? The PUB heard that it means that there is a possibility that a particular accident year will be predictive of the future.[38] In other words, by selecting 0% weight for 2020, MPI believes that 2020 offers no predictive value for the future. Is that unreasonable? MPI submits that it is not given the exceptional nature of the COVID-19 lockdowns. What about 2017? While MPI believes there is a 20% chance that it will have predictive value, Oliver Wyman excluded the year, not because it has no predictive value, but simply because it did not fall within the 5-year timeframe,[39] a timeframe that is not a requirement, but a common practice among large insurers.[40] Oliver Wyman also admitted that there is no formal or informal standard for weighting, indicating that it was "all over"[41] and that it would not be unreasonable for MPI to select a proxy for 2020 (like 2017) if it did not believe that 2020 was predictive of the future.[42]

Notwithstanding all of this, Oliver Wyman suggests an alternative approach that gives no weight to accident year 2017, some weight to 2020, more weight to years 2018, 2019 and 2022 (in some instances) and variable weights to 2021. The PUB heard that this approach, which gave weight to accident years 2020 and 2021 based on a relative

[36] MPI Exhibit #64, Slides 12-13;
[37] MPI Exhibit #64, Slides 14d;
[38] 2024 GRA Transcript, pg. 2014, lines 10-16;
[39] 2024 GRA Transcript, pg. 2109, lines 4-16;
[40] 2024 GRA Transcript, pg. 2006, lines 4-17;
[41] 2024 GRA Transcript, pg. 2138, lines 11-17;
[42] 2024 GRA Transcript, pg. 2122, lines 18-23;

likelihood approach, a novel approach[43] that is generally not appropriate and only attempts to respond to a "once-in-a-lifetime event".[44] That said, the approach gives predictive value to this exceptional event. And, in the case of coverages such as Accident Benefits-Other (Non-Indexed) and Comprehensive, the Oliver Wyman approach not only assigns predictive value to 2020, but it also assigns just as much predictive value to that exceptional year as it does to accident year 2022.[45]

MPI therefore submits that the PUB should find that MPI's decision to give equal weight to accident years 2017-2019 and 2021-2022 is reasonable in the circumstances and not disturb same.

Accident Benefits – Weekly Indemnity, Accident Benefits – Other (Indexed), Property Damage (Other)

In each of these cases, Oliver Wyman suggests the use of an alternative model (frequency or severity) on the basis that, in its opinion, MPI should use the same time period for each of its models, as this is the default and there should be good reasons from departing therefrom.[46]

However, in each case, the PUB received evidence that the results of the regression analysis of the contested trends selected by MPI were either better or essentially the same as the results of the regression analysis of the Oliver Wyman alternative trends. In other words, not only are the MPI selected trends products of industry accepted analyses, but the results of these analyses also produced R-squared and adjusted R-squared values that are considered good fits and time P-values that are significant.[47] For R-squared values, the PUB heard that the range is 0 to 1, with 1 indicating that 100% of the data is explained by the model.[48] For P-values, the PUB heard that a

[43] 2024 GRA Transcript, pg. 2124, lines 5-16;
[44] 2024 GRA Transcript, pg. 2125, lines 6-22;
[45] CAC Exhibit 11;
[46] 2024 GRA Transcript, pg. 2017, lines 15-20;
[47] *Supra.* 1, Claims Forecasting Chapter, pg. 24;
[48] 2024 GRA Transcript, pg. 2073, lines 1-8;

value closer to 0 means less of a probability of observing the value randomly or by chance.[49]

For a comparison, please find below a table comparing the regression results for the subject trends:

	Adjusted R-Squared Value	Time P-Value
ABO-WI (Severity) MPI	**0.684**	0.001
ABO-WI (Severity) Oliver Wyman	0.608	0.001
ABO-I (Severity) MPI	**0.622**	0.004
ABO-I (Severity) Oliver Wyman	0.592	0.003
PD-O (Frequency) MPI	**0.808**	**0.054**
PD-O (Frequency) Oliver Wyman	0.795	0.079

In addition to the equal or preferrable regression analysis results, MPI submits that there are good reasons for selecting different time periods for these coverages:

1. Accident Benefits – Weekly Indemnity Severity Trend:

> *"MPI estimates future claim severity trend to be the same as past claim severity trend as there are no credible evidence suggesting future wage inflation is expected to be higher than historical levels. While MPI recognizes the minimum wage increase implemented in April 2023 and the planned October 2023 increase are likely to increase Weekly Indemnity claim severity, MPI does not have a reliable source of wage inflation forecast and thus the impact of these minimum wage increases remains uncertain. However, MPI believes a severity*

[49] 2024 GRA Transcript, pg. 2075, lines 21-25;

> *growth rate of 4% is appropriate for the five-year forecast period."*[50]

2. Accident Benefits Other – Indexed Severity Trend:

> *"MPI selected future claim severity trend to be the same as 1 past claim severity trend as there are no credible evidence to suggest future experience is likely to deviate significantly from the past. While MPI recognizes the minimum wage increases effective April 1, 2023 and planned increase effective October 1, 2023 will result in a slight increase to ABO Indexed claim severity, MPI does not have a reliable source of wage inflation forecast and the impacts of these increases, compared to historical experience, remain uncertain."*[51]

3. Property Damage – Other Frequency Trend:

> *"The indicated frequency trends range from approximately -6.68% to -1.30%, for periods starting 2009 to 2019, with high R-squared and adjusted R-squared values indicating a good fit."*[52]

MPI therefore submits that its trend selections for these coverages are also reasonable and should not be disturbed.

Accident Benefits – Other (Non-Indexed)

At issue with this coverage is whether MPI excessively tempered the recent frequency experience in its future trend selection. In response to this criticism, Christine Zhou, Director of Business Insight and Analytics, defended the decision to temper the loss cost trend from -4.90% to 0%, stating:

> *"We don't believe tempering the past trend by half to two point four seven (2.47), it's reasonable in the sense of, in our profession, we don't usually jump from minus*

[50] *Supra.* 1, Claims Forecasting Chapter, pg. 41;
[51] *Supra.* 1, Claims Forecasting Chapter, pg. 51;
[52] *Supra.* 1, Claims Forecasting Chapter, pg. 123;

> *four point nine (4.9) to zero. I acknowledge that. And we acknowledge the concern.*
>
> *And 50 percent is a reasonable approach, but then we will look at the loss cost, and when we look at the recent actual year-over-year volatility and frequency and then we look at our loss cost regression analysis, we don't believe minus two point five (2.5) frequency assumption to be used in the next five (5) years is reasonable."*[53]

In other words, MPI considered material contextual factors and, as a result, made a reasonable, defensible selection.

Collision Claims

Is MPI's approach for its collision severity model specifically, the selection of a different severity trend between 2020 and 2022, based on a two-parameter model fit to three data points, reasonable? The Claims Forecasting Chapter of the 2024 GRA provides a review of the available data, considers contextual factors, admits vulnerabilities and explains the basis for the decision.

MPI submits that the rationale provided is reasonable and therefore submits that this trend selection should not be disturbed.

Property Damage – Third Party Loss of Use

At issue here is whether MPI's proposal to select a frequency trend that uses the time period 2010-2022 and a severity trend that uses the period 2009-2022 reasonable. MPI noted a correlation between this trend and Collision and therefore applied a similar approach. Again, this represents a reasonable decision, informed by contextual factors.

Property Damage – Third Party Deductible Transfer

MPI selected frequency and severity trends for differing time periods (2010-2022 for frequency and 2009 to 2022 for severity). In each case, the results of the regression

[53] 2024 GRA Transcript, pg. 725-726, lines 25, 1-12;

analysis produced adjusted R-squared values and P-values that exceed the trends selected by Oliver Wyman.[54]

MPI therefore submits that these trend selections are reasonable in the circumstances and again submits that the PUB should not disturb them.

Ratemaking

As previously identified, this year MPI presented an overall rate indication based on AAP and, in compliance with the OIC, applied for no change in the overall rate indication. Additionally, the Ratemaking Panel outlined changes to its ratemaking processes, including changes in the discounting of claims costs as well as improvements to the allocation of fleet rebates. The Panel also addressed the topics of credibility weighting for taxicabs and vehicle counts under *The Highway Traffic Act* (HTA).

Applied for and AAP Rates

The PUB heard that ratemaking is a three-step process. After the forecasting claims and expenses to ensure an overall average adequate premium, MPI allocate the rate indication among its six major classes and then further allocates it down to classifications like vehicle type, use, territory etc. Unfortunately, due to the ongoing labour interruption, MPI was unable to file dislocation reports with its October Update.[55] The PUB heard that, even with a request for no change in the overall rate, there would be changes within each major class and within the different risk classifications.[56]

Discounting of Claims Costs

On the issue of how best to discount claims costs under AAP, MPI proposes again this year to use the naïve interest yield based on the duration of the underlying expected cashflows from the rating year cohort of policies being priced. Specifically, MPI suggests use of duration of the premium liabilities as opposed to duration of the claim

[54] CAC Exhibit 5, compare values at Fig. 23 to values at Fig. 25;
[55] 2024 GRA Transcript, pg. 811, lines 6-23;
[56] 2024 GRA Transcript, pg. 845-846, lines 5-25, 1-6;

liabilities (as it did last year and historically). The provisional gross naïve yield was 4.35% (gross of investment expenses), calculated as on March 31, 2023 for the Basic claims portfolio with an average duration of 2.67 years.[57] The PUB heard that the yield is based on target weights for government bonds, corporate bonds and, new for this year, commercial mortgages as per the MPI investment policy statement. The PUB also heard that typically the approach of using the premium liability duration results in a lower investment yield than the approach that uses the claims liability duration. However, due to the current inverted yield curve, the PUB heard that short term interest rates are higher than long term rates, meaning that the recommended approach also results in a higher investment yield and a lower required rate. MPI Exhibit #81 shows the result of using the historic approach, being a lower investment yield (4.86% compared to 5.04%) and a higher overall rate indication (-0.89% compared to -1.48%).

MPI provided dislocations for its applied for overall rate. MPI was unable to update its dislocation reports as part of its October Update, due to the ongoing labour interruption.[58]

Reallocation of Fleet Rebates

Directive 12.6 from PUB Order 4/23 required MPI to file an analysis and proposal for modifications to the fleet program to better reflect cost causation.[59] MPI filed an interim proposal at Risk Classification Appendix 7 of the 2024 GRA.

The PUB heard that the proposal provides a more equitable basis for the allocation of rebates to fleets (i.e., customers with ten or more vehicles) by allocating net rebates on the proportion of fleet policies in each major class.[60] Historically, MPI allocated these rebates based on the number of vehicles in each major class.[61] And so, the MPI

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[57] *Supra.* 1, pg. 2116;
[58] Cover Letter filing MPI Exhibit #50, dated October 4, 2023;
[59] 2023 GRA, PUB Order 4/23, pg. 137;
[60] MPI Exhibit #65, Slide 6;
[61] 2024 GRA Transcript, pg. 814, lines 7-9;

proposal is more equitable because it addresses the additional benefit that major classes with more fleet vehicles would have received over other major classes.[62]

Using fleet policy data from November 1, 2022, MPI determined the per unit rebate amount to be $21.18. Under the existing system, this rebate would be issued uniformly to units in each of the subject major classes (i.e., Private Passenger, Commercial and Public). Under the proposed new system, this same rebate would be issued based on the proportion of the fleet vehicles in each class. The result of using this new methodology would decrease the rebate for policyholders in the Private Passenger Major Class from $21.18 to $11.52 but would increase the rebate to policyholders in the Commercial Major Class from $21.18 to $130.25 and to policyholders in the Public Major Class from $21.18 to $249.26.[63] This change in methodology does not result in any impact to the overall rate indication.[64]

The PUB heard that there remains work to be done to improve or even redesign the fleet rebate program and anticipates returning next year with additional updates on its progress in that regard.[65]

Generalized Linear Modelling (GLM) Update

Directive 12.5 of PUB Order 4/23 required MPI to file an update to its GLM project plan.[66] In compliance with this Directive, MPI filed an update and presented same at the hearing.[67]

Specifically, the PUB heard that MPI successfully completed installation of its new GLM software and user training. As building a GLM model is an iterative process, MPI is currently gathering, processing and cleaning Major Class 1 data, building and

[62] 2024 GRA Transcript, pg. 817, lines 17-24;
[63] *Supra.* 1, Risk Classification Appendix 7, pg. 3-4;
[64] *Supra.* 1, Risk Classification Appendix 7, pg. 4;
[65] 2024 GRA Transcript, pg. 818, lines 14-19;
[66] 2023 GRA, PUB Order 4/23, pg. 137;
[67] *Supra.* 1, pg. 36-44, MPI Exhibit #65, Slides 9-10;

validating the new model and will be completing a dislocation analysis to investigate the impacts of the new structure on policyholders.[68]

Finally, as it concerns GLM, the PUB heard that MPI anticipates no further costs associated with its implementation. MPI used a consultant to assist with setting up the use of GLMs, but has since hired a Manager, Pricing Transformation and has transitioned those responsibilities to that individual.[69]

Credibility Weighting for Taxis

During the Ratemaking Panel, the Taxi Coalition engaged in a line of questioning around the appropriate minimum credibility to be assigned to the loss experience of smaller insurance groups, including Taxicab VFH. The PUB heard that MPI currently assigns these groups a 10% minimum credibility weighting to the loss experience for the current year.[70]

At issue is a choice between rate stability/predictability and rate responsiveness. Increasing the minimum credibility weighting for the loss experience of the current year (e.g., from 10% to 20%) increases rate responsiveness, at the cost of rate stability. Rates would become more volatile and policyholders could experience large fluctuations in their rates from year to year. MPI does not endorse this approach as its impacts would be undesirable overall.[71] Further, MPI does not support assigning different credibility weightings among different insurance uses. As Khurram Masud, Director of Pricing, stated in his evidence:

> *"…it would not be comparable between different insurance classes, so it would appear as if we are picking and choosing where to apply what. So we'd prefer to be consistent across different major classes."*[72]

[68] MPI Exhibit #65, Slides 9-10;
[69] 2024 GRA Transcript, pg. 878, lines 15-23;
[70] 2024 GRA Transcript, pg. 927, lines 12-16;
[71] 2024 GRA Transcript, pg. 930-931, lines 3-25, 1-3;
[72] 2024 GRA Transcript, pg. 932, lines 14-18;

Vehicle Counts under Highway Traffic Act

Finally, the PUB heard that MPI will continue to monitor the future growth of its fleet of vehicles to account for changes in things such as immigration patterns and other potentially impactful factors.[73] MPI also indicated a desire to conduct a future deep dive into the proliferation of electric vehicles and their potential impact on future claims costs.[74]

FINANCIAL FORECASTING

The PUB heard from the Financial Forecasting Panel, among other things, about actuals, budgets and forecasts for expenses such as compensation and data processing, the allocation of expenses to the Basic line of business, the use of key performance indicators (KPIs) in the budgeting process, the transition to International Financial Reporting Standards (IFRS) 17 (and its impact on claims incurred), its inability to adopt IFRS 14 (Regulatory Deferral Accounts), the status of its Driver and Vehicle Administration (DVA) line of business and its Road Safety budget.

