Order No. 130/17

MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION): COMPULSORY 2018/2019 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

December 4, 2017

BEFORE: Robert Gabor, Q.C., Chair
Carol Hainsworth, Member
Allan Morin, B.A., ICD.D., Member
Robert Vandewater, B.A., FCSI, CPA (Hon), CA (Hon), KStJ., C.D., Member
Michael Watson, Member

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Executive Summary

The Public Utilities Board (Board or PUB) hereby orders an overall 2.6% rate increase to Basic compulsory motor vehicle premiums (Basic or Basic Insurance) for the 2018/19 insurance year, effective March 1, 2018, for all major classes combined. There will be no change in permit and certificate rates, vehicle premium discounts, service and transaction fees, fleet rebates or surcharges, or the discount on approved after-market and manufacturer/dealer installed anti-theft devices.

The Board further orders a 1.8% rate increase to the demerit side of the scale for driver premiums under the Driver Safety Rating (DSR) system.

The Board's order for a rate increase of 2.6% results from the Board's approval of rates calculated in accordance with Accepted Actuarial Practice in Canada, based on a 50/50 interest rate forecast (as defined below), and taking into account actual interest rates as at September 30, 2017.

The Board's order for an increase of 2.6% does not mean that rates for all motorists within each major vehicle class increase by that amount. Rates paid by individual policyholders within each Major Class will be determined based on their driving record, the kind of vehicle (make and model and year) registered, the purpose for which the vehicle is driven, and the territory in which the policyholder resides. Policyholders' premiums will also be affected by actual claims experience.

The Board acknowledges that progress has been made by the Corporation in its ratemaking methodology, basing the applied-for rate on its interpretation of Accepted Actuarial Practice in Canada as required by Order 162/16. The Board expects that this practice will serve to mitigate some of the risks to the Corporation associated with difficulties in forecasting interest rates. The Board finds, however, that the Corporation's approach in excluding the expected return on investment assets supporting Basic Total Equity to be inconsistent with the break-even objective, which has been a foundation of Basic rate-setting for many years. The Board nonetheless recognizes MPI's need to protect against the depletion of Basic's capital position, and finds that a Capital Maintenance Provision could be considered a legitimate necessary Basic expense for rate-setting purposes. The Board finds that it would be premature to base its decision on the inclusion of a Capital Maintenance Provision at this time, as it was not a significant area of focus in this

Application, but directs that a Technical Conference be held on the issue, and any findings therefrom be incorporated into the 2019 General Rate Application (GRA).

The Board recognizes the importance of providing incentives to improve poor driving behaviour and the need for the public to have confidence that riskier drivers are paying more for their driver premiums than are safe drivers. The Board is satisfied that the proposed changes to the DSR scale will incent better driver behaviour and that, although not strictly actuarially-based, are directionally supported by statistical information in a broad sense. Therefore, the Board has ordered the changes to the DSR scale as applied for by MPI. However, the Board would like to see the Corporation strengthen its analytical tools in the determination of driver premiums and, accordingly, has ordered that a Technical Conference take place to review the availability and practicality of other analytical tools and ratemaking methodologies that could be used to estimate DSR rate indications. In addition, the Board has ordered that for the next GRA, the Corporation file proposed rates that are more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale.

The evidence in this Application indicated that generally, vehicles are being registered within families by the individual with higher DSR merit ratings due to increasing vehicle premium discounts, such that the vehicle premium may not reflect the principal driver risk. At this time, MPI's rating structure does not allow it to address this issue. Accordingly, the Board has ordered that the issue of vehicle premium discounts based on principal driver rating rather than simply registered driver rating also be addressed at the DSR Technical Conference. The Board has also ordered that by the 2021 GRA, the Corporation file proposed vehicle premium discounts that are actuarially indicated based on principal driver performance evaluation.

In this Application, considerable evidence was reviewed on the issue of MPI's various Information Technology (IT) initiatives and expenditures. The Board is encouraged that the Corporation has made progress in its efforts to control spending in the IT area, through efforts to reduce reliance on IT consultants and with the implementation of a new Value Management Process. However, the Board remains concerned about the cost of some of MPI's ongoing IT initiatives - most notably, the Physical Damage Re-Engineering (PDR) program, which has undergone significant changes and budgetary adjustments since its inception. As well, while the Value Management Process will require that business cases be prepared for new initiatives over $500,000, it will not be applied to IT initiatives currently "in-flight", such as the projects remaining to be completed under the PDR program budget. Accordingly, the Board has ordered that in the 2019 GRA the Corporation file a further update on the PDR program, a cost/benefit analysis of the remaining projects to be completed under the PDR program, and a detailed breakdown of its analysis of the costs to operate and maintain the program. The Board has also ordered the Corporation to file a cost/benefit analysis of its IT Modernization project specific to the Autopac Online and Customer Claims Reporting System programs, and business cases for those IT Modernization projects.

The Board also notes that MPI did not comply with the Board's directive in Order 162/16 to file a five-year strategic plan on IT, advising that a new strategic plan will be prepared following strategic direction from the MPI Board of Directors. The Board has ordered the Corporation to file its IT strategic plan forthwith following its approval by the MPI Board of Directors.