Expenses

As it concerns the 2024/25 budget, the PUB heard that the focus is on getting "back to basics," delivering NOVA and containing costs/improving operations through use of continuous improvement.[75] MPI presents a corporate "déjà vu" budget that attempts to match the budget approved by the Treasury Board Secretariat for the current fiscal year (2023/24). Ryan Kolaski, the new Vice President and Chief Financial Officer for MPI testified:

> *"…so when you look at the preliminary filing for 24/25, it was $398 million when you look on a corporate basis. And then when you look at the final updated GRA, it's a 403 million.*
>
> *So there's a very intentional direction to drive out a flat-line operating cost envelope. So basically go from four-*

[73] 2024 GRA Transcript, pg. 881, lines 2-8;
[74] 2024 GRA Transcript, pg. 785-787, lines 9-25, 1-25, 1-21;
[75] 2024 GRA Transcript, pg. 1128, lines 1-5;

> *o-two (402) to basically land what you have for an update budget today of four-o-three, so very much back-to-back same."*[76]

By comparison, in the 2023 GRA, MPI forecasted a corporate budget for 2024/25 of $430M.[77] While a $403M budget for 2024/25 essentially represents no overall change in planned expenditures on a year-over-year basis, it does represent an increase from the actual spend for 2022/23, which the PUB heard was $358M, down from the expected total corporate spend of $379M reported in the 2023 GRA.[78]

Allocation of Corporate Expenses to Basic

MPI allocated approximately 70% of its total corporate spend to Basic in 2022/23 with plans to allocate less to Basic this year (2023/24) at 66% and even less next year (2024/25) at 64%.[79] In allocating expenses, the PUB heard of concerns with using the net claims incurred for allocating expenses given the sharp increases in severity for the Special Risk Extension (SRE) line of business and that the Ernst & Young Organizational Review (expected to be completed by the end of this calendar year) will review the existing integrated cost allocation methodology.[80]

Excluding claims expenses, for the Basic line of business, MPI forecasts a total spend of $191M for 2024/25 (under IFRS 17), up from its budgeted spend of $186M in the current fiscal year (2023/24 under IFRS 17) and its actual spend of $172M in 2022/23 (under IFRS 4).[81] Within these total expenses, MPI forecasts a spend of $94M on operating expenses (under IFRS 17), down from its budgeted spend of $95M in the current fiscal year (2023/24 under IFRS 17), but up from its actual spend of $87M in 2022/23 (under IFRS 4).[82] In its forecasts, MPI projects a steady decline in Basic operating expenses from $90M in 2025/26 to $86M in 2027/28.[83]

[76] 2024 GRA Transcript, pg. 1128, lines 6-25;
[77] *Supra.* 1., pg. 3175;
[78] *Supra.* 1., pg. 3175;
[79] *Supra*. 1, pg. 3090;
[80] 2024 GRA Transcript, pg. 1008-1011, lines 11-25, 1-25, 1-25, 1-24;
[81] *Supra*. 1, pg. 4703;
[82] MPI Exhibit #50, pg. 5;
[83] MPI Exhibit #50, pg. 5;

As exhibited in Fig. EXP-3, the ratio of Operating Expenses to Net Premiums earned drops from 23.5% in the current fiscal year (2023/24) to 19.3% in 2027/2028, bringing it to historic lows not seen since the year of the COVID-19 pandemic.[84] As indicated by the Financial Forecasting Panel, the primary drivers of the forecasted decline in the overall growth of operating expenses are lower staffing levels and lower data processing costs.[85]

Staffing and Compensation

As it pertains to staffing and compensation, the PUB heard that compensation represents the biggest operating expenditure, equaling roughly 53% of the total corporate expenses.[86] In 2022/23, MPI had a total corporate staffing compliment of 2,005.6 Full-Time Equivalents (FTEs) and, for 2023/24, budgeted for 2,150.8 FTE.[87] However, with what is now a nine-week interruption of labour, during which 1,700 staff are excluded from FTE counts, MPI anticipates it will end the year in a significantly lower position than budgeted. For 2024/25, MPI budgets a total corporate staff count of 2,156.[88] Again MPI notes this forecast will be impacted by the ongoing labour interruption and future efforts to restore services to normal expected levels once it is resolved.[89]

The PUB received evidence that MPI forecasts total corporate compensation for 2024/25 to be $212M (under IFRS 4), $3M lower than the budgeted amount for the current fiscal year (2023/24 under IFRS 4) but higher than the $191M actual for 2022/23 (under IFRS 4).[90] For Basic compensation, the forecasted spend is $142M in 2024/25, roughly $3M lower than the $145M budgeted for this fiscal year (2023/24), but higher than the $136M actual for 2022/23.[91] This lower growth in compensation

[84] *Supra.* 1, pg. 3091;
[85] 2024 GRA Transcript, pg. 991, lines 13-24;
[86] *Supra.* 1, pg. 3096;
[87] *Supra.* 1, pg. 5203 (response to Information Request PUB (MPI) 1-47);
[88] MPI Exhibit #72 (Financial Forecasting Presentation, slide 13;
[89] 2024 GRA Transcript, pg. 964, lines 16-23;
[90] *Supra*. 1, pg. 5217 (response to Information Request PUB (MPI) 1-50);
[91] *Supra*. 1, pg. 3175;

expenses from the 2023 GRA forecast is primarily related to lower forecast staff growth and changes in assumptions on compensation contract changes.[92]

For initiative expenses, while MPI expects an increase in related compensation expenses for this year (i.e., 2023/24 as compared to last year) relating to bubble staff for Program NOVA,[93] it also forecasts a sharp decline next year and then contemplates compensation savings the year after (2025/26).[94]

Compensation benefits were also discussed, with a focus on Basic employee future benefits (EFB). Specifically, the PUB received evidence that MPI earned investment income for EFB (pro-rata) in 2022/23 in the amount of approximately $3.4M with a budgeted increase of $12.8M this year (2023/24), $11.9M next after (2024/25) and $13.3M the year after (2025/26).[95] The PUB also heard that, factoring into that calculation, are pension expenses that MPI, in the years 2024/25 and 2025/26, forecasts to be $11.7M per year.[96] Removing the projected excess investment income from the compensation benefits cost for Basic normal operations would reduce expenses for ratemaking purposes and the overall rate indication by -0.28%.[97]

Data Processing

The other major expense discussed in this GRA related to data processing, which is the costs associated with maintenance and licensing of computer hardware/software and system applications, including external labour and computer costs.[98] By comparison, data processing costs represent about 25% of total corporate operating expenses compared to 53% for compensation.[99]

For 2024/25, MPI forecasts to spend $41M on data processing (normal operations – excluding improvement initiatives), $2M less than its budget for the current fiscal year

[92] 2024 GRA Transcript, pg. 1024, lines 1-15;
[93] 2024 GRA Transcript, pg. 1019, lines 8-22;
[94] *Supra.* 1., pg. 3158;
[95] *Supra.* 1, pg. 5140 (response to Information Request PUB (MPI) 1-30(b));
[96] 2024 GRA Transcript, pg. 1064, lines 12-15;
[97] MPI Exhibit #106, (Answer to Undertaking #19);
[98] *Supra.* 1, pg. 3109;
[99] *Supra.* 1, 3096;

(2023/24) and roughly the same as its actual spend for 2022/23.[100] Adding improvement initiatives increases the total corporate spend on data processing to $78M last year (2022/23), $103M budgeted for this year (2023/24) followed by a decline to $98M forecasted for next year (2024/25) and further declining thereafter.[101] The total share of data processing (normal operations) attributed to Basic is roughly $33M in last year (2022/23), $33M for this year (2023/24) and $30M next year (2024/25). Including improvement initiatives adds $8M to the data processing spend for Basic last year (2022/23), $18M budgeted for this year (2023/24) and a decrease to $16M forecasted in the upcoming year (2024/25).[102]

The Financial Forecasting Panel testified that MPI expects data processing costs to be higher this year (2023/24 compared to last year 2022/23), due to additional spending for Program NOVA and cloud adoption. The PUB also heard that MPI anticipates that this level of spending will decrease as the cloud adoption program ends and moves into normal operations and with a lower forecast for external consultants.[103] Further, MPI confirmed that it deferred for Basic this spending on improvement initiative for rate setting purposes.[104] Please refer to Undertaking 17.[105]

Key Performance Indicators

In the 2023 GRA, the PUB advised MPI that it should be using Key Performance Indicators (KPIs) to establish performance measures across all aspects of its business. MPI was asked and confirmed that it did not integrate the use of KPIs in the development of its 2024/25 budget, adding that the budgeting process for 2024/25 intentionally employed a top-down approach, essentially holding flat the same budget used for 2023/24 and contain costs by reconsidering the reasonability of additional spending in some areas. MPI also indicated that it remains in the early stages of its

[100] *Supra.* 1, 3109;
[101] *Supra.* 1, 7488 (response to Information Request PUB(MPI) 2-22);
[102] *Supra.* 1, 3157 and 7583 (response to Information Request PUB (MPI) 2-36);
[103] 2024 GRA Transcript, pg. 1046, lines 2-12;
[104] 2024 GRA Transcript, pg. 1022, lines 4-19;
[105] MPI Exhibit# 104;

use of KPIs, that their integration is challenging with existing technology but that its goal is to incorporate the use of benchmarking and KPIs into its budgeting process.[106]

Claims Incurred and IFRS 17

In addition to expenses, the topic of claims costs, and specifically claims incurred costs, was addressed during this hearing. For context, in 2022/23, MPI incurred $802M in net claims costs under IFRS 4, restated to $771M under IFRS 17.[107] For this year (2023/24), MPI budgets a net claims incurred cost of $857M (down from $912M under IFRS 4) and forecasts an increase next year (2024/25) to $984M (up from $977M under IFRS 4).[108]

The PUB heard about the impacts of transitioning from IFRS 4 to IFRS 17 on the financial reporting of claims. To be clear, the move to IFRS 17 impacts the way in which claims incurred are reported and the assumptions used to discount the claims liabilities.[109] The PUB heard that the major difference under IFRS 17 is the use of a risk adjustment for non-financial risk (over the use of provisions for adverse deviation) and the use of a yield curve (over the use of a flat discount rate).[110]

Within claims incurred costs are unallocated loss adjustment expenses (ULAE), which are claims expenses that cannot be allocated to any particular claim.[111] The PUB heard that the percentage of claims adjusting expenses allocated to Basic (i.e., the ULAE ratio) is expected to be lower in 2024/25 and 2025/26 than MPI previously forecasted in the 2023 GRA.[112] At the hearing, the Financial Forecasting Panel cautioned against reliance on this lower allocation for the purposes of ratemaking, stating:

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[106] *Supra*. 1, pg. 6358 (response to Information Request CAC (MPI) 1-92 and 2024 GRA Transcript, pg. 1132-135, lines 12-25, 1-15, 1-25, 1-19;
[107] MPI Exhibit #50, pg. 5;
[108] MPI Exhibit #72, Slide 20;
[109] MPI Exhibit #72, Slide 17;
[110] 2024 GRA Transcript, pg. 970, lines 13-19;
[111] *Supra.* 1, pg. 3011;
[112] *Supra.* 1, pg. 3129;

> *"As we use the net incurred claims for allocating expenses, a lot of the expenses are now being assigned to the Special Risk Extension, the SRE line of business.*
>
> *And the reason for that, is back a few years ago, I forget the exact year, we started offering higher liability limits. So, we were offering up to $20 million of TPL for long haul trucking down to the US and we've had a few $20 million liability losses coming out of the US trucking business.*
>
> *So, this is kind of a very misleading allocation and exactly why we aren't looking to use these numbers in our ratemaking…"*[113]

For ratemaking purposes, the PUB received evidence that MPI selected a ULAE ratio of 18% using an industry standard "paid to paid" method, due to steady claims expenses and increases in claims cost.[114] Even Oliver Wyman confirmed that the 18% ULAE provision selected by MPI is consistent with the assumption from the 2023 GRA and indicated no concern with its use in this GRA.[115] Using a ratio of 18% means that, for every claim dollar, $0.18 is paid from the claims expenses.[116] The PUB received evidence that using a ratio that looks at Incurred ULAE to Incurred Claims (i.e., 16%) reduces the overall rate indication by 3%.[117] However, MPI strongly cautions against this practice as total claims incurred includes time value of money, which may materially understate the ULAE ratio and may not represent true costs. In other words, using the paid-to-paid method results in a more consistent and comparable basis year over year.[118]

IFRS 14 and the Deferral of Initiative Expenses

In this GRA, MPI defended its position that it is unable to adopt and apply IFRS 14 in its financial reporting notwithstanding Directive 1(d) from PUB Order No. 4/23, which

[113] 2024 GRA Transcript, pg. 1008-1009, lines 21-25, 1-14;
[114] 2024 GRA Transcript, pg. 740, lines 7-14;
[115] 2024 GRA Transcript, pg. 2042, lines 5-11;
[116] *Supra*. 1, pg. 4938 (response to Information Request PUB (MPI) 1-3);
[117] MPI Exhibit #113, (answer to Undertaking #9);
[118] *Supra*. 1, pg. 4938;

directed MPI to defer Program NOVA integration costs through a regulatory deferral account for rate-setting purposes. At this hearing, MPI confirmed that it complied with the deferral directive and reduced rates for the implementation expenses but did not establish an asset for doing so because MPI is not able to adopt IFRS 14.[119] The PUB heard that MPI is unable to comment on whether MPI would be subject to regulations set out in a currently unissued IASB exposure draft[120] and that MPI will continue to reflect accounting related to initiatives as it currently does for external reporting purposes and is not currently looking at preparing separate financial statements but is prepared to collaborate with the PUB on a workable solution.[121]

Driver & Vehicle Administration (DVA) Expenses

MPI appreciates that historical transfers of excess reserve capital from the Extension line of business to the DVA line of business have not been well received by the PUB. In this GRA, the PUB heard that MPI expects DVA to be in a deficit position in 2024/25, which deficit MPI plans to fund via the earnings retained by DVA (currently at about $80M) which will avoid the need to consider another transfer from Extension.[122] The PUB heard that MPI continues to await direction from the Government of Manitoba as to how the DVA line of business will attain self-sufficiency.[123]

The DVA line of business bears a portion of NOVA expenses, as emphasized in response to PUB (MPI)1-20. MPI witnesses clarified the consistent use of story points to allocate those costs.[124] On the flip side, the PUB heard evidence on the expected FTE reductions and savings pertaining to this line of business – 28.9 FTEs and $2.4M per annum (once the program has been fully deployed) and the entire 123 FTE savings target has been met.[125]

[119] 2024 GRA Transcript, pg. 1053-1054, lines 11-25, 1-23;
[120] 2024 GRA Transcript, pg. 1055, lines 10-23;
[121] 2024 GRA Transcript, pg. 1056-1057, lines 2-25, 1-10;
[122] 2024 GRA Transcript, pg. 1176, lines 11-15;
[123] MPI Exhibit # 72, Slide 15;
[124] 2024 GRA Transcript, pg. 1415, lines 4-22;
[125] MPI Exhibit #97 (response to Undertaking #27);

Road Safety Budget

Although Road Safety was not designated as a topic of detailed analysis in this GRA, MPI did receive several questions during cross-examination on its Road Safety budget, its plans and whether it has optimized same. The PUB received evidence that, between 2018 and 2023, MPI spent on average $10.4M on road safety programs and plans to spend $12.1M next year (2024/25).[126] This represents a roughly $2M decline in forecasted spending from what the PUB received last year in relation to an unallocated road safety fund. The Financial Forecasting Panel was asked whether MPI continues to budget for this fund and responded:

> *"…So, what we've done for '24/'25 is we've looked at exactly what best value options we have, in consultation with our stakeholders.*
>
> *So, we have a mix of programs that we believe we drive value and, then, as we forecast through the period, because we don't have vision on specific programs that we know of today, we've held the dollars constant.*
>
> *So, that doesn't mean, when we come to this process next year that those dollars will be different, 'cause it's a dynamic program and those programs change. So, we're not forecasting placeholders, in the event where we don't know what those are.*
>
> *So we've taken a conservative approach on forecasting out a run rate, based on what we do know, based on the programs that add value and, then, as that makes changes over time, we'll adjust that spend accordingly."*[127]

[126] *Supra.* 1., 3223;
[127] 2024 GRA Transcript, pg. 1160, lines 1-19;

CAPITAL MANAGEMENT PLAN (CMP)

In the 2023 GRA, MPI presented to the PUB its CMP which, for the first time, contemplated the release of excess capital through rebates, and which replaced the capital release provision, a tool designed to lower the overall rate indication.

The PUB declined approval of the CMP in the 2023 GRA and requested that MPI file a more robust version, including "specific criteria and processes under which the Corporation will apply to the Board for a capital rebate."[128]

However, the PUB did remove from the CMP the capital release provision, which meant a one-time increase to the overall rate indication of 5.54%.[129] Having done so, the PUB separated capital from AAP ratemaking, an approach endorsed by MPI.[130]

Of note, any ratepayers on a rebate/surcharge program, such as fleet or Transportation Network Companies (TNC) customers will be excluded from rebates under the CMP as they are regularly rebated and have therefore not contributed to any excess capital.[131]

CMP Details

The mechanics of the CMP from that which was proposed last year have not changed. The CMP was designed by MPI to ensure compliance with section 18 of *The Manitoba Public Insurance Corporation Act*. For the CMP, section 18(4) of the Act is key:

> *Rate stabilization reserve surplus*
>
> *18(4) A rebate must not be paid from the rate stabilization reserve unless*

[128] PUB Order 4/23, page 15;
[129] PUB Order 4/23, page 6;
[130] 2024 GRA Transcript, pg. 823-824, lines22-25, 1-9;
[131] 2024 GRA Transcript, pg. 1199, lines 1-5;

(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%.

Application of the CMP will occur by following three familiar steps:[132]

Step 1 – Determine Capital Transfers

Step 2 – Determine the Capital Rebate Provision if applicable

Step 3 – Determine the Capital Build Provision if applicable

Step 1: Determine Capital Transfers

The starting point is the capital position of the Extension line of business, it must be over 200% MCT. If capital exceeds 200% MCT at fiscal year-end (March 31), the excess capital will be transferred to the Basic RSR.

If the transfer of capital brings the audited Basic RSR above 120% MCT at the beginning of the fiscal year (April 1), MPI will apply to the PUB for a capital rebate to lower the RSR to no less than 100% MCT – sections 18(4)(a) and 18(4)(b).

Should the PUB approve the rebate application – section 18(4)(c) – a rebate will be paid in an amount that is not projected to lower the Basic RSR MCT ratio to less than

[132] 2024 GRA Transcript, pg. 1215, lines 4-13;

100% (section 18(4)(d)). Because the MCT ratio is an audited number, MPI will, with some confidence, be able to rebate precisely down to the RSR target of 100% MCT.[133]

There remains discretion as it concerns the transfer of Extension capital above the 200% MCT threshold so long as that occurs before fiscal year end. That discretion lies with the MPI Board of Directors. This was confirmed by Mr. Ryan Kolaski:

> *"MR. STEVE SCARFONE: Okay. Thank you. And under the new Capital Management Plan, Mr. Kolaski, is there still some discretion that's left with the Board of Directors to transfer excess equity from Extension to other lines of business before end of fiscal year-end?*
>
> *MR. RYAN KOLASKI: That is correct, yes."*

Having said that, under the CMP, that discretion is absent once a transfer from Extension occurs and the RSR MCT ration exceeds 120%:

> *MR. STEVE SCARFONE: So is there any scenario under which MPIC would have its RSR exceeding 120 percent MCT and not apply to this Board for a rebate?*
>
> *MS. CARA LOW: No.*

Step 2: Determine the Capital Rebate Provision if Applicable

Should the Basic RSR exceed 120% MCT on the first day of the fiscal year (April 1), MPI will apply to the PUB for a rebate as part of the rate application filed with the PUB in June of each year (having obtained the final audited year end MCT values). If approved, the rebate would be paid out to customers in February of the following calendar year.

[133] 2024 GRA Transcript, pg. 1208;

This determination, which effectively separates AAP ratemaking money from MPI's capital requirements, could result in a rebate application with a rate increase application, although unlikely.

Having a rebate application consolidated with the annual rate application process will not only reduce administrative effort and cost but will also allow the PUB to assess the rebate as it relates to the rate indication and how the proposed rebate might impact the audited financial statement for Basic (which also happens in June of each year).

A partial rebate, although not prohibited under the legislation or CMP, is not something MPI would expect to occur. If, for example, Basic MCT rose to 130%, rebating down to 115% would likely mean a second rebate application the following year, thereby increasing administrative costs, including the costs associated with mailing cheques to customers. Moreover, the use of audited financial information allows MPI to rebate down to exactly 100% MCT, its target under the legislation.

MPI is prohibited by legislation from rebating RSR capital when the MCT ratio is between 100% and 120%.

Step 3: Determine the Capital Build Provision if Applicable

The need for a capital build provision is also determined on the first day of the fiscal year (April 1), after any assumed capital transfers from Extension. If the MCT is below 100%, MPI will require a capital build and will apply for one with its GRA filing, unless assumed capital transfers from Extension can build capital to the 100% MCT target in less than five years.

If Basic MCT is less than 100% at the beginning of the rating period, a capital build provision may be required. In that scenario, MPI would then calculate the Capital Build ratio, which is the annual increase required to restore Basic MCT to 100% within five years.

Although the need for a capital build provision is determined after factoring in all assumed capital transfers, the MPI Board of Directors is not prohibited from making use of assumed transfers for another line of business should the need arise.

However, MPI will always direct excess Extension capital to Basic to avoid a capital build. That is, if there is competing line of business that requires capital, for example, the DVA line of business, MPI will first ensure that sufficient capital is transferred to Basic to restore the RSR to its 100% MCT target.

As they were for rebates, fleet and TNC customers are excluded from capital builds under the CMP.

Since the inception of the CMP, MPI has never made use of the capital build provision (i.e., when Basic capital falls below 100% MCT and is forecast to remain below its target).

CMP Improves Upon Section 18 for Basic Customers

The legislation does not require MPI to transfer excess capital from Extension. It is the CMP that provides for transfers from Extension to Basic at fiscal year-end. Approval of the CMP by the PUB provides the PUB with some measure of control as it concerns the use made of retained earnings in MPI's competitive line of business. Without the CMP, MPI could allow Extension capital to grow beyond 200% MCT, to levels of 300% or 400%, as there would be no annual transfer requirement. In that scenario, MPI could then make a large transfer of Extension capital accumulated over two or three years to other lines of business that might be faltering, for example, DVA, meaning those monies would never fall to Basic.

Notwithstanding the decision last year to decline approval of the CMP, MPI did transfer $34 million from Extension to Basic, consistent with its intention whenever Extension is above its 200% MCT target.

Application of CMP to this GRA

With that background, and the RSR balance currently above its target of 120% MCT (October update showing 135.5% MCT), why did MPI decide against filing a special rebate application concurrent with the filing of the 2024 GRA?

During the hearing, two explanations were provided by MPI witnesses:

First, the transition made by MPI from IFRS 4 to IFRS 17 accounts for the increase that occurred on April 1, 2023 (from 111% under IFRS 4 on March 31, 2023, to 135.5% under IFRS 17 on April 1, 2023), and the evidence was that MPI does not have much confidence in the accuracy of 135.5% MCT.[134]

The audited financial statement of the Basic RSR showed a balance of less than 120% MCT at the beginning of the fiscal year (April 1, 2023), and under the proposed CMP, the audited number must exceed 120% MCT.

Concerning MPI's confidence in the RSR balance of 135.5% MCT under IFRS 17, Ms. Low testified that although she expects the audited number will be higher than 111% (under IFRS 4), she does not expect it will be higher than 135.5%[135]. Moreover, as stated by Ms. Low, a fully implemented investment strategy will serve to lower the MCT ratio for Basic under IFRS 17. Finally, Mr. Kolaski testified that given the uncertainty of 135.5% MCT, a rebate issued today, could tomorrow, lower the RSR well below its target, to a little as 85% MCT. [136]

MPI submits that applying for a rebate in the absence of an audited RSR number, and with the uncertainties aforesaid, would not have been a prudent course of action. It could have triggered a capital build under the CMP in the 2025 GRA.

[134] 2024 GRA Transcript, pg. 1528;
[135] 2024 GRA Transcript, pg. 1476-1477, lines 17-25, 1-8;
[136] 2024 GRA Transcript, pg. 1505-1506, lines 20-25, 1-16;

MPI expects to apply for a rebate under the CMP in the 2027 GRA when Extension transfers are projected to resume.[137]

PROJECT NOVA

The NOVA Panel reminded the PUB this year that Project NOVA is a vitality project whose scope has not changed since it was rebranded from the Legacy Systems Modernization Project in the 2020 GRA. The Panel also provided an update on the status of each of the four Program Releases, discussed the impacts of the ongoing labour interruption and confirmed that the Program is once again under the eye of a governance vendor.

The PUB heard from Shawn Campbell, interim Vice President and Chief Information & Technology Officer, about the vital nature of Program NOVA. Specifically, the PUB heard:

> *"So why Project NOVA? Well, the challenges that we have within the Corporation is our technology is aging out. As has been noted in previous PUB hearings, the technology that we use to sell products to Manitobans was built in the '80s and '90s. This is using technology that was not taught and – or is not taught in schools any more. We're talking about COBOL, PowerBuilder.*
>
> *We're talking about technology where if we need to fix something, we have to bring individuals out of retirement because we do not have the skill set available to use in the new generation to support that software.*
>
> *(…)*
>
> *These systems themselves were built in the '80s and '90s, and some of them were converted from a mainframe, and so are very long in the tooth from a technology point of view. They are expensive to maintain and they are ever increasingly challenging*

[137] 2024 GRA Transcript, pg. 962;

> *when it comes to managing from a security point of view."*[138]

The PUB also heard about the "iron triangle" comprised of scope, time and budget that represent the different controls surrounding a project and represent its overall quality.[139] For example, decreasing time without corresponding changes to scope and/or budget could result in a decrease in the resulting quality of the project.

Scope

As it pertains to the scope of Program NOVA, MPI appreciates that there has been much debate on whether the scope has changed from what was originally envisioned. For MPI, the scope has not changed, with the key driver of scope being the replacement of its legacy systems (i.e., AOL, DLS and CARS).[140] The budget certainly changed due to the flattening of the budget (i.e., increasing it from 3 to 5 years and reducing overlap between Releases) to de-risk the Program overall and this was thoroughly canvassed in the 2023 GRA. But that is not the same as saying that MPI is increasing the aim of what it wants to achieve through NOVA.

As Mr. Campbell explained:

> *"…So in order to replace technology, you have a choice that you can make. You can customize – so take a step back.*
>
> *We chose to go build commercial off-the-shelf products in order to best leverage what everyone in the industry uses. That is seen by products like Duck Creek On Demand.*
>
> *When you purchase these products, they come with the ability to customize the work flows, the screens, how*

[138] 2024 GRA Transcript, pg. 1247-1249, lines 24-25, 1-25, 9-15;
[139] 2024 GRA Transcript, pg. 1250, lines 6-18;
[140] 2024 GRA Transcript, pg. 1250, lines 19-22;

data gets processed because they're enterprise grade products.

If you go too far down that customization path, you actually hinder yourself from accepting upgrades of the product later on.

So you have a choice to make. You can either customize the product and align to how your business operates, or you could look to leverage the product the way it comes, following guidance of your system integrators, to take the best advantage of the technology, and then you have to take a look at your business processes themselves and make adjustments in order to make sure that those business processes align to what the technology provides.

When we talk about what we did within Program NOVA, the objectives talked to, first, the technology, about what is the technology that we're trying to replace as we want to replace how we do sale of Basic insurance, how do the process of physical damage claims, et cetera.

When we receive these products, these custom-off-the-shelf – or commercial off-the-shelf products, what we have to do is we have to take a look at how does it process first notice of loss, how does it process the binding and insurance of a policy.

And then, we have to take a look at our business processes, and those business processes have to be adjusted to accommodate the work flow that comes with that product.

So that's how – when you talk about the difference between 'A' and 'C', 'A' is talking about the technology. And we look at the technology saying, well, this technology represents this scope of business and so, therefore will impact all of these business processes.

And when you get to 'C', it evolves that to say, Yes, when you replace the technology, you almost need to

> *take a look at your business processes to make sure that you onboard your staff that you have addressed those business processes to align to what the technology offers."*[141]

This hearing also canvassed the issue of missing elements following the implementation of Program NOVA including Enterprise Architectural Maturity, Cloud infrastructure and capabilities, DVA cloud hosting, organizational capacity building, and a DVA billing architecture. The PUB heard that these missing elements only became apparent after MPI selected its specific products and looked at how they could be made to fit together.[142] But the fact that MPI discovered missing elements does not necessarily translate to an increase in Program scope as the scope remained replacement of legacy systems. Further, they do not necessarily support claims that MPI must hold its vendors to account for bad advice. As Mr. Campbell explained:

> *"I wouldn't say it's an increase in scope or a change in scope, rather it – it's an understanding of what services that we needed to have within the Corporation going forward.*
>
> *So, for example, Duck Creek On Demand is a Cloud based service, same with Mule Soft.*
>
> *At this time, MPI was not a – a Corporation that would – had much experience with Cloud deployments. As such, we would have to learn how to manage Cloud deployments and roll out those services.*
>
> *So, these are enterprise services that, if you look at market trends, we would have to go to anyways and, as such, we were forced to grow ourselves quickly in order to – or mature ourselves quickly so that we could support, not only NOVA, but the changing eco system with which we had to engage with."*[143]

[141] 2024 GRA Transcript, pg. 1282-1284, lines 8-25, 1-25, 1-8;
[142] 2024 GRA Transcript, pg. 1367-1369, lines 5-25, 1-25, 1-3;
[143] 2024 GRA Transcript, pg. 1369-1370, lines 13-25, 1-5;

The PUB heard that, at this point, controls and guardrails are in place, requirements gathering for Releases 3 and 4 are ongoing and no change requests in respect of the business case have been tabled, meaning that MPI does not expect the scope of the Program to change.[144]

Time

As it concerns the time control, the PUB heard that while the schedules for Releases 2 and 3 have been impacted by a combination of missed requirements and the ongoing labour interruption, it remains too early to say what impact there will be on the overall Program schedule, which currently runs until December 2025. The PUB did hear that the overall project timeline of December 2025 is at risk but also that the specific impact to the schedule will not be known until MPI has a better understanding of the impacts of the ongoing labour interruption and completes the discovery phase of Release 3.[145] The NOVA Panel did share however that Release 3 discovery is expected to take four months and that Release 3 implementation is expected to take another 24-months. However, MPI states that there are still many unknowns, and it does not wish to set timeframe expectations currently.