The Board notes that the Corporation did not comply with its directive in Order 162/16 to seek insight on longer tail experience from other jurisdictions, and in particular, from the Société de l'assurance automobile du Québec. The Board has ordered the Corporation to do so and report back on its efforts in the 2019 GRA.

The Board heard a significant amount of evidence regarding MPI's investments, including the composition of the portfolio, investment returns, the investment decision-making process, and the Corporation's intention to increase its allocation to corporate bonds to 18% of its total portfolio. The Board heard from Garry Steski, Assistant Deputy Minister for the Department of Finance of the Province of Manitoba, as to the respective roles of the Department of Finance and MPI in investment decision-making. The Board finds, as a result of Mr. Steski's evidence, that MPI is afforded a significant amount of leeway when it comes to making investment decisions that fall within the parameters of *The Financial Administration Act*.

The Board also received an update from the Corporation on the status of an Asset Liability Management (ALM) study, which was due to be completed by November 30, 2017. The Board was dismayed, however, that the Corporation did not follow the directive in Order 162/16 for the Corporation to have an ALM study completed for the filing of this Application. The Corporation advised that six months was insufficient time to proceed through the Request for Proposal and the ensuing process before the Application was filed. The Corporation chose to delay the process for initiating the ALM study to September 2017, and required that the study be delivered on a compressed schedule. The Board is concerned that the results of the ALM study may be of limited utility in that it will be issued after this hearing and it may be based on constraints provided by the Corporation which were not ultimately borne out by this Order; and in particular, with respect to the range of Basic's Rate Stabilization Reserve. The Board has directed that the Corporation file the ALM study concurrently with its delivery to the MPI Board of Directors. It has further directed that the study be updated as necessary to reflect the directives in this Order, to add an analysis of the bucket matching approach similar to that used by Saskatchewan Auto Fund, and to take into account each of the 18 recommendations made by Valter Viola in the 2017 GRA. The Board has also directed that a Technical Conference be held on the ALM study.

The Board finds that MPI's investment returns do not compare favourably with those of the Saskatchewan Auto Fund, which is a comparable public insurer. There remain opportunities for MPI to increase its investment returns, and the Board expects that the ALM study will serve to assist MPI in doing so.

The Board finds that the interest rate environment has changed since last year's Application, and accordingly, that the 50/50 interest rate forecast, representing the midpoint between the Naïve forecast and the Standard Interest Rate Forecast, is the appropriate forecast for rate-setting and target capital purposes. The 50/50 interest rate forecast takes into account the recent rise in interest rates but incorporates a degree of conservatism, which the Board finds is necessary given the unreliability of the Standard Interest Rate Forecast in recent years.

Considerable evidence was led again this year with respect to the appropriate level of and methodology for setting MPI’s Rate Stabilization Reserve (RSR) and target capital range. The purpose of the RSR is to protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from non-recurring events or factors.

For 2018/19, the Board continues to favour scenario-based testing for the setting of both the lower and upper Basic Total Equity thresholds, and further in that regard, the iterative approach which has evolved from the collaborative process. As a result, the Board has ordered that the lower Basic Total Equity threshold be set at $180 million, and the upper threshold be set at $325 million.

The Board notes that in the history of MPI, Basic Total Equity including Basic RSR has only exceeded a threshold of $325 million once, mostly as a result of an actuarial adjustment in the last quarter of fiscal year 2011. At that time, Basic Total Equity exceeded $600 million, which exceeds the amount that was requested by the Corporation in this Application for an upper threshold at $438 million, equivalent to the Minimum Capital Test at a 100% ratio. The Board notes that the Corporation's own modeling found that its proposed upper threshold of $438 million would only be exhausted by a 1-in-2000 year event, or even greater, as the modelling did not identify any adverse scenario with management action that could exhaust such a reserve. Additionally, the Board has ordered that the Corporation participate in a Technical Conference regarding the possible inclusion of a Capital Maintenance Provision for future rate applications. The Board notes that the use of a Capital Maintenance Provision would serve to protect against the depletion of Basic Total Equity.

The Board has previously stated that, in principle, Basic Total Equity should not be used to offset Basic vehicle premium increases which would be necessary to ensure that forecasted revenue is sufficient to cover forecasted costs in a particular year.

The Board continues to hold the view, as it has expressed in the past, that the Corporation's non-compulsory Extension line of business should be regulated, given the Corporation’s market position as a *de facto* monopoly provider of non-compulsory auto insurance in Manitoba. Since 2008, Extension has never held less than 95% of the market on competitive lines of business.

During the hearing, the Corporation was asked what it would do with the Extension reserve if Basic was self-sufficient and the Extension reserve funds were not required to cover any shortfall. MPI counsel stated that Extension reserves are owned by the Government of Manitoba and the Government has the ability to determine what to do with those funds. In such an instance, rates paid by ratepayers could effectively be used to subsidize taxpayers.