For example, how quickly MPI resolves certain service backlogs arising from the ongoing labour interruption may impact the delivery schedule for Program NOVA. MPI will require direction from its Board of Directors in terms of how of resource allocation between what in some cases may be competing priorities.

Budget

A concern was raised in this GRA that Program NOVA posts a negative net present value (NPV) with no payback over the life of the project. As the PUB heard from MPI, vitality programs such as NOVA are considered on a risk basis and typically have a negative NPV.[146]

[144] MPI Exhibit #84, Slide 5;
[145] 2024 GRA Transcript, pg. 1399-1400, lines 19-25, 1-11;
[146] 2024 GRA Transcript, pg. 592, 594, lines 11-14, 11-15;

And while Consumers Association of Canada (Manitoba Branch) witness, Scott Greenlay, was critical of MPI for departing from the original LSM business case and its positive NPV, a source document cited in his own report makes the following observation under the heading 'The Disadvantages of NPV':

> *"…the NPV criteria overlooks the possibility of making improvements to the project as time goes on and additional information becomes available because the NPV criterion is based on the piece of information accessible at the time of making decisions…In real life, projects that can be readily and affordably altered in response to large changes in these elements [marketability, price, technologies employed] will add more to the firm's value than its NPV suggests."*[147]

Mr. Greenlay, having referenced the article with an assertion that NPV is the "gold standard" when it comes to Crown corporations, mischaracterized the article in MPI's respectful submission. For the reasons earlier stated, the PUB should exercise caution when considering how much weight to assign the opinion evidence of Mr. Greenlay.

Currently, MPI has spent $137.2 of its $290M NOVA budget and is currently trending towards a total spend of $240.7M.[148] As the approved budget is $224.1M with a $65.9M contingency, MPI is currently forecasting to exceed its budget and dip into its contingency by $16.6M.

The PUB also received evidence about the "bubble budget," that is, the budget representing what is required to support MPI during the transition period with temporary-term employees, external consultants or vender services.[149] The PUB heard that MPI did not include bubble budget estimates in the 2022 re-baseline because they are not included in the cost implementation budget for Program NOVA[150] but are

[147] Greenlay Report (CAC Exhibit 6), footnote 12 "A Literature Review on the Net Present Value (NPV) Valuation Method";
[148] MPI Exhibit #84, Slide 22;
[149] *Supra.* 1, pg. 659;
[150] 2024 GRA Transcript, pg. 1308, lines 11-14;

instead part of the ongoing expense budget and are forecasted within data processing costs or compensation depending upon the type of resource.[151]

Currently MPI is under its budgeted spend by $16.8M due to unspent dollars on Release 3.[152] The PUB heard that MPI will update its budget outlook at each phase of the Program, with the next planned update being at the completion of Release 3.[153] At this time however, MPI does not anticipate any increases to its overall budget and further does not anticipate the need for a further re-baseline. Specifically, the PUB heard the following from Alex Ramirez, Program Director of Nova program Delivery:

> *"…From a budget perspective, the program entails three (3) primary drivers when it comes to the budget itself: number 1 is product costs, number – as that is the cloud services, the infrastructure, the software itself; number 2 is the system integrator cost, primarily fixed price based on deliverables; and then the third one is the resourcing and then the effort behind, and that one it the – the one that's driven by schedule for the most part.*
>
> *I can state that, for Release 1 and 2, the infrastructure costs for the products are complete, and it's the same products that we will leverage for Release 3 and 4. And so those foundational costs which make up roughly 33 percent of Release 1 and Release 2 costs are no longer costs that we're planning to incur in the future.*
>
> *It was one time standup of technology, and so what remains for us is the system integrator costs, which we will negotiate based on scope, fixed price, and the schedule, and then the resourcing required, whether it's incremental or consultants required to deliver the program.*
>
> *And so I just wanted to add that context. When we're looking at the number -- at the numbers, it's not a direct*

[151] 2024 GRA Transcript, pg. 1428, lines 12-24;
[152] 2024 GRA Transcript, pg. 1269, lines 2-25;
[153] 2024 GRA Transcript, pg. 1270, lines 6-10;

> *correlation between the costs of Release 1 and 2 and then to 3. As I mentioned, Release 1 and 2 has a third of the costs being foundational costs that were one time."*[154]

Mr. Greenlay, repeatedly, referenced to the original LSM business case and the departure from the costs estimated for LSM following the assessment by Deloitte. In his report (page 9), Mr. Greenlay asked why MPI, after receiving costing information from the vendor community, did not go back to Deloitte for an explanation on the discrepancies. Indeed, with respect to the variance, he called for a reckoning from Deloitte and Avasant, to hold them accountable. In his view, the original business case was "meticulously developed" and MPI was entitled to rely on the original budget:

> *"MR. STEVE SCARFONE: And when you took [sic] about a meticulously prepared business case for LSM, sir, and in fairness to you, the reason I asked for the snapshot, because there has been evidence before this Board in other proceedings, that when that business case was prepared, there were a number of unknowns --*
>
> *MR. SCOTT GREENLAY: Sure.*
>
> *MR. STEVE SCARFONE: -- that were still to be determined, including request for proposals, correct?*
>
> *MR. SCOTT GREENLAY: Absolutely.*
>
> *MR. STEVE SCARFONE: And selection of vendors?*
>
> *MR. SCOTT GREENLAY: Which is why they brought Deloitte in in the first place, to tell them the market information. Deloitte's a very informed company. They described what it is they wanted to do, and Deloitte helped them put a price tag on it. In fact, Deloitte reviewed all the numbers as well --*

[154] 2024 GRA Transcript, pg. 1406-1407, lines 18-25, 1-20;

MR. STEVE SCARFONE: But –

MR. SCOTT GREENLAY: -- which is why, you know, again, just, in terms of vendor accountability, what's puzzling to me, when things start coming so far off, where was the discussion with Deloitte, 'cause something's obviously changed, right."[155]

To the extent Mr. Greenlay points to the original business case as evidence that Project Nova is no longer a cost-efficient investment, MPI says that evidence should be given little or no weight by the PUB. Mr. Greenlay admitted under cross-examination that he bid on the contract awarded to Deloitte, which prima facie calls into question his ability to be non-partisan. Coupled with the suggestion that MPI should now, 5 years later, seek monetary relief for cost overruns, raises a serious question about the genuineness of such advice.

"MR. SCOTT GREENLAY: It is surprising that Deloitte's original work on the original business case would vary so greatly from what costs they were experiencing. I did ask in my questioning in this realm, is what was the statement of work for Deloitte? And it would have been very reasonable for MPI to go back to Deloitte, say why are we so off?."[156]

And once again, toward the end of his testimony:

"MR. STEVE SCARFONE: And, sir, I take your comments to my earlier questions to mean that we should have -- when I say, we, MPI – notwithstanding Mr. Bunko's comments there, should have learned from Deloitte what those uncertainties were.

MR. SCOTT GREENLAY: Certainly some of them. There is always uncertainty at this stage in a project, but what we heard in testimony last week is that's the reason why

[155] 2024 GRA Transcript, pg. 1783-1784, lines 17-25, 1-18;
[156] 2024 GRA Transcript, pg. 1741, lines 16 – 22;

> *MPA (sic) has a 50 percent contingency at this stage and that would have been a reasonable assumption."*[157]

Consider the admission as well made by Mr. Greenlay under cross-examination concerning each of the vendors that were selected and signed to contracts after LSM was rebranded Project Nova, i.e., that those 16 contracts (external firms) were material in determining the ultimate budget for Project Nova, including each of the vendors that impacted the costs and schedule for Releases 1 and 2.[158]

Mr. Greenlay, it would seem, was more interested in pointing to Deloitte as responsible for MPI exceeding the original LSM budget than acknowledging perhaps that the 2022 re-baseline is a more accurate assessment of the amounts needed to complete the work.

The response to Undertaking 26[159] identifies which costs of Program NOVA are deferred development costs and which are expensed in each fiscal year. For this year (2023/24), MPI plans to expense $32M, increasing to $52M next year (2024/25).

Further, the PUB heard that forecasted amortization of deferred development costs significantly decreased between the amounts presented in the October Update in the 2023 GRA and the amounts presented in the 2024 GRA due to the change in the amortization period (from five to ten years).[160] Shayon Mitra, Vice President and Chief Transformation Officer, explained that MPI made the change in accordance with a recommendation from PricewaterhouseCoopers (PWC) for initiatives the size of Program NOVA (with other initiatives continuing to be amortized over a period of five years).[161] Further, Mr. Campbell and Garry Dessler – Director, Nova Technical Solutions – added that MPI expensed costs at the beginning of the Program as they related to research and could not be deferred under accounting rules. Now that Release 1 is live, MPI can start expensing associated deferral costs, and due to the

[157] 2024 GRA Transcript, pg. 1788-1789, lines 16 –25, 1-2;
[158] See confidential transcript, October 23, 2023, page 25, line 24 to page 28, line 28;
[159] MPI Exhibit # 92 (Undertaking # 26);
[160] 2024 GRA Transcript, pg. 1179-1181, lines 15-25, 1-25, 1-18;
[161] 2024 GRA Transcript, pg. 1302, lines 2-8 (see also MPI Exhibit 104, Undertaking #17);

magnitude and lifespan of the technologies at issue, received advice that it can expand the expense period to ten years. MPI submits that its approach to amortization adheres to the *matching principle* as its customers will benefit from these subject assets for at least a period of ten years.[162]

Controls

The PUB heard of the different controls in place to ensure the successful delivery of Program NOVA.

For example, the NOVA Panel explained that, for Release 2, costs are measured against deliverables, which ensures progress on required activities and limits spend while resources are idle or redeployed due to the ongoing labour interruption.[163] For Release 3, the PUB heard that MPI stopped all work on the Release and, as a result, "…there are no dollars flowing into that release."[164] Contracts have yet to be signed and will not be signed until MPI satisfies its entry criteria to enter into the phase. As to the entry criteria, the PUB heard that MPI has six critical prerequisites for entry into Release 3 Discovery:

1. Implementing an improved requirement process;
2. Documenting Release 3 Discovery requirements;
3. Selecting Release 3 System Integrators through the Request for Standing Offers (RFSO) process;
4. Implementing the enterprise Software Development Lifecycle process;
5. Implementing the enterprise data domains and conceptual models; and

[162] 2024 GRA Transcript, pg. 1391, lines 17-23;
[163] 2024 GRA Transcript, pg. 1266-1267, lines 23-25, 1-11;
[164] 2024 GRA Transcript, pg. 1267, lines 12-16;

6. Completing a billing architecture assessment.[165]

MPI can further flatten the delivery schedule without incurring additional costs to the same extent as identified in the 2022 re-baseline because MPI is not extending the delivery of releases with contracts that are in flight and the fact that many of the foundational elements of Release 3 were already stood up in prior Releases.[166]

Additionally, the PUB heard that, during the ongoing labour interruption, MPI reduced monthly Program costs from $1.5M to $850K and focused them strictly on activities that can be successfully delivered.[167] MPI also employed use of a Request for Standing Offers to select vendors across multiple vertical streams, some of which apply to Program NOVA, which should simplify vendor management, increase cost certainty[168] and help to augment the capabilities of MPI as general contractor.[169]

Perhaps of most concern to the PUB, the NOVA Panel confirmed that MPI completed its onboarding of a new NOVA Governance and Risk Advisor, MNP, in September for a period that will extend until December 2025 with the possibility to extend the contract if the delivery schedule for NOVA is also extended.[170] The PUB heard that MNP will provide the same Governance Vendor services as PWC but will also provide a risk advisor component.[171]

As an aside, the PUB heard from Mr. Greenlay that PwC "effectively played its role" and attributed to that firm extensive expertise in overseeing large-scale projects. The contract with PwC was 3 years in duration (October 2019 – 2022) and PwC was by the very nature of the retainer, heavily involved in the evolution and progress of Project

[165] *Supra.* 1, pg. 7723 (response to Information Request PUB (MPI) 2-59);
[166] 2024 GRA Transcript, pg. 1273-1275, lines 7-25, 1-15, 1-8;
[167] 2024 GRA Transcript, pg. 1268, lines 4-14;
[168] 2024 GRA Transcript, pg. 1262-1263, lines 20-25, 1-5;
[169] 2024 GRA Transcript, pg. 1359, lines 13-20;
[170] 2024 GRA Transcript, pg. 1334, lines 5-25;
[171] 2024 GRA Transcript, pg. 1432, lines 4-19;

Nova for three years. Notwithstanding this relationship and PwC's familiarity with the project, Mr. Greenlay made an important admission on the confidential module.[172]

MNP will report directly to the MPI Board of Directors and MPI has already secured their agreement to share their monthly reports with the PUB. As discussed, that permission currently extends to sharing their proprietary information through the confidential process, but MPI has committed to working with MNP to assess the possibility of producing a public-facing reporting system.

Release 1 Status

The PUB heard that Release 1 (which aims to modernize the management of the commercial insurance offered through the SRE line of business by moving it from a paper-based process to a system that supports electronic interaction through Duck Creek on Demand) became operational in January 2023. However, post-release, the team identified requirement gaps that need software enhancements to resolve as well as defects that must be remediated to avoid business complications.[173]

Mr. Campbell explained that while the scope for Release 1 is operational, it is in partial use at the moment[174] and the PUB further heard that, because progress on addressing these issues has been slower than anticipated, MPI is using mitigation strategies such as adding capacity to its team and pausing the migration of the remaining policies into the new system until these gaps and defects are sufficiently addressed.

To be clear, neither the scope nor the budget for Release 1 has changed. However, MPI adjusted the time control, by delaying its operational date from March 2022 to January 2023.[175] Owing to the ongoing labour interruption, MPI is currently unable to confirm what the remaining schedule will be.[176]

[172] See confidential transcript, October 23, 2023, page 31 to 33, lines 16-25 and 1-12;
[173] MPI Exhibit #84, Slides 10-11;
[174] 2024 GRA Transcript, pg. 1334-1335, lines 25, 1-6;
[175] *Supra*. 1, pg. 683;
[176] 2024 GRA Transcript, pg. 1259, lines 13-15;

Finally, the PUB heard that the costs to bring about the change needed to support the defects is in operational expenses portion of the NOVA budget (supported by the bubble budget) and that the estimated cost of addressing the defects and supporting the new product is $7.6M for each of 2023/24 and 2024/25.[177]

Release 2 Status

As it concerns Release 2, the PUB heard that Release 2 is not operational. Release 2 impacts customers enrolled in the International Registration Plan (IRP) and involves moving them from a legacy system to a new system that will simplify and automate some manual processes.[178]

At the time MPI filed its GRA in June, MPI anticipated that the release would go live in August 2023, which itself was a delay from the September 2022 period originally envisioned.[179] Currently, MPI expects the new go-live date to be at some undefined point in 2024.[180] So, in terms of the "iron triangle," the delivery time has changed.

The PUB heard that MPI was unable to go live with Release 2 in the summer as planned new requirements were presented after the completion of coding which required replanning of the schedule (hence the decision not to go live in August). That replanned schedule, which considered use a pilot, was on track but has now been impacted by the ongoing labour interruption.[181] Going forward, MPI will not use a pilot before going live with the release. Mr. Campbell explained the rationale for this as follows:

> *"So the idea of bringing the pilot forward was to understand what are the impacts to the end customer with this new product with regards to how our service organizational unit's operating. This would have given use a little bit of insight into what we could expect when*

[177] 2024 GRA Transcript, pg. 1318-1319, lines 8-25, 3-23;
[178] MPI Exhibit #84, Slide 12;
[179] *Supra*. 1, pg. 683;
[180] MPI Exhibit #84, Slide 10;
[181] MPI Exhibit #84, Slide 12;

> *this product go live – or was going to live, as well as alleviate any of the concerns with the business.*
>
> *Due to labour interruptions, some of the additional research done on this approach and the understanding of the fears that were presented to the team – or the Project team, it was determined that the pilot was not an appropriate approach and that rather we should take the – the concerns in-house and address them through internal testing and different style of customer – or end-user acceptance and, as such, we've since decided to cancel the pilot."*[182]

As for scope, the PUB heard that it has been impacted, but not changed. The reason is that MPI took some of the functionality originally anticipated to be part of Release 2 and deferred it (via a decision made in the fall of 2022), to Release 3. Regarding the nature and timing of the deferral, Messrs. Ramirez and Dessler testified as follows:

> *"What was deferred primarily was for online transactions. And so, the base product for IRP line of business will go live. The online customer portal was deferred to R-3. And there was also some deferral of integrations that would enable automation and improved efficiencies; that's also been deferred."*[183]
>
> *"…given the time constraints that we're under, understanding that's not the core business, it's new enhancements, we thought it was more important to get the IRP functionality out into the field and start realizing that benefit.*
>
> *And then we could align that customer portal work with the bigger customer portal work that was coming in R-3."*[184]

[182] 2024 GRA Transcript, pg. 1276, lines 5-21;
[183] 2024 GRA Transcript, pg. 1285, lines 14-19;
[184] 2024 GRA Transcript, pg. 1427, lines 17-24;

The PUB heard that Release 2 will be considered complete once it goes live notwithstanding the deferral of functionality to Release 3.[185]

The budget for Release 3 remains unchanged. Although some resources working on Release 2 were deployed during the ongoing labour interruption, the PUB heard that controls are in place to reduce costs[186] and ensure forward progress on activities until all other activities can resume.[187]

Release 3 Plans

As it concerns Release 3, the PUB received evidence that MPI completed the pre-discovery process in April 2023, but has yet to start the discovery and implementation phases.[188] The PUB heard that Release 3 focuses on personal insurance as well as on driver and vehicle transactions, moving the core business from legacy systems to a new platform that will also provide a modern user experience and online options.[189]

The time control for Release 3 has been impacted and will change. As the PUB heard, Release 3 Discovery was scheduled to begin in early May 2023 and continue through the summer, allowing for implementation to begin in the Fall of 2023.[190] As previously indicated, there are now six dependencies or pre-requisites for entry into the Discovery Phase of Release 3. Completion of Release 2 and addressing the impacts of the ongoing labour interruption are also requirements.[191] However, during the period of labour interruption, the PUB heard that MPI was able to issue the Request for Standing Offer and engage in the vendor selection process, which is critical for Release 3 Discovery.[192] The PUB heard that MPI will confirm the impacts on the schedule following the conclusion of the ongoing labour interruption.[193]

[185] 2024 GRA Transcript, pg. 1285, lines 8-13;
[186] MPI Exhibit #84, Slide 20;
[187] MPI Exhibit #84, Slide 19;
[188] *Supra.* 1, pg. 649;
[189] MPI Exhibit #84, Slide 14;
[190] *Supra.* 1, pg. 649-650;
[191] MPI Exhibit #84, Slide 13;
[192] MPI Exhibit #84, Slide 18;
[193] MPI Exhibit #84, Slide 18;

At issue in this GRA is whether MPI should pause all work on NOVA after the completion of the required work on Releases 1 and 2. In effect, the debate is somewhat unnecessary given that MPI must pause Release 3 Discovery as described herein.

In this application, MPI identified six (6) critical activities that must be completed before the start of R3 Discovery. Concerning recommendation 1.a. in his report, Stop work on Nova R3 and Beyond, Mr. Greenlay agreed under cross-examination that the entry criteria are prudent and reasonable steps to take before work on R3 begins. So, if indeed the recommendation is to "pause" the initiative, the entry criteria for Release 3 as identified by MPI is tantamount to a pause.

However, it is unclear to MPI what the recommendation from Mr. Greenlay is in this regard. When questioned by Board member Gabor about apparent inconsistencies in his evidence, and while putting various options to the witness, Mr. Greenlay appears to recommend both moving forward, pulling back, and conducting a major re-evaluation before proceeding, stating:

> *"BOARD CHAIR GABOR: Sorry, Kristen, could you just -- I just have one (1) area. CAC-6, the recommendation section that you just had up. Mr. Greenlay, here's where I'm a little confused. In your presentation – in PowerPoint you refer to "pause R-3," and then on 1A you say: "Stop work on R-3, consider a pause of the initiative." And in your testimony you said, to the effect, You need to have discussions, and if -- when -- if they go ahead with R-3, they have to bring it in at or under budget."*[194]
>
> *(…)*
>
> *"BOARD CHAIR GABOR: So, is it that you move forward and say, we're prepared to pay 'X' dollars --*
>
> *MR. SCOTT GREENLAY: Yes.*

[194] 2024 GRA Transcript, pg. 1809, lines 10-22;

> *BOARD CHAIR GABOR: -- you figure out what we do. Do we start pulling things back, do we start laying off people, do we do this and that is that what your idea is?*
>
> *MR. SCOTT GREENLAY: I would suggest something has to be put in place to say there's a limit. Or, if it needs to go over that limit, there needs to be a process that's followed, because you're taking money from the Corporation's future projects or you're taking money out of the ratepayers pack -- pocket, as I understand the way it works.*
>
> *BOARD CHAIR GABOR: So there would need to be a major re-evaluation immediately to determine how you proceed?*
>
> *MR. SCOTT GREENLAY: Otherwise, R-3 is going to come in over budget and over time."*[195]

However, as the PUB heard from Mr. Campbell, pausing Program NOVA (as advised by Mr. Greenlay) may be counterproductive:

> *"…So when any large program comes about when there is a large dollar spend and there is challenges been scene, the natural reaction is to pause and to reevaluate what's going on.*
>
> *MPI continuously reevaluates what's going on and trying to learn from its mistakes, learn from its findings to see how it can improve going forward.*
>
> *So while the sentiment to pause is there, the reality is, is that it -- an actual pause itself doesn't necessarily bring value or improve the delivery of a program.*
>
> *What does taking those lessons learned from your missed steps, taking information learn from others that are providing good guidance, such as listening to our MP governance advisor on what to do, engaging with our*

[195] 2024 GRA Transcript, pg. 1811, lines 5-25;

> *Sis, learning from them and taking under advisement their best practices. Those are the success criteria that we would want to implement going forward in order to ensure that the Program itself is successfully delivered."*[196]

In the end, the best approach is for MPI to continue to report on its progress in completing Releases 1 and 2, proceed to complete discovery for Release 3 (provided that the entry criteria are satisfied) and report back to the PUB on its findings and any changes to any of the elements of the iron triangle (i.e., scope, budget, time) and, more importantly, seek endorsement of its implementation strategy before proceeding.

INFORMATION TECHNOLOGY AND ENTERPRISE VALUE ASSURANCE

In this GRA, the PUB heard from the Information Technology (IT) and Enterprise Value Assurance (EVA) panel on the current focus of the IT Department, the results of the most recent IT Benchmarking exercise, the status of its external and contingent labour strategies and the steps MPI is taking to mature its value management and benefits realization capabilities.

Information Technology

The IT and EVA Panel outlined the operational priorities for IT, which involve "keeping the lights on" for the business during the ongoing labour interruption, restoring the customer service backlog resulting therefrom, delivering Program NOVA (to the extent possible), maintaining organizational security, reviewing the existing software delivery lifecycle with a view to improving the engine and optimizing IT infrastructure from a cost perspective.[197]

[196] 2024 GRA Transcript, pg. 1277, lines 5-25;
[197] 2024 GRA Transcript, pg. 560-561, lines 9-25, 1-21;

While MPI filed an updated IT Strategy, the IT and EVA Panel explained that it does not represent the current focus of the Corporation:

> *"Because of the change in leadership, there's an opportunity for us to take a look at, overall, what is the corporate strategy and make sure that the IT strategy itself aligns to supporting what that corporate strategy is.*
>
> *In the mean time, we are using the direction from the Board of Directors on the three (3) main business objectives they gave to us, which is about meeting financial obligations, delivering Project NOVA and improving service delivery.*
>
> *When the labour interruption is over, we will be looking to re-evaluate what is our IT strategy and it is at the time that a new CITO will be in a position to -- take a look at what we are doing from an IT organize -- or it division within the organization and make sure that it aligns to the larger groups direction."*[198]

The PUB also heard that MPI took another look at its initiatives during the ongoing labour interruption and will be re-prioritizing it efforts. Specifically, Mr. Mitra testified:

> *"So what we have done with the strategy team is we have re-assessed all our initiatives and that is contingent on having resources available post-labour interruption.*
>
> *So at this stage, we don't have a definitive response on what initiatives will continue post-labour interruption. But moving forward, all the initiatives will be revisited on merit with the focus on restoring services and then addressing any vitality concerns that pertain to security, continuity of service and, of course, continuing with project NOVA."*[199]

[198] 2024 GRA Transcript, pg. 563-564, lines 15-25, 1-6;
[199] 2024 GRA Transcript, pg. 596, lines 12-22;

MPI also explained that, since May of this year, it has discontinued certain IT projects unrelated to Project NOVA or deemed not critical and further halted development of certain predictive analytics and artificial intelligence proofs of concept relating to MPI 2.0.[200] As Mr. Campbell explained:

> *"…We didn't actually cancel any existing projects that were in flight.*
>
> *So what we did is we took a look at where programs were in their journey to see whether or not there was -- they were ready to be closed out.*
>
> *Anything new that needed to be brought in, we would then go through a higher level of scrutiny to make sure that whatever funds were left in the funding envelopes were appropriately assigned to the highest priority task or changes that the organization wanted to bring about.*
>
> *(…)*
>
> *…What we did is we just reduced the ability to bring in new projects due to the amount of projects that were already in flight, as well as making sure that we were focused on program Nova."*[201]

As it concerns its external and contingent labour strategies, the PUB heard from MPI that MPI is currently focused on controlling its use of consultants. Specifically, the IT and EVA Panel explained that not only did MPI reduce is consultant compliment from 137 consultants this time last year to 119 consultants today, but it also improved consistency of usage.[202] The IT and EVA Panel also introduced a new plan to further reduce its use of consultants that is different from contingent labour, stating:

> *"…This is where we've identified vendors that went through the RFS or Request for Standing Offer process. So, essentially, short-listing vendors for eleven (11)*

[200] *Supra.* 1, at pg. 6723 (response to Information Request CAC (MPI) 2-1);
[201] 2024 GRA Transcript, pg. 670-671, lines 20-25, 1-14;
[202] 2024 GRA Transcript, pg. 571-572, lines 21-25, 1-5;

> *different categories and subcategories and, with those, instead of looking for contingent labour, which is just someone to fill an FTE role, we're actually looking specific for services. So, something that is more outcome-based, where there is deliverables and it's more along a fixed fee and, when we start to implement those services, we'll see the reduction have a need for consultants."*[203]

In addition to reducing reliance on contingent labour, MPI expects to utilize this RFSO for IT services to address 11 vertical streams and to augment its capabilities as the general contractor on Program NOVA.[204]

In addition to its current IT focus and strategies, the IT and EVA Panel presented the results of the most resent IT Benchmarking exercise conducted by Gartner. The PUB heard that this is the final report that MPI will receive from Gartner under its current five-year arrangement. MPI will be issuing another Request for Proposals shortly to select a new vendor with a view to producing another report for use in the 2025 GRA.