In the case of Basic, regulation is a proxy for competition. In the absence of evidence that there is any real competition to Extension, it necessarily follows that there should be regulation of Extension. This is especially the case considering that operating costs are allocated to Basic, but the Board cannot analyze what proportion of expenses should be allocated to Basic versus Extension.

The Board has therefore recommended to the Government that the Board's jurisdiction be extended to give to the Board the same powers over the Extension line of business as it has over Basic pursuant to sections 25 to 27 of *The Crown Corporations Governance and Accountability Act*, C.C.S.M. c. C336.

The Board received the Provincial Road Safety Plan*, Road to Zero*, in these hearings. The Corporation has demonstrated that it has made progress in coordinating road safety efforts with stakeholders, and in its road safety programming and planning. The Board expects that significant challenges are to come with the anticipated legalization of the recreational use of cannabis. The Board is also concerned with the statistics filed in this Application on the number of fatal collisions and fatalities in 2016, which saw a significant increase from previous years.

Road safety and loss prevention is a complex, multi-faceted area involving multiple stakeholders and given this complexity, the Board finds that, for the purposes of future GRAs, road safety and loss prevention would be best addressed by devoting a Technical Conference to this area, to take place in early 2019. The Technical Conference shall be wide-ranging and will cover such issues as the Corporation's road safety priorities, reports on the success of the Corporation's efforts to address speed, drug-impaired driving and distracted driving, the progress of *Road to Zero*, and road safety efforts in other jurisdictions, among others. The Board intends to invite the members of the Provincial Road Safety Committee to participate in the Technical Conference. The information gathered in the 2019 Technical Conference will then be filed and considered in the 2020 GRA. As such, the issue of road safety will not need to be reviewed in the same level of detail in next year's GRA.

The Board has also ordered that the Corporation enter into discussions with the Coalition of Manitoba Motorcycle Groups regarding a proposal for a pilot program for wildlife collision prevention measures.

It is of great concern to the Board that the Corporation chose to not fully comply with a significant proportion of the directives in Order 162/16. When the Board issues directives the Corporation may choose to file a request for variance or seek leave to appeal from the Manitoba Court of Appeal. The Corporation may not simply refuse or fail to comply with the directive. For the benefit of future GRAs, the Board would remind the Corporation that the Board retains the jurisdiction to impose financial penalties, and/or stay any future applications, in the event that the Corporation does not fully comply with all or part of a Board order.

The Board has made a number of directives in this Order. The Board hereby directs the Corporation to file with the Board, on or before April 1, 2018, a report advising as to the status of its compliance with each of the directives contained herein.

This Order reflects the Board's findings on matters which arose over the course of the proceeding through oral testimony and documentary evidence. Public access to the full transcripts of the hearing, including cross-examination, presentations and closing statements, as well as documentary evidence are available on the Board's website (www.pubmanitoba.ca).

Interested parties may also review MPI's Annual Report and quarterly financial statements on MPI's website (www.mpi.mb.ca).

1.0 THE RATE APPLICATION

1.1. Procedural History

On June 16, 2017, the Corporation filed with the Board the 2018 General Rate Application (GRA or Application) seeking approval of premiums for Basic, for the fiscal year commencing March 1, 2018 and ending February 28, 2019. The Application was filed in accordance with the provisions of *The Crown Corporations Governance and Accountability Act* and *The Public Utilities Board Act*.

Following a pre-hearing conference which took place on June 28, 2017, by Order 73/17, dated July 7, 2017, the Board granted intervener status to the following parties:

- Consumers' Association of Canada (Manitoba) Inc. (CAC);
- Coalition of Manitoba Motorcycle Groups (CMMG);
- Canadian Automobile Association (CAA): and
- Bike Winnipeg (BW).

The scope of the intervention granted to BW was narrower than that of the other interveners. In summary, BW was to assist the Board in evaluating the optimum size of MPI's road safety budget and whether it is sufficient to enable a significant reduction in the costs to MPI of injuries to vulnerable road users (VRUs), the adequacy of MPI's road safety programs with respect to the fatal and severe injury of VRUs, the quality and clarity of MPI's data collection, analysis and accessibility, regarding collisions involving vulnerable road users, and road safety issues and matters continuing from Order 162/16.

Ten days of public hearings took place, during which the Board heard evidence from one witness subpoenaed by the Board, witnesses appearing on behalf of MPI and CAC, and submissions from presenters. The public hearings began on October 2, 2017, and concluded on October 19, 2017.

1.2. The Application

The Board's jurisdiction applies to rate-setting for MPI's Basic insurance line of business, and not to MPI's other optional lines of business, Extension and Special Risk Extension (SRE).

Basic insurance coverage is compulsory, and is the minimum level of coverage that is legally required in order to operate a vehicle on the roadway. The following Basic coverage applies to most registered vehicles:

- All-perils coverage for accidental damage (to most registered vehicles), with a deductible of $500;
- Basic third-party liability coverage to a maximum of $200,000;
- Basic first-party loss of use for theft;
- Maximum insured vehicle value of $50,000; and
- Personal Injury Protection Plan for injury or death caused by a motor vehicle to a Manitoba resident, if the accident occurs anywhere in Canada or the United States.

The Corporation sought a 2.7% increase in Basic vehicle premium rates only for 2018/19.

Prior to this Application, the Corporation’s estimate of its overall rate requirement was based on achieving an approximate break even accounting result as measured by net income over the year of the Application and the year following. As directed in Board Order 162/16, following the 2017 GRA, the Corporation's rate requirement now reflects its interpretation of the requirements of Accepted Actuarial Practice in Canada.

The Corporation also sought changes to driver premiums through the Driver Safety Rating (DSR) system, expected to increase driver premium revenue by $17.5 million, or a 1.8% increase. The requested changes to the DSR scale would affect only drivers on the demerit side of the scale, and were structured so that no demerit driver would receive an increase in their 2018/19 driver premium relative to what they paid in 2017/18, if they qualify to move up the DSR scale due to an incident-free year of driving.

The vehicle premium rates put forward by MPI included experience-based rate adjustments largely ranging from -15% to +15%, based on adjustment rules. In addition, the Corporation combined classification offsets for all vehicles except off-road vehicles, to achieve revenue neutrality and implemented rate group, rate line and classification changes for 2019.

According to the Corporation's rate design, the change to Basic compulsory motor vehicle premiums for each major vehicle class at the rate requested by MPI would have the following average vehicle premium changes:

Major Class	2.7% Experience Rate Change
Private Passenger	2.6
Commercial	1.4
Public	1.1
Motorcycle	2.8
Trailers	16.8
Off-road vehicles	(43.9)
Total	**2.7**

Rates paid by individual policyholders within each Major Class are determined by their driving record, the kind of vehicle (make and model and year) registered, the purpose for which the vehicle is driven and the territory in which the policyholder resides. Policyholders' premiums are also affected by actual claims experience. As a result, some individuals would experience increases in insurance rates, and others would experience decreases.

The Corporation sought no change to permit and certificate rates, vehicle premium discounts, service and transaction fees, fleet rebates or surcharges, or the $40.00 discount on approved after-market and manufacturer/dealer installed anti-theft devices.

The Corporation provided context for the basis for its rate application of 2.7%. It explained that the Application was centred around securing a foundation for prudent fiscal management. When the rate indication was initially prepared based on Accepted Actuarial Practice in Canada, the forecast indicated a 7.7% rate increase. The Corporation was of the view that a rate increase of such a magnitude would be unacceptable, and based on the Corporation's quarterly surveys, it determined that a rate increase of 3% or more would constitute "rate shock". As a result, it took steps to reduce the initial rate indication from 7.7% to 2.7%. Those steps included:

- A Rodent Claims Strategy, equalling a reduction in the rate of 1.0%;
- A Physical Damage Claims Stretch Target, targeting a reduction in the rate of 0.9%;
- An increased allocation to corporate bonds in MPI's investment portfolio, equalling a 0.8% reduction in the rate;
- Increase to Driver Safety Rating premiums for demerit drivers, equalling a 1.8% reduction in the rate; and
- Expenses reduction from management actions equalling a 0.5% reduction in the rate.

These targeted efforts totalled a reduction of 5.0% from the initial indicated rate of 7.7%.

A history of the percentage rate changes applied for by the Corporation and ordered by the Board is as follows:

Year	Applied For	Ordered
2018/19	2.7 (vehicle premium only)	2.6 (vehicle premium only)
2017/18	4.3	3.7
2016/17	0.0	0.0
2015/16	3.4	3.4
2014/15	1.8	0.9
2013/14	0.0	0.0
2012/13	-6.8	-8.0
2011/12	-4.0	-4.0
2010/11	0.0	0.0
2009/10	-1.0	-1.0
2008/09	0.0	0.0
2007/08	-2.6	-2.6
2006/07	0.0	0.0
2005/06	0.0	-1.0
2004/05	2.5	3.7
2003/04	0.0	-1.0
2002/03	-1.2	0.0
2001/02	0.0	0.0

There have also been $597 million in premium rebates ordered by the Board over the last 16 years, as follows:

Year	Total ($ millions)	Percent of Premiums
2011	$336	45.0%
2008	$63	10.0%
2007	$60	10.0%
2006	$58	10.0%
2001	$80	16.6%

2.0 PROGRAM REVENUE

2.1. Basic Revenue Requirement

The Corporation derives revenue from four main sources to fund Basic: vehicle premiums; driver premiums; service and transaction fees; and investment income. The Corporation's projected operating results for 2018/19 and 2019/20, the years impacted by the applied for 2.7% rate increase, are as follows:

	2018/19 Applied for Rate Per Application ($ millions)	**2019/20 Projection Per Application ($ millions)**
Motor Vehicle Premiums	**$994.7**	**$1,048.4**
Drivers' Licence Premiums	**59.7**	**70.2**
Reinsurance ceded	**(11.5)**	**(11.7)**
Total Net Premiums Earned	**1,042.8**	**1,106.9**
Investment Income	**78.1**	**80.0**
Service Fees & Other Revenues	**24.3**	**26.4**
Total Earned Revenues	**$1,145.3**	**$1,213.3**
Claims Incurred	**$864.3**	**$912.9**
Claims Expenses	**137.9**	**139.8**
Road Safety Expenses	**13.1**	**12.9**
Operating Expenses	**74.9**	**75.5**
Commissions	**40.6**	**42.7**
Premium Taxes	**31.6**	**33.6**
Regulatory/Appeal expenses	**4.1**	**4.2**
Total Claims and Expenses	**$1,166.5**	**$1,221.6**
Net income (loss) – Basic	**($21.3)**	**($8.3)**

The above forecast was based on an assumed Naïve interest rate forecast (assuming no changes in current interest rates), which MPI requested the Board utilize for rate-setting purposes as opposed to a forecast based on a consensus of bank forecasts (the Standard Interest Rate Forecast, or SIRF).

The Corporation also filed an updated interest rate forecast based on a 50/50 interest rate forecast (representing the midpoint between the Naïve and the Standard Interest Rate Forecast) as at September 30, 2017. As a result of this updated forecast, Basic's projected net income in 2018/19 would increase from a net loss of $21.3 million, to a net income of $1.0 million, and its net result in 2019/20 would be a net income of $17.4 million.

2.2. Vehicle Premiums

Vehicle premiums earned are forecast to be $994.7 million in 2018/19, and to grow to $1,048.4 million in 2019/20. The revenue earned by Basic in respect of vehicle premiums may change due to four factors: rate changes as ordered by the Board; growth in the number of vehicles in the fleet (Volume Factor); changes in the average premium per vehicle caused by factors other than rate changes, such as the gradual upgrade of the fleet as older vehicles are replaced with newer ones (Upgrade Factor); and the impact on vehicle insurance premiums from changes in the average Driver Safety Rating (DSR) level of registered vehicle owners (DSR Upgrade Factor).

The Volume Factor is based upon the historical growth rate of HTA (*The Highway Traffic Act*) vehicles only (including the private passenger, commercial, public and motorcycle major classes, and excluding trailers and off-road vehicles), which account for 77% of the fleet and over 98% of MPI's total Basic written premiums. MPI is forecasting Volume Factor growth to be 1.50% for each of 2018/19, 2019/20 and beyond. The Corporation is forecasting Upgrade Factor growth to be 2.64% based upon the average experience over the past five years.

The combined impact of the forecast premium revenue growth due to Volume Factor, Upgrade Factor and DSR Upgrade Factor is as follows:

Year	Vehicle Upgrade Factor	DSR Upgrade Factor	Total Upgrade Factor	Volume Factor	Total Volume & Upgrade Factor
2016/17 (Actual)	2.23%	(0.24%)	1.99%	1.64%	3.63%
2017/18	2.50%	0.14%	2.64%	1.50%	4.14%
2018/19	2.50%	0.02%	2.52%	1.50%	4.02%
2019/20	2.50%	0.07%	2.57%	1.50%	4.07%
2020/21	2.50%	0.12%	2.62%	1.50%	4.12%
2021/22	2.50%	0.04%	2.54%	1.50%	4.04%

2.3. Driver Premiums

When obtaining a driver’s licence, motorists are assessed a premium based on the principle that all drivers should contribute premiums to the insurance fund, regardless of whether or not they own and insure a vehicle. The level of Driver Premiums paid by licensed drivers is set based on the DSR scale which, in previous years, ranged from $15 at level 15 to $2,500 at level -20.

Driver Premiums are forecast to be $69.1 million in 2018/19 and to increase to $71.2 million in 2019/20, an increase of approximately $2.1 million. The forecast considers five components: the number of earned driver units by DSR level; the expected movement of drivers on the DSR scale; the average number of earned driver units by DSR level; the driver premiums by DSR level; and a percentage reduction in drivers' premiums from appeals. This last component was not included in previous General Rate Applications based on MPI’s assumption that the amounts were immaterial. In this Application, the Corporation reviewed the historical data and determined that an adjustment for appeals was necessary.

2.4. Investment Income

The Corporation’s funds available for investment are primarily the assets supporting the unearned premium reserves and unpaid claims reserves. The funds within the portfolio support both the payment of accident claims as well as the pension obligations of the Corporation. As at February 28, 2017, the Corporation had short and long-term investments, including cash and equities, totalling $2.5 billion, forecast to grow to over $3.4 billion by 2021/22.

Investment income earned from the Corporation's investment portfolio reduces the revenue that it is required to collect through premiums. The Corporation's investment income is allocated among the Basic, Extension and SRE lines of business, based on the net average weighted equity balances between the lines of business. MPI realized $96.5 million in investment income in 2016/17, of which 85.9%, or $82.9 million, was allocated to Basic. This was an $86.9 million improvement from the $4.1 million loss allocated to Basic in 2015/16.

Based on the September 30, 2017 50/50 interest rate forecast, MPI is forecasting investment income allocated to Basic of $82.9 million in 2017/18, $57.7 million in 2018/19 and $71.8 million in 2019/20. The variation in investment income is due primarily to the impact of changes in interest rates. Further discussion on MPI's investment portfolio and returns is found in Section 6 of this Order.