The IT and EVA Panel identified the value in completing the IT Benchmarking exercise as follows:

> *"…So there's two (2) components to the Gartner benchmark report. Number one is a financial benchmark to see how we compare to our peer groups in terms of our IT spend and our IT FTE's, or full-time equivalents.*
>
> *So this really allows us to gauge if we're on the right track, how we compare it to the previous year, and to make sure that we take that feedback and improve the organization.*
>
> *The second component is the maturity assessment which takes a look at the key areas within it. It helps us to understand, again, where we compare to our peer groups and allows Gartner to provide recommendations*

[203] 2024 GRA Transcript, pg. 572-573, lines 17-25, 1-3;
[204] MPI Exhibit #62 (IT and EVA Presentation, Slide 13), 2024 GRA Transcript, pg. 1359, lines 13-20;

> *which MPI actions to provide continuous improvement within our IT area."*[205]

To be clear, the value of IT Benchmarking is at a high level. It is useful for determining whether IT spending and investments are appropriate on an overall basis. The exercise does not consider specific projects and is therefore less useful in that regard.[206]

In terms of the results of Gartner reporting presented this year (for the fiscal year 2021/22), the PUB heard that MPI continues to compare favourably to the industry peer group, comprised of 11 private sector firms, predominantly with automobile insurance lines of business.[207]

This peer group does not include public sector organizations "…because the levels of intensity and efficiency for public sector organizations has diverged from Insurance industry peers…"[208] In other words, public sector organizations do not behave like private sector automobile insurance companies. To which industries should MPI be compared then? While MPI is admittedly not a private insurance company, it does maintain competitive automobile insurance lines of business. And while it is an automobile insurance company, it is also the administrator of driver and vehicle licencing and registration services on behalf of the Government of Manitoba. Is MPI more like GEICO or Manitoba Liquor and Lotteries? Perhaps MPI falls somewhere along a spectrum, with public sector organizations at one end and private sector insurers on the other. And in some cases, it may be more desirable for MPI to post results in-line with the private sector. In other cases, perhaps not so much. As the IT and EVA Panel explained, MPI expects to re-analyze the scope of its IT Benchmarking exercise to contemplate the inclusion of public sector organizations.[209] However, it may not be able to provide deeper insights in comparing Program NOVA to other peer

[205] 2024 GRA Transcript, pg. 576-577, lines 22-25, 1-11;
[206] 2024 GRA Transcript, pg. 631-632, lines 20-25, 1-17;
[207] MPI Exhibit #5 (Gartner Report), pg. 10;
[208] *Supra.* 1, at pg. 7214 (response to Information Request CAC (MPI) 2-38);
[209] 2024 GRA Transcript, pg. 669-670, lines 20-25, 1-5;

transformation projects without creating complications for the current governance vendor.[210]

The PUB also heard that the Gartner review considers MPI on a corporate-wide basis, meaning the exercise also considers its non-insurance services.[211] Further, MPI receives no contextual information about the peers in the comparison group, which could help to explain why MPI compares unfavourably to some. As Chad Muir, Director of Strategic Sourcing and Vendor Management, testified:

> *"When we take a look at peer groups, there's no background information about what journey that they are on at a particular time or what the environment is. So, it is very important for us to show what our IT Division is doing without NOVA, which is our standard transformation and modernization and, then, also including NOVA, which is a one-time regenerational change which, obviously, is going to impact the – the data points very significantly.*
>
> *…in two (2) years, our data will look very different that it does today. We will look like we we're saving a lot of money that we're very low in terms of our FTEs, because of labour interruption. These are snippets that, obviously, we can provide context to, from an MPI perspective, but, when we take a look at our peer reviews, that's information that Gartner or MPI does not have."*[212]

In terms of IT spending and staffing, the PUB heard that MPI compares favourably to the Gartner peer group. Without factoring in Program NOVA, MPI has only slightly higher spending on IT as a percentage of its total operating expenses and again only slightly higher IT staffing levels as a percentage of its total enterprise employees.[213] However, as the IT and EVA Panel noted, the Gartner Benchmarking Report does not differentiate between FTEs and external contractors in its definition of the term

[210] 2024 GRA Transcript, pg. 578-580, lines 12-25, 1-25, 1;
[211] 2024 GRA Transcript, pg. 675-676, lines 1-25, 1;
[212] 2024 GRA Transcript, pg. 565, lines 2-25;
[213] MPI Exhibit #62 (IT and EVA Presentation), Slide 10;

"staffing".[214] As a result, it is unclear whether MPI compares favourably to its peers in terms of its use of IT FTE. The PUB did hear however that MPI spends less on IT than the peer group per enterprise employee (i.e., $39,936 versus $60,146) and spends less on running the business than the peer average (i.e., 16.5% versus 61.7%).

And while the Gartner Benchmark finds that MPI has a higher level of IT spend as a percentage of its total operating expenses compared to its peers, it must be noted that Gartner includes Program NOVA costs in this metric. And, on that point, while MPI has, compared to its peers, a higher number of IT employees as a percentage of its total employees, that increase is explained by the ramping up of Program NOVA implementation.[215]

In addition to comparing spending and staffing levels, the PUB heard that the Gartner Benchmark also measures IT maturity levels. And the IT and EVA Panel explained that, for the 2020/21 fiscal year, MPI made several changes that ultimately impacted its maturity scores. First, the PUB heard that the former CITO, Sid Parti, directed a change from an on-premises environment to a cloud environment which, initially, results in a decrease in maturity in the category of Security and Risk Management.[216] Second was the addition of a new Director, Program and Portfolio Management. Third was an error in the completion of the questionnaire measuring the maturity of Strategy and Execution. As it pertains to the noted decrease in Vendor Management, the PUB heard that MPI remains at a higher level than its peer group, but also that the decrease results from the change to software as a service (cloud-based), which requires more involvement internally with stakeholders and has no impact on Program NOVA, which maintains its own vendor management governance and strategy approach.[217]

In his report, Mr. Greenlay was critical of MPI for wanting to improve its security posture to a rating of 4.2, currently rated at 2.46. MPI submits that such a goal is not ambitious or overreaching given its unique status as a Crown monopoly corporation

[214] 2024 GRA Transcript, pg. 672, lines 7-18;
[215] 2024 GRA Transcript, pg. 581, lines 19-23;
[216] 2024 GRA Transcript, pg. 568, line 3-18, pg. 584, lines 11-23, and pg. 677, lines 9-19;
[217] 2024 GRA Transcript, pg. 676-677, lines 13-25, 1-5;

offering both automobile insurance and driver services to all Manitobans. MPI holds an abundance of personal information compared to most insurers. n addition, a cybersecurity maturity assessment prepared for MPI by KPMG in May 2022 indicated that peers of MPI are expected to increase their levels over the next 5 years.[218]

Finally, the PUB heard that MPI is actioning all 21 improvement opportunities identified by Garner and accepting its five key recommendations, with plans to provide further updates to the PUB in the 2025 GRA.[219]

Enterprise Value Assurance

The IT and EVA Panel also introduced its newly rebranded department which, as indicated, replaces the previous Value Management Office established in 2017.[220] While the name has changed, the PUB heard that EVA will continue with the same mission of enabling business outcomes and reporting on the realization of benefits attainment. Mr. Mitra explained the organizational changes as follows:

> *"…In the fall of last year, under the leadership of Mr. Eric Herbelin, a number of organizational changes were made in MPI.*
>
> *The first one was with regards to Project NOVA, where the overall deliver responsibility for Project NOVA was moved under our CITO, Chief Information Technology Officer, Mr. Sid Parti. And the other two (2) executives assisting components of delivery of Project NOVA were the CTO, which is myself, and our COO.*
>
> *At the same time, the two (2) other changes that the enterprise made were – one was the establishment of the enterprise – EPMO. So Enterprise Project Management Office, which is a new directorate that was stood up under, again, the CITO.*

[218] See response to Information Request CAC (MPI) 1-16(c), Attachment A, pg. 12;
[219] 2024 GRA Transcript, pg. 586-587, lines 19-23, 1-23;
[220] MPI Exhibit #62, Slide 15;

> *And value management, which previously resided with our CFO – so back then it was Mr. Mark Giesbrecht – was moved or transitioned to become enterprise value assurance."*[221]

The PUB heard from Lani Edwards, Director of Value Assurance, as to the focus of her team:

> *"We are currently developing the Benefits Realization Management Process which will enable MPI to measure value consistently across the enterprise and will ensure like-to-like comparisons for all proposed strategic investments.*
>
> *We have also been busy supporting the LPM, which is lean portfolio management intake process, by vetting LBCs, which is the lean business cases, ongoing tracking and monitoring of initiatives, reviewing and following up on project close-out reports, and attainment of benefits."*[222]

Next year, the EVA team will begin implementation of the Benefits Realization Management process, apply it to all large change and multi-year initiatives and leverage strategic portfolio management best practice to support and implement the Enterprise Value Assurance Framework.[223] In terms of reporting for the 2025 GRA, the IT and EVA Panel expressly requested that the Capital Master Summary reporting include Epics with a threshold of $50,000 (up from be moved from $30,000) in light of resource constraints and a consideration of the benefit to effort ratio.[224] This year, the Value Assurance Chapter of the 2024 GRA contained over 700 pages of content, with 43 specific appendices containing lean or detailed business cases.

As an aside, the IT and EVA Panel described the difference between lean and detailed business cases as follows:

[221] 2024 GRA Transcript, pg. 605-606, lines 22-25, 1-15;
[222] 2024 GRA Transcript, pg. 574, lines 4-14;
[223] MPI Exhibit #62, Slide 19;
[224] 2024 GRA Transcript, pg. 607, lines 11-22;

> *"…when you do a traditional business case, it tends to go for waterfall model where it says I want all of this. I list out a hundred things. I want all of its, and you're expected to deliver all of it. And the project ends when you deliver all of that.*
>
> *In addition to that, that level of detail gives you all the – the nuances to track out what are the benefits of the – the business case.*
>
> *When you move into a lea business case, the idea is to embrace Agile, in which case, you do a little bit of work. You prove out that that work is actually what you believe it will do and it is – does have that benefit. And then you move on to another section of that work.*
>
> *So when you go into a lean business case, you take a look in there. It'll have scope statements, but it'll also have something called minimum viable product identified, and that's that first litmus test on whether or not the project has merit, if you made a mistake or missed assumption along the way.*
>
> *The idea is to learn upfront whether or not your business case has legs and continue with it or pivot and move a different direction versus the old style, where you had a large business case, and you did not get that insight until you were done. So you could have made a very large financial mistake with that business case."*[225]

This year, the counsel for the PUB and for the respective Interveners posed a number of questions to the IT and EVA Panel on the topic of "funding envelopes," which Mr. Campbell defined as "…a bucket of money that has been allocated for – to bring about change".[226] In the 2023 GRA, the PUB noted that MPI was in the process of changing its funding process to one using broad funding envelope allocations.[227] The process used to set envelop funding depends on whether the change falls into the vitality

[225] 2024 GRA Transcript, pg. 663-664, lines 7-25, 1;
[226] 2024 GRA Transcript, pg. 589, lines 6-12;
[227] PUB Order 4/23, pg. 103;

program bucket or the business change bucket. The PUB heard that vitality programs (i.e., those designed to address technical debt) are considered on a risk-basis. Business change programs are considered based on business cases outlining business value.[228] The PUB heard that while MPI uses funding envelopes and allocations for IT project funding (excluding Program NOVA), it is simply a marker for overall funding and that each project within an envelope must still be brought forward and approved based on an evaluation of the value of the overall business case (which includes NPV analyses).[229] However, NPV analysis may not form the basis to reject a business case pertaining to a vitality project because those project are designed to address risk and typically carry with them a negative NPV.[230]

The IT and EVA Panel informed the PUB that the funding envelopes must be re-aligned to support overall strategy and portfolio management as the current alignment does not meet the needs of the Corporation. As it pertains to re-allocation between funding envelopes, the PUB heard that MPI relocated $3.2M from other envelopes to cloud adoption[231] as estimates for embracing cloud migration exceeded the original budget for the program. Mr. Campbell added however that use of funding envelopes is currently under review and that the ability to re-allocate funds between envelopes should be restricted.

INVESTMENTS AND ASSET AND LIABILITY MANAGEMENT (ALM) STRATEGY

As one might expect, the story surrounding the issue of Investments continues to be inflation and interest rates. To combat inflation having risen above its target, the Government of Canada announced 10 consecutive interest rate hikes since March 2022, now at 5% (up from 0.25%).

[228] 2024 GRA Transcript, pg. 591-592, lines 6-25, 1-11;
[229] 2024 GRA Transcript, pg. 593, lines 4-23;
[230] 2024 GRA Transcript, pg. 594, lines 3-15;
[231] *Supra.* 1, pg. 916;

MPI responded with a new ALM Strategy in the 2023 GRA (interest rate risk addressed) and presented its Bond Overlay Strategy in the 2024 GRA (inflation risk addressed).

ALM Strategy and Asset Mixes

The PUB heard that the ALM program at MPI is working well.

Notwithstanding the dramatic changes in interest rates, the ALM Strategy was effective at hedging interest rate risk. In the one-year period between March 2022 and March 2023, when interest rates were increasing dramatically, the net impact was within $1 million of budget for total fixed income assets of $2.8 billion. That is, rising interest rates caused bond prices to fall and the marketable bonds sustained a loss of approximately $120 million. However, there was a corresponding increase in Claims Incurred due to the discount rate change of $104 million, which amounted to a net impact of $15.4 million and the corporation budgeted for interest rate changes of $14.8 million.

MPI continues to make improvements to its ALM program, and the implementation of the new asset mixes as recommended by Mercer last year is well underway. There has occurred a rebalancing of the segregated portfolios, including the Basic Claims portfolio to reach target weights for corporate bonds. Changes were made to the RSR and EFB equity portfolios to achieve the new target weights.

Asset classes new to certain MPI portfolios under the ALM are commercial mortgages, inflation linked bonds (RRBs) and real estate.

For Basic, once fixed income assets were rebalanced (provincial and corporate bonds), it left room for an allocation to mortgages (5%) and real estate (10%). The new asset mixes for Basic, as shown in Efficient Frontier #3, and as recommended by Mercer,[232] will allow MPI to achieve greater returns at less risk from its current position of 100% bonds. In addition, the 10% allocation to real estate will provide some measure of

[232] 2024 GRA, Part II, COM Appendix 3, page 13;

inflation protection (in addition to the inflation linked bonds under the Overlay Strategy) because rent paid on the property is linked to increases in inflation.[233]

However, while MPI acknowledges there are other points on the efficient frontier that would offer even greater returns, with perhaps little additional risk, that is not the objective of the Basic Claims portfolio. And continued adjustment to achieve greater returns will always come at a cost. The midpoint portfolio on the efficient frontier, with the addition of commercial mortgages and real estate, will attract higher capital charges (as determined by OSFI), meaning the MCT ratio will drop, increasing Basic's capital requirements. As confirmed by Ms. Low, once the ALM strategy is fully implemented, and the new asset classes are in place, the MCT ratio for Basic will drop and offset the increase to the ratio under IFRS 17.[234]

Presumably for the purpose of greater returns, the Coalition of Manitoba Motorcycle Groups (CMMG) suggests that MPI instead purchase growth assets at a 34% allocation (rather than RRBs on a cash basis), both of which would mean having to sell provincial bonds to fund the purchase of equities. Not only is this contrary to the investment objectives of MPI and Basic, but it would also require an additional $205 million in capital and upset the ALM strategy which requires liquid bonds to trade in order to adjust the duration to match the duration of the claims liabilities.[235]

Bond Overlay Strategy

MPI engaged Addenda to address inflation (unexpected inflation, for which MPI's liabilities are not reserved), and although it has fallen in recent months, it also stubbornly remains above the Bank of Canada target of 2%. The Bond Overlay Strategy presented by MPI and Addenda, makes use of repurchase agreements whereby government securities are sold and bought again at a slightly higher price due to interest rate changes. The seller, MPI, becomes a short-term borrower for a collateral-backed interest-bearing loan. The buyer is therefore a short-term lender.

[233] 2024 GRA Transcript, pg.1872;
[234] 2024 GRA Transcript, pg. 1869 -1870;
[235] MPI Exhibit #118 (response to Undertaking 34);

The Addenda witnesses explained the strategy in detail and described the strategy as one familiar to them, but also one that was customized for MPI. The Addenda witnesses confirmed that although the repurchase agreements involve borrowing money to fund the purchase of the RRB's, the overlay strategy is not a leveraging strategy. Indeed, Glenn Bunston, Director of ALM & Investment Strategy, confirmed that use of collateral mitigates the risk with such a strategy. If the counterparty is for some reason unable to meet its obligations under the repurchase agreement, MPI would liquidate the collateral (treasury bills) as to make itself whole.

The main advantages of the strategy, as explained by Addenda, are two-fold:

i) it allows MPI to maintain the current bond portfolio and the increased yield that provincial and corporate bonds offer; and

ii) purchasing RRBs on a cash basis would mean selling provincial bonds to fund the purchase, thereby weakening the interest rate risk management strategy (because RRB's are difficult to buy on duration neutral basis given the limited selection of maturity dates).