2.5. Service Fees and Other Revenues

The Corporation reported that service fees and other revenue account for approximately 2.0% to 2.5% of annual revenues for the Basic program, and that there are approximately 25 to 30 service fees and revenue types that are allocated to Basic. These fees and other revenues include revenue from quarterly and monthly pre-authorized payment plans, late payment fees, motor vehicle transaction fees, dishonoured payment fees, pre-authorized default fees and other fee-related items.

Basic insurance earned $20.7 million in Service Fees and Other Revenues in 2016/17, and projects income of $22.2 million in 2017/18. The Corporation did not apply for any changes to Service Fees rates, but did advise that a Basic Service Fees review is under way and close to completion. The Corporation expects to have the results of the Service Fees review for the next General Rate Application.

3.0 RATE DESIGN

3.1. Accepted Actuarial Practice in Canada

Ratemaking in accordance with Accepted Actuarial Practice in Canada (AAP) involves determining the indicated rate level such that, for a given future rating year, the present value of expected future revenue cash flows (e.g., premiums and fees) is equal to the present value of expected future expense cash flows (e.g., claims, adjusting expenses and non-claims-related costs, including any profit provision).

In prior applications, the Corporation based its overall rate adjustment proposal on an objective of achieving a break even average net income over the proposed rating year and the year following. In Order 162/16, the Board approved the rate indication prepared by the Corporation based on AAP, and ordered that the Corporation apply that methodology to future rate applications.

As directed in Board Order 162/16, the applied-for rate of 2.7% reflects the Corporation's interpretation of the requirements of AAP.

The Corporation's estimate of its overall rate requirement is sensitive to the methods and assumptions used in its derivation. In the hearing, certain issues in that regard were reviewed, including:

- The basis for interest rate forecasting;
- The choice of the cash flow discount rate; and
- The consideration of the expected return on investment assets supporting Basic Total Equity.

The Corporation noted that a positive consequence of adopting AAP is that it reduces the interest rate forecasting risk in the rate-setting year. The Corporation's previously used break-even rate-setting methodology created interest rate risk because the rate was based on interest rates and net income forecasts to the end of the rating period, three fiscal years into the future. With the shift to AAP ratemaking, the period over which the forecast was previously required has now been reduced.

The Corporation indicated that there remains a timeframe risk with AAP ratemaking, due to the time between when the Application is prepared and the commencement of the rating period. In order to reduce interest rate risk, MPI proposed that the interest rate for rate-setting purposes be taken as the actual interest rate on November 30 of the year before the new policies are issued, using a Naïve interest rate forecast (which assumes no changes in interest rates) thereafter. The proposed date was amended by the Corporation in the course of the public hearings, to be as at November 15, 2017, for the purpose of this Application. Under this method, MPI would be asking the Board to approve premium rates on a final basis reflecting the updated interest rates, through a compliance filing ("the Compliance Filing process").

The Corporation also filed estimates of the impact of forecasting interest rates based on the Standard Interest Rate Forecast and alternatively, interest rates based on the 50/50 forecast. Based on market rates as of September 30, 2017, the Corporation estimated that its overall rate requirement would fall to 1.8% with the SIRF, and 1.9% with the 50/50 forecast.

AAP expects the use of a cash flow discount rate consistent with the investment income to be earned on assets that might be acquired with the net cash flows resulting from the revenue at the indicated rate - in other words, the use of an expected new money rate over the proposed rating year. In its Application, the Corporation assumed this new money rate could be approximated by the claims discount rate used for valuation purposes. The Corporation provided an estimate of a true new money yield on its bond portfolio of 3.42%, consistent with the Application's financial forecast, as compared to the Application's assumed cash flow discount rate of 3.79%, a difference of 37 basis points.

The Corporation took the position that the expected return on investment assets supporting Basic Total Equity should not be recognized for rate-setting purposes. Instead, the Corporation indicated its intention to allow the return on investments to be a source of natural growth for Basic Total Equity. The Corporation provided an estimate of the impact of including a break-even profit provision that would include this source of revenue, indicating that the rate indication would decrease from 2.7% overall down to a range from 1.1% to 1.6% depending on the assumed target capital level, all other things being equal. The Corporation also filed estimates of the impact of combining recognition of this source of revenue with interest rate forecasts based on market rates as of September 30, 2017.

This would result in its overall rate requirement decreasing to a range from 0.1% to 0.6%, depending on the assumed target capital level and the choice of the SIRF or the 50/50 forecast.

The Corporation stressed that rate-setting without recognizing the expected growth of Basic's risk profile due to natural growth of its actuarial liabilities and its investment portfolio will necessarily lead to expected depletion of Basic Total Equity. In the information request and public hearing process, the concept of including a Capital Maintenance Provision in rate-setting, as done by Saskatchewan Auto Fund, was discussed.

3.2. Vehicle Classification System

The Corporation classifies vehicle risk by considering insurance use, rating territories, and rate groups. Insurance use classifications categorize vehicles by the nature of the vehicle and its intended insurance use. There have been no changes in insurance use classifications in this Application.