While the strategy in principle has been approved by the MPI Board of Directors (Investment Committee), the allocation to the strategy (hedge ratio) has yet to be determined, the hedge ratio determines the amount of inflation protection MPI will have in place, i.e., the dollar number of RRBs. For example, the evidence was that a hedge ratio of 100% translates to approximately $1.1 billion in real return bonds.

Like all investment decisions at MPI, the hedge ratio will be determined by the Board of Directors (on the advice of the Investment Committee).

The impact of inflation on MPI has been significant, $119 million over the last two years, which impact would have been averted had the bond overlay strategy been in place in 2021 (at a cost of $4.4 million). [236]

[236] 2024 GRA Transcript, pg. 1563;

New Money Yield

In the update to the 2023 GRA filed last year, MPI introduced a new methodology for its calculation of the new money yield. In prior GRAs, both provincial and corporate bonds had an assumed duration of about ten years, while the new approach was based on a premium liability duration of about two years, to reflect the durations of MPI's physical damage claims. The PUB rejected the notion of changing the methodology in the same GRA (June and October) and determined the naïve interest rate forecast as it did in prior years, based on the duration of the invested assets supporting the Basic claims portfolio (with a reduction for investment management expense).

For the 2024 GRA (both the June and October filings), MPI again employed the new methodology, by using premium duration for ratemaking because it includes the short-tail physical damage claims that are paid by cash. In its forecasting pro formas, MPI continues to use a claims duration that is close to 10 years.[237]

In addition, as explained by Ms. Low, under IFRS 17, the naïve yield curve, the flat curve, does not exist. Rather, there is an embedded forward rate, meaning MPI no longer uses a single discount rate for discounting its liabilities (claims). IFRS 17 uses a yield curve that reflects the characteristics of the liabilities rather than the assets. Currently, this has created a disconnect in the financial model between the naïve rates used for investment forecasting and the forward rates (yield curve) used for liabilities. For clarity, while MPI works out a solution with Addenda, it provided pro formas for investment forecasting using the same yield curve (August 31) used for discounting liabilities, to provide a naïve view on both sides of the balance sheet.

MPI made use of a 5.04% New Money Yield as of August 31, 2023 (which this year includes commercial mortgages, in addition to provincial and corporate bonds).

[237] 2024 GRA Transcript, pg. 1571;

Interest Rate Forecasting

In its forecast, when calculating asset values, MPI continues to make use of the naïve interest rate forecasting methodology, which assumes that the current level of interest rates will remain unchanged during the forecast period. And while the bank forecasts (Standard Interest Rate Forecast) have in recent years been closer to actual, over the long term, the naïve forecast has been closer. MPI prefers not to take a position on the future direction of interest rates, taking the position instead that stability in forecasting is important given the cost of inaccurate interest rate forecasting in the past has been significant.

Underscoring how naïve interest rate forecasting works was the response to this question put to Mr. Bunston during his direct examination:

> *"MR. STEVE SCARFONE: And I know just recently there was an announcement that the Bank of Canada wants to hold steady its key interest rate. But if interest rates continue to go up, as they have, over the next year or so, is the Corporation again forecasting a big loss to its fixed income portfolio?*
>
> *MR. GLENN BUNSTON: We are not, and that's because we use what we call a naive interest rate. So that assumes that today's interest rate will continue in the future, and we don't take a position as to whether interest rates will rise or fall."*[238]

MPI therefore recommends continued use of the naïve forecast as a means of providing rate stability to its customers.

Investment Performance

Consistent with the story of rising interest rates (and to a lesser extent, inflation), MPI's fixed income portfolio fell by approximately $116 million last year, but with liabilities also falling by a similar amount. As explained by Mr. Bunston, bonds have an inverse relationship to interest rates. And while inflation has fallen since June 2021,

[238] 2024 GRA Transcript, pg. 1567, lines 14-25;

rising inflation generally increases nominal yields, which would serve to reduce bond prices further and contribute further to the negative returns on the fixed income portfolio. In terms of percentages, MPI's corporate and provincial bonds declined by 2.7% and 3.9% in 2022/23.

Contrast that to the strong performance of MPI's equity portfolio against the benchmarks. The Canadian equity portfolio outperformed the benchmark by 7.8% and by 4.9% for global equities. This early trend into the current fiscal year has MPI's equity portfolio underperforming the benchmark by 1.8%. Concerning the private equity portfolio, infrastructure and real estate, the returns were modest last year (0.0% and 2.8%) but with overall improvements in the first quarter of the current fiscal year, 5.6% for infrastructure and 1.4% for real estate.

The performance evaluation completed by Ellement showed that the Basic and Employee Future Benefits portfolios outperformed the policy portfolio by 0.6% and 0.8%, while the RSR portfolio underperformed the policy portfolio in 2022/23 (-0.5%). The policy portfolio, a new benchmark recommended by Mercer, takes the sum of the benchmark returns multiplied against the target weight for each asset class under MPI's Investment Policy Statement.

Aside from the market forces that had a negative impact on all bond investors last year, MPI's investment fund is managed well. The ALM strategy fully mitigated the losses in the fixed income portfolio. And it is important to remember that favourable returns are not the primary objective to the Basic Claims portfolio but rather, to ensure funds are available to pay claims and to hedge risks associated with liabilities (for example, having to index weekly indemnity payments to adjust for inflation).

BASIC INSURANCE MODEL/DRIVER SAFETY RATING (DSR) SYSTEM

This year, the PUB received an update from the Product Enhancements Panel on its plans to bring forth a proposal for the implementation of an alternative rating model and a request for approval of the expansion of the DSR scale and further movement of DSR discounts towards their actuarially indicated targets.

Alternatives to Current Basic Insurance Model

In compliance with Directive 12.16 of PUB Order No. 4/23, MPI provided the PUB with an update on the revised 5-year plan introduced in the 2023 GRA, namely, a plan which includes detailed workplan, start date, and schedule for MPI to bring forward a new rating model to the PUB for approval.

Specifically, the Product Enhancements Panel highlighted the results of the jurisdiction scan, updated definitions of potential future models, discussed required legislative changes and underscored the importance of driver data collection.

The PUB heard that the updated plan includes two main phases, the driver data collection and analysis phase and the implementation phase. As it concerns these phases, the PUB heard that MPI plans to build the functionality to collect driver information into Release 3 of Program NOVA.[239] Therefore, delays in the implementation of Release 3 will invariably impact the ability of MPI to collect data and bring to the PUB the results of its analysis and a new model proposal. But why collect and analyze data at all? As explained in the Basic Insurance Model Chapter of the 2024 GRA, without driver data, MPI cannot assess the impact of any potential on ratepayers of potential changes to the DSR model.[240]

And not only must MPI be able to collect data, but it must also be able to compel driver data, rather than rely on its voluntary production. As the Product Enhancement Panel stated, an individual with a DSR level +17 rating who lives alone is far more likely to volunteer their information to MPI than an individual with the same rating who lives in a home with another driver at DSR level 0.[241] Without compulsion, MPI risks collecting data that does not provide a representative sample of DSR eligible policies, which could skew its findings and impact its ultimate proposal.

MPI is of the view that it does not currently have the means to collect and, more importantly, compel the production of driver data. During this hearing, two provisions

[239] 2024 GRA Transcript, pg. 353, lines 14-18;
[240] *Supra.* 1, pg. 2746;
[241] 2024 GRA Transcript, pg. 351, lines 7-14;

were discussed, Subsection 6(2) of *The Manitoba Public Insurance Corporation Act* (MPIC Act),[242] and s. 33 of the *Automobile Insurance Plan Regulation* (AIP Regulation).[243]

The first provision, Subsection 6(2) of the MPIC Act, gives MPIC the authority to create forms and to prescribe the information to be entered thereupon. While MPI may be able to leverage this authority, it is of the view that its ability to rely on this authority and whether it should rely on it are different considerations. An updated form would require applicants to provide the name, driver's licence number and perhaps other identifying information of everyone who they expect to drive the vehicle at some point in the subject rating year. Not only might this lengthen the amount of time required to complete a transaction, but it may also require multiple trips to a broker or service agent, require the attendance of multiple individuals and ultimately create a poor customer experience.[244] And this assumes the information can be obtained by the registered owners from the other drivers. If the required information cannot be obtained, what are the consequences? Can MPI deny the registered owner a discount on their vehicle premiums? Can it deny them a vehicle policy altogether? Further, what would be the consequence if someone other than a registered owner or identified driver are operating the vehicle and held to be at fault in an accident? Would MPI deny the claim? Keep in mind that the purposes of requesting the information would be for the purposes of conducting an analysis, not for determining entitlement to or amount of a vehicle premium discount.

The second provision, section 33 of the AIP Regulation, which gives registered owners the ability to assign another driver to their vehicle policy for the purposes of obtaining a vehicle premium discount is a *voluntary* option that in practice is typically used in exceptional cases where individuals are not driving due to a medical condition.[245] In these types of scenarios, there is an incentive for the registered owner to assign a driver to their policy (i.e., without the assignment, the registered owner receives no discount on their vehicle premiums). However, that incentive is immediately lost when

[242] C.C.S.M. c. P215;
[243] Man. Reg. 49/2019;
[244] 2024 GRA Transcript, pg. 552-554, lines 16-25, 1-25, 1-13;
[245] 2024 GRA Transcript, pg. 378, lines 14-21;

the result of an assignment effectively decreases or even eliminates the premium discount. Further, nothing within section permits MPI to require an assigned driver and this section does not address the indirect collection of information.

Does section 33 of the AIP Regulation support a claim that MPI already possesses the authority to collect driver information? MPI respectfully submits that it does not. As indicated in the Basic Insurance Model Chapter, MPI is of the view that section 36(1) *The Freedom of Information and Protection of Privacy Act*,[246] does not give MPI the authority to collect and compel primary or listed driver information, which is not the same thing as a voluntarily assigned driver.[247] In fact, section 33 of the Regulation reinforces the importance of the ability to compel the production of driver data from someone other than the driver. Currently, the only time that MPI is authorized to receive driver information directly from the driver is when it is voluntarily provided.

The Basic Insurance Model Chapter identifies some of the high-level changes to the AIP Regulation that MPI would seek to address these concerns, including:

> *"• Including a definition for "Primary Driver", "Listed Driver" and any others that may be part of the information to be disclosed or collected by MPI.*
>
> *• Authorization for MPI to provide such information to brokers as necessary for them to administer the data collection program.*
>
> *• Authorization for MPI to collect information from registered owners about individuals other than themselves.*
>
> *• A requirement for registered owners to provide this information*

[246] C.C.S.M. C. F175;
[247] *Supra.* 1, at pg. 2754;

> *• Definitions and necessary regulations related to any tactic(s) MPI may use to compel data collection."*[248]

The PUB heard that MPI initiated the communication process with the previous Government for the approval of the necessary legislative changes and intends to continue that conversation with the new Government.[249] MPI remains on track and is hopeful that the amendment process can begin in Quarter 4 of the 2023/24 fiscal year.[250]

Finally, the PUB heard that MPI's plan to re-engage with stakeholders on the topic of the Basic Insurance Model was scheduled to begin now but has not.[251] The Product Enhancements Panel testified that MPI expects to consult the incoming Government and begin the stakeholder consultation process shortly. The PUB heard that MPI remains committed to working with stakeholder and ensuring that its survey materials are accessible and appropriate.

DSR Scale Expansion and Discounts

The Ratemaking Panel presented on the topic of the DSR Scale. MPI applies this year for expansion of the DSR Scale to +18 as well as approval of the movement of all DSR discounts further towards their actuarially indicated targets.

In compliance with PUB Directive 12.15 from Order 4/23, MPI applies to move all DSR discounts one fourth of the way towards their actuarially indicated target, rounded down to the nearest whole number. Figure RC App 6-4 identifies the proposed discount targets for levels +1 to +18. The PUB heard that MPI used actual driving history to create and analyze synthetic data to determine DSR discounts. As observed, the biggest impact is to DSR levels +12 and up, with DSR level +18 set to receive a discount of 48%.[252]

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[248] *Supra* 1. at pg. 2757;
[249] 2024 GRA Transcript, pg. 353, lines 4-8;
[250] 2024 GRA Transcript, pg. 407-408, lines 24-25, 1-3;
[251] 2024 GRA Transcript, pg. 404, lines 16-19;
[252] *Supra* 1., at pg. 2481;

The impact of doing so is set out at Slide 7 of MPI Exhibit #65 (the Ratemaking Presentation). As one might expect, additional DSR discounts reduces the revenue available to MPI. In this case, MPI estimates that revenue impact to be -4.95%. As MPI was directed to achieve revenue neutrality, it increased the base rate by 5.21% however, as indicated in its response to Undertaking #11, reducing the discount for Level +18 from 48% to 46% reduces the loss of revenue by about 1%, which would in turn reduce the required base rate adjustment to achieve revenue neutrality.[253]

As was pointed out during this hearing, DSR Levels +1 to +8 would not receive a change in their respective discounts[254] because one quarter of the variance between the current and calculated discount is less than 1%, which MPI was then directed by the PUB to round down to the nearest whole number.[255]

By 2026, MPI expects to fully expand the DSR discount levels to +20, with an expected maximum discount of 66% once implemented and DSR Level +18 increasing to a discount of 60%.[256] Until then, the reality is that there will continue to be a measure of cross-subsidization in the DSR scale. As Ms. Low explained in her evidence:

> *"No matter how refined we get in a risk classification, there is always going to be an element of cross-subsidization because that's the concept of insurance. It's a pooling of risks."*[257]

Some cross-subsidization may in fact be necessary and for the benefit of all. For example, as this Panel pointed out, one of the arguments in favour of MPI was to reduce rates for younger and older drivers.[258] Therefore, while it is important to make efforts reduce incidents of cross-subsidization, these efforts may not always result in desirable consequences.

[253] 2024 GRA Transcript, pg. 839-840, lines 23-25, 1-3;
[254] 2024 GRA Transcript, pg. 883-884, lines 23-25, 1-2;
[255] 2024 GRA Transcript, pg. 886, lines 2-20;
[256] *Supra* 1., at pg. 5402 (response to Information Request PUB (MPI) 1-73);
[257] 2024 GRA Transcript, pg. 813, lines 2-5;
[258] 2024 GRA Transcript, pg. 204, lines 15-22;

VEHICLES-FOR-HIRE (VFH)

As previously indicated, Directive 12.10 from PUB Order 4/23 required MPI to file a revised VFH policy framework, which includes an explanation of the blanket policy, ensures that it does not result in cross-subsidization and ensures that all VFH operators are able to access the technology required to participate in the said blanket policy. In compliance with Directive 12.10, MPI filed its revised VFH framework and requests its approval by the PUB.

As the PUB heard from the Product Enhancements Panel on October 11th, the revised VFH policy has two main components. The first is the TNC Blanket Policy, which includes the framework and pricing methodology but does not include the per kilometer price (for reasons that will be discussed further herein). The second is the replacement of the existing VFH time band model with a full time VFH use at the same time the TNC Blanket Policy is introduced.

TNC Blanket Policy

As it concerns the TNC Blanket Policy, the PUB heard that the Policy is the "industry standard for public auto"[259] and is available to all within the VFH industry who meet minimum requirements, including taxicabs.