Vehicles are assigned to one of five territories in Manitoba, including a commuter territory in the areas adjacent to the City of Winnipeg, based on the primary residence of the registered vehicle owner. There have been no changes to the rating territories in this Application.

For passenger vehicles and light trucks, the Corporation uses the Canadian Loss Experience Automobile Rating system (CLEAR) promulgated by the Insurance Bureau of Canada (IBC), which amalgamates data from Canadian insurers and creates rate groups (up to 99) by vehicle make, model and model year, for each of collision, comprehensive and accident benefits coverages. The Corporation combines those rate groups to produce a smaller number of rate groups for the single Basic coverage package. It then adjusts for its own experience by rate group, thereby re-calibrating the CLEAR indications.

3.3. Interveners' Positions

CAC

Andrea Sherry, a witness for CAC, provided expert opinion on ratemaking in accordance with AAP. Ms. Sherry was pre-qualified in Order 73/17 as an expert in actuarial analysis with a particular focus on pricing, ratemaking, and risk related to automobile insurers generally, including Crown-owned automobile insurers.

While certain witnesses were called by CAC to provide evidence in this Application, their evidence is given independent of the positions advanced by CAC, and is intended to assist the Board in making its decision.

In her testimony, Ms. Sherry focused on the inclusion of investment income on the RSR in the rate indication. Ms. Sherry referred to Section 2620.01 of the Standards of Practice of the Canadian Institute of Actuaries, which states:

> *The best estimate present value of cash flows relating to the revenue at the indicated rate should equal the best estimate present value of cash flows relating to the corresponding claim costs and expense costs, plus the present value of a provision for profit, over a specified period of time.*

In Ms. Sherry's opinion, MPI should use the investment income on total equity in the calculation of the rate indication - including that income does not remove money from the RSR, it means that more is not added to it from investment income. She also expressed the view that the fact that capital has been transferred from the Extension or SRE lines of business is not relevant to the question of whether investment income on the RSR should be included, because Extension and SRE would not exist without the Basic line of business. Accordingly, the profits from the competitive lines of business should benefit the customers of MPI.

CAC took the position that MPI should be granted an overall 2.5% rate increase, but without the $17.5 million projected increase in revenue associated with the requested changes to the DSR scale. In support of its position, CAC referred to what it characterized as: (1) the Corporation's failure to demonstrate prudent and reasonable behaviour related to investment income and information technology; (2) challenges in following appropriate reserving practices for long-tail lines of business;

and (3) an unrealized opportunity related to loss prevention, specifically with respect to the Fleet Rebate Program and the combined risk of vehicle drivers.

CAC stated that the overall rate increase should include recognition of the impacts of significant changes in interest rates on the projected claims liabilities and revenues, suggesting a 0.8% rate reduction in the overall rate indication, along with a reduction of 1.1% to account for the inclusion of the investment income on the RSR in the rate indication.

CAC took the position that the investment income on the RSR should be included in the rate indication, as it would be consistent with AAP. CAC noted Ms. Sherry's reluctance to use a Capital Maintenance Fee for the RSR. CAC indicated that an unbiased forecasting process would already take into account inflationary impacts on both revenues and costs.

CMMG

CMMG took the position that, given the increases in interest rates which occurred after the filing of the Application and the expected further increases, the Corporation should not be seeking rate increase. CMMG commented that there are millions of dollars held by the Corporation in its Extension division, which cannot be scrutinized by the Board.

CMMG commented that, following the filing of the Application, interest rates increased by approximately 50 basis points, which had a substantial impact on the rate requirement for motorcycles - a 50 basis point increase would reduce the rate requirement for the motorcycle class from 2.8% to 1.0%. CMMG was also critical of the position put forward by the Corporation that it is in a vulnerable financial position.

CAA

CAA expressed concern that there has been a trend over the past few years in which the Corporation has asked for rate increases. It stated that if the Corporation took steps to improve its financial outlook by enhancing its investment portfolio it would assist in reducing costs to ratepayers.

Accordingly, CAA was not in support of the requested rate increase of 2.7%. Instead, CAA recommended that the Board approve a rate increase of no more than 1.4% in addition to the changes to the DSR scale.

BW

BW took no position on rates, given the scope of its intervention as set out in Section 1.1 above.

3.4. Board Findings

The Board hereby approves a 2.6% rate increase effective March 1, 2018, for all Major Classes combined. The approved rate increase is based on actuarially indicated rates as currently estimated by the Corporation, based on a 50/50 interest rate forecast taking into account interest rates as at September 30, 2017, and using an estimated new money rate for cash flow discounting purposes.

The Board approves MPI's request that there be no change in permit and certificate rates, and vehicle premium discounts, service and transaction fees, fleet rebates or surcharges, or the discount on approved after-market and manufacturer/dealer installed anti-theft devices.

The Board acknowledges the important progress the Corporation has made in this, its inaugural Application based directly on rate-setting in accordance with its interpretation of AAP.

The Board's reasons for the 2.6% rate increase are as follows.