The Product Enhancements panel explained to the PUB how the proposed TNC Blanket Policy works. Essentially, time is separated into periods and when the VFH is carrying out its responsibilities of travelling to or with passengers, the TNC-purchased Blanket Policy applies. Otherwise, as is consistent with the current approach and with public auto industry standards, the all-purpose Basic policy purchased by the registered owner of the vehicle applies. The PUB heard that Premiums for the Policy are determined based on the aggregate reported kilometers travelled during the ride-sharing phases for each Policy.

The PUB also heard that the proposed TNC Blanket Policy does not result in cross-subsidization (i.e. ensuring that members of the Private Passenger Major Class do not

[259] 2024 GRA Transcript, pg. 530, lines 4-8;

pay for the costs of these policies) as the framework uses an annual reconciliation and a rebate/surcharge program, which incorporates serious loss loading[260], based on actual experience in the ride-sharing phases and completely funded by the TNC policyholders to ensure that TNCs are held accountable for the claims' experience of their affiliated vehicles.[261] Further, the PUB heard that as MPI currently does not have experience with a blanket policy, it will be tracking the underlying uses being used in combination with this policy to ascertain if future adjustments are required based on Manitoba experience, post implementation. MPI also believes this framework is fair and equitable to all members of the VFH industry as the technology required to reliably track and report kilometers travelled is widely available and already used by a variety of users, including taxicabs.

Finally, the PUB heard that the proposed TNC Blanket Policy accords with AAP with losses occurring during rideshare are allocated to the overall TNC experience. On a per policyholder basis, losses are included based on the percentage of responsibility to a TNC's annual assessment which impacts the subsequent calculation of their loss ratio. A $50,000 loss cap would also be applied at the incident level and an ultimate loss ratio would be determined on an annual basis. Pricing is based on a methodology which uses a projection of kilometers driven at an initial estimated per-kilometer rate, is designed to be revenue neutral and promotes safe driving behaviour using annual premium deposits, annual reconciliations, and a 24-month final settlement,[262] each of which will employ a rebate/surcharge mechanism.

To be able to implement the TNC Blanket Policy, the PUB heard that MPI must collect and analyze kilometer driven data obtained from the TNCs to determine pricing. This data is proprietary to each TNC and, as the PUB heard from the Product Enhancements Panel, due to the size of the Manitoba TNC market, MPI cannot provide this information at an aggregate level that avoids identifying TNC specific data. And with it, competitors (or potential competitors) will have greater insight into the size and profitability of the ride-share market as well as the share of that market by the TNCs in it. Those TNCs therefore seek to protect this data from unauthorized

[260] 2024 GRA Transcript, pg. 391, lines 3-25;
[261] 2024 GRA Transcript, pg. 358, lines 2-11;
[262] 2024 GRA Transcript, pg. 543-544, lines 8-25, 1;

dissemination and MPI does not have authority to share the kilometers data with the public, nor does it have authority to share it with parties who intervene in this process, including using a confidential process. This is not a position unique to MPI, as Simmi Mann, Customer Value Proposition Lead, testified during this hearing, that currently other jurisdictions have not shared aggregate kilometers beyond the regulator. More specifically, when public filings are required, the kilometer data has been redacted with only regulators having reviewed unredacted data.[263]

In the Undertaking Panel, the PUB heard that ICBC and SGI had used Taxi data to build their blanket policies.[264] MPI explained that this approach was used as both jurisdictions did not have TNC/rideshare experience prior to implementing a blanket policy.[265] Conversely MPI has the benefit of TNC experience as they have been in operation under the time band model in Manitoba. The goal of using TNC km data relative to the per km rate is to build an accurate per km rate at the onset/introduction of the policy.

MPI was unable to confirm that the information ICBC used for its initial application (based on taxi data) was public. [266] Nonetheless, the evidence before the PUB emphasizes the need for a confidential treatment of the continued TNC experience in which the blanked police will be based, similarly to ICBC.[267]

As requested by the PUB, MPI undertook to confirm the position of a particular TNC. As indicated in the response to Undertaking #3, MPI obtained confirmation from this TNC that MPI is only authorized, subject to its approval of a confidentiality agreement, to share its unredacted information with the PUB, its consultants and lawyers. Further, the TNC replied that it would consider sharing redacted information with Interveners, subject to approval of the redacted details.[268]

[263] 2024 GRA Transcript, pg. 367, 369-370, lines 14-19, 20-25 and 1-25;
[264] 2024 GRA Transcript, pg. 2192, lines 11-15;
[265] 2024 GRA Transcript, pg. 2194-2195, lines 14-25, 1-2;
[266] 2024 GRA Transcript pg. 2195, lines 16-20;
[267] 2024 GRA Transcript pg. 2197-2198, lines 24-25, 1-5;
[268] MPI Exhibit #112 (Undertaking No. 3);

Without a directive protecting confidential aggregate kilometers travelled, MPI is unable to implement the TNC Blanket Policy.[269] This directive is essential to the Policy and required for MPI to effectively operationalize it.

MPI therefore seeks approval of the TNC Blanket Policy framework and pricing methodology. Next year, the PUB can expect MPI to return with an additional request for approval of the per-kilometer rate to be used upon implementation of the Policy in a subsequent GRA.

Decommission Time Band Model at time of Blanket Policy Rollout and replacement with full-time for VFH

Together with the implementation of the TNC Blanket Policy, MPI request PUB approval to decommission the use of the existing Time Band Model and to replace it with a full-time VFH use model (i.e., a model that does not vary based on time of day) for Taxi VFH, Limo VFH, Accessible VFH and Passenger VFH. In essence, MPI would apply the current "4-time band" option to all Full-Time VFH policies.

Majority of customers do not use or want the existing Time Band Model as it does not meet their operational business needs. It is ineffective and provides little value.[270]

In response to Information Request TC (MPI) 1-19, MPI confirmed that the move from the Time Band model to a Full-Time model would increase the premiums of approximately 8% of VFH policies, meaning 92% would see no change in their premiums strictly because of moving to a Full-Time model because they are, in effect, already there. Admittedly, the biggest impact of the change would be for those VFH policyholders who currently choose to operate exclusively with coverage under Time Band 1. For these policy holders, the isolated increase in premiums will be larger. However, as set out in the response to Undertaking #5, this larger increase is expected to impact about 74 of 2,385 VFH policies, or approximately 3.1% of the total number VFH policies.

[269] 2024 GRA Transcript, pg. 373, lines 7-12;
[270] 2024 GRA Transcript, pg. 398, lines 7-23;

And while a part-time model that would be flat-rated with VFH-coverage during a defined set of part-time hours may be an option, it requires further investigation. The PUB heard that the Taxi Coalition (TC) was not amenable to the model mock up and preliminary rates put forward by MPI[271] and so the path forward is the Taxi Telematics pilot collaboration with the TC that is expected to provide insight into the overall viability of a part-time model and associated experience.[272] The PUB heard that MPI modified the deliverables sought, issued a new request for proposals (RFP) this year and is currently evaluating responses. Until vendor selection is complete, MPI is unable to confirm when it expects the pilot to be completed.[273]

Next Steps

If approved, when can the PUB expect MPI to begin implementation of the new VFH Framework? The TNC Blanket Policy cannot be implemented until Release 3 of Program NOVA is complete. Previously, MPI had set a target implementation date of April 2025. However, as MPI has yet to begin the Discovery Phase for Release 3, it is unable to confirm what a new target date might be. MPI indicated its plans to return to the PUB with progress updates and to request approval of the per-kilometer rate.

BENCHMARKING

MPI recognizes the importance of benchmarking with its continued utilization and analysis in areas where data is available and applicable. MPI organizes its benchmarking into four categories, IT Benchmarking (discussed previously), Canadian Vehicle Insurance Rates and Average Premium Growth, Serving Manitobans, and Operational Benchmarking.

[271] 2024 GRA Transcript, pg. 528, lines 1-6;
[272] *Supra.* 1, pg. 2726;
[273] 2024 GRA Transcript, pg. 529, lines 1-8;

Canadian Vehicle Insurance Rates Comparison and Average Premium Growth

Overall, Manitobans continue to have competitive and affordable automobile insurance rates when compared across Canada against both private and Crown jurisdictions[274]. The PUB heard that Manitoba's average increase in premiums of 1.8% is less than the Canadian average of 3.2% and only slightly behind British Columbia's average increase of 1.6%.[275]

The PUB heard that due to a disagreement between Ernst and Young and ICBC, the former withdrew from its participation to undertake comparability reports.[276] The result is that MPI will no longer be able to produce a report similar to previous ones prepared for the GRA.[277] While no plan has been solidified as a replacement solution, MPI extended an invitation for discussions with the PUB as to what could be done going forward. One possibility includes Regulators making rates available within their jurisdictions.[278]

As Scott Patton, Manager of Customer Insights & Analytics testified, measuring and comparing motorcycle rates across insurance providers in Canada is made difficult due in part to bundling of rates within private insurers.[279] There are a variety of schemes and models that make it difficult to compare motorcycle rates between MPI and private jurisdictions across Canada.[280] Mr. Patton further testified that MPI does have a low motorcycle rate 'across Canada', despite concerns from the CMMG that Manitoba, particularly Winnipeg, has the highest among the three public jurisdictions.

Serving Manitobans

MPI is committed on its mission to provide Manitobans with exceptional coverage and services, affordable rates and is striving for safer roads through public auto insurance.

[274] MPI Exhibit #57, slide 5;
[275] MPI Exhibit #57, slide 4;
[276] 2024 GRA Transcript, pg. 277, lines 9-12;
[277] MPI Exhibit 57, slide 6;
[278] MPI Exhibit #57, slide 6;
[279] 2024 GRA Transcript, pg. 331, lines 1-5;
[280] 2024 GRA Transcript, pg. 331, lines 12-16;

The PUB heard that MPI continues to receive and value feedback from its customers and the public. The results indicate most Manitobans feel MPI is delivering on its mission.[281] MPI will continue to seek input from Manitobans to monitor its services and adjust where necessary to best address concerns or needs.

The big unknown right now is labour interruption, now into week nine of the strike. It is unclear at this time what effect the extended absence of 1,700 employees may have on the public's opinion of MPI.

Operational

Benchmarking can provide value for MPI to measure itself against peers and others in the industry. In looking at operational comparisons with ICBC and SGI, the PUB heard that MPI's Total Gross Expenses per FTE were lowest of the three peers.[282] Total Gross Expenses as a percentage of GPW for MPI in 2021/22 was 14.3%, just lower than the mid-point between SGI at 18.8% and ICBC at 10.9%. MPI, SGI and ICBC each had increases of Total Gross Expenses in 2021/22.[283]

Following through with their proposal in the 2023 GRA, MPI worked with AON to provide benchmarking in an effort to broaden the scope of insight with its peers.[284] Even when 'adding back' costs for marketing and litigation which would be normal for the industry – as CFO Ryan Kolaski did in his direct evidence – MPI still had a percentage of gross premiums at 35.00% versus the Canadian Personal Auto benchmark 36.43%.[285] However, the unique position of MPI also presents challenges and requires a more nuanced analysis in certain areas and metrics in terms of operational benchmarking. As per Mr. Kolaski:

> *"Part of the challenges are that the companies are very different, both from technology in terms of where they are at, in terms of their modernization of systems. Both*

[281] MPI Exhibit #57, slide 3;
[282] MPI Exhibit 57, slide 7;
[283] *Ibid;*
[284] 2024 Part IV BMK Attachment A;
[285] MPI Exhibit 57, slide 8; 2024 Part IV BMK Attachment A pg. 5;

> *in terms of ability to attract staffing, retain staffing, they have different economies of scale."*[286]

And Mr. Kolaski further added:

> *"We have not set targets specifically related to specific benchmarks. And here's just a practical challenge, right. Everyone wants to say a benchmarking is good; hard to argue it's not.*
>
> *(...)*
>
> *And then you have to literally say to yourself, depending on where you are in your life cycle as a business, where should you be relative to others, and then are those others relative to you, does that make sense.*
>
> *And that's kind of the challenge with benchmarking; like, it gives you relativity. But I know everyone wants to drive out actionable items. And* ***when you're going through a big transformation, it's really tough to kind of figure out, as you say, the apples and the oranges in order to make sure you land, right****.*
>
> *That's why kind of the top-down approach was used for '24/'25. Again, in order to mature, we would like to add benchmarking in a more formal capacity, but it's really kind of working with you folks and understanding which key benchmarks would you like us to employ."*[287]
>
> *[emphasis added]*

Several times in evidence this year were references made to a need for 'apples to apples' comparisons.[288] MPI shares many similarities with its peers, SGI and ICBC. Mr. Kolaski testified that SGI was a "pretty decent comparable in terms of coverage

[286] 2024 GRA Transcript, pg. 256 lines 16-21;
[287] 2024 GRA Transcript, pg. 1134 line 16 - pg. 1135 line 19;
[288] 2024 GRA Transcript, pg. 266 lines 14-19;

and size on the auto fund piece".[289] However, even when considering operations that have similar structure, there are still unique aspects and unknowns that constrain direct comparability.[290] As per Mr. Kolaski:

> *"So, if -- and I don't know this, but, like if I was SGI, I would use like other core businesses to offset expenses prior to allocations to the auto fund 'cause, then, I can play with kind of that rate that's out in the market, no different than all the IRs related to MPI on what do you do with profitability in your other lines of business, being SRI and Extension. Right? Are those monies coming back over to fund Basic and, then, how do you deal with that?*
>
> *So, part of the question is -- is it's really tough, as you say, to get that collaboration and the part is we do meet with our Crown counterparts once a month to kind of go over kind of strategy and where they're at in terms of IFRS-17 and challenges they have as a business, but we don't necessarily take it to the next level, which is where are they at in terms of their technical data versus where we are and, then, how are they migrating through that process as well."*[291]

The PUB heard Mr. Kolaski testify that MPI seeks to work with the PUB to "add benchmarking in a more formal capacity" and "understanding which key benchmarks" the PUB would like MPI to employ.[292] He further indicated that the PUB and MPI consider moving away from an annual analysis of benchmarking within the GRA to every two (2) or three (3) years to improve insight into how operational efficiencies are viewed.[293] A review of benchmarking every two (2) or three (3) years would add greater value to the process while also allowing resources to be focuses on internal

[289] 2024 GRA Transcript, pg. 314 lines 10-12;
[290] MPI Exhibit 57, slide 9;
[291] 2024 GRA Transcript, pg. 315, lines 4-23
[292] 2024 GRA Transcript, pg. 1135, lines 16-19;
[293] 2024 GRA transcript, pg. 257 lines 4-11;

business.[294] MPI's goal going forward is to ensure that benchmarking efforts and resources are meaningfully applied.

CONCLUSION

In summation, MPI is at a critical juncture in its 52-year history. To succeed, it must deliver on its promise to Manitobans to be fiscally prudent, deliver Project NOVA and improve service delivery. Having reviewed its GRA and the evidence presented during this hearing, MPI trusts that the PUB will agree that the relief requested herein is just and reasonable.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

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A. Lafontaine Guerra

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S. Scarfone

[294] 2024 GRA transcript, pg. 278 line 11 – pg. 279 line 7.