As stated above, the Corporation's estimate of the Basic overall rate indication of a 2.7% rate increase was based on a Naïve interest rate forecast and assumed that Basic's break-even objective was consistent with the exclusion of the revenue contribution attributable to the expected return on investment assets supporting Basic Total Equity.

Through the course of the pre-hearing processes and the public hearings, a number of aspects of the Corporation's methodology and assumptions were reviewed, all of which evidence was considered by the Board in reaching its decisions in this regard.

Since rate-setting in accordance with AAP involves discounting expected cash flows, the estimate of Basic's overall rate indication is necessarily sensitive to how interest rates are forecast. As will be discussed in detail later in this Order, the Board has not approved the Corporation's proposed Naïve forecast. The Board instead has approved the 50/50 forecast for interest rates. By virtue of this decision, the Board's approved interest rate forecast is more complex than the Naïve forecast, potentially involving interpretive judgment, which renders the Corporation's proposed Compliance Filing process moot.

The most recent 50/50 forecast in evidence in this Application was based on market interest rates and bank and Global insight forecasts as of September 30, 2017. Using this updated interest rate information, as stated above, the Corporation estimated that the Basic overall rate indication based on the Naïve forecast would fall from 2.7% rate increase to a 2.0% increase, which in turn fell to a 1.9% increase when based on the updated 50/50 forecast.

With respect to the cash flow discount rate, the Corporation stated *"The investment return used to discount future payments is based on the projected duration weighted investment return of MPI's fixed income portfolio as at March 1, 2018*." A portfolio return rate, even when projected, is retrospectively focused since it reflects the estimated yields on bonds typically purchased over several years, possibly encompassing changing investment climates. The Corporation selected this assumption as an approximation of the prospectively focused "new money" rate anticipated under Section 2620.15 of the Actuarial Standards of Practice. Rather than make this approximation, the Board's decision anticipates the cash flow discount rate would be based on the expected new money rate on the fixed income assets that might be acquired with the net cash flows resulting from revenue at the indicated rate.

The Corporation estimated this new money rate at 3.42% (assuming the Naïve Forecast from the original Application), which is 37 basis points below the retrospectively focused cash flow discount rate originally assumed in the Application. The Corporation has also estimated that every 10 basis point increase in the cash flow discount rate will reduce the rate indication by 0.2 percentage points. Accordingly, a 37 basis point decrease in the cash flow discount rate would be expected to increase the rate indication by about 0.7 percentage points. Applying this adjustment to the Basic overall rate indication reflecting the updated September 30, 2017 50/50 forecast would increase this from a 1.9% rate increase to a 2.6% increase.

The Board finds the Corporation's approach, in excluding the expected return on investment assets supporting Basic Total Equity, to be inconsistent with the break-even objective that has been a foundation of Basic rate-setting. The Corporation estimated that including this source of revenue in estimating the Basic overall rate indication reduces its estimate of the Basic overall rate indication from a 2.7% increase to a 1.6% increase, a decline of 1.1 percentage points, based on an assumed Basic capital level in line with the Application's financial forecast.

While the Board does consider this approach to be inconsistent with the break-even objective, the Board appreciates the need to protect Basic's capital position against depletion due to the natural growth in Basic's risk profile, i.e., the expectation for Basic claim liabilities (and investment portfolio) to grow over time since the addition of new claims is expected to outpace the settlement and closing of old claims. The Board believes a properly constituted Capital Maintenance Provision, loosely based on that developed by Saskatchewan Auto Fund, can legitimately be considered as a necessary Basic expense cash flow for rate-setting purposes while remaining consistent with the break-even objective.

Since the estimation of a Capital Maintenance Provision was not a focus of these proceedings and has not been fully considered by the Corporation, the Board believes it is premature to base its decision on inclusion of a Capital Maintenance Provision. Accordingly, and for this Application only, the Board accepts the Corporation's approach to estimating the Basic overall rate indication, excluding consideration of the expected return on investment assets supporting Basic Total Equity, which the Board considers to conceptually overlap with the Capital Maintenance Provision, as evidenced by the Corporation's early estimates of the longer term Capital Maintenance Provisions.

The Board therefore approves a Basic overall rate indication of a 2.6% rate increase as estimated above, reflecting adjustment of the Corporation's estimate to reflect the September 30, 2017 50/50 forecast for interest rates and use of an estimated new money rate for cash flow discounting purposes.

The Board also directs that there shall be a Technical Conference to be led by the Board at a mutually convenient time, but in sufficient time to allow any findings from the Technical Conference to be fully reflected in the 2019 GRA. This Technical Conference shall seek consensus on an approach to estimating a Capital Maintenance Provision, as well as seeking consensus on the following matters relating to the interpretation of rate-setting in accordance with Accepted Actuarial Practice in Canada:

- Basing the cash flow discount rate assumption on the expected new money rate averaged over the full proposed rating year rather than as at the start of that rating year;

- Segregating the pension liabilities and the related supporting investment assets from the determination of the cash flow discount rate and the expected return on investment assets supporting Basic Total Equity; and

- Improving recognition of investment fees in the determination of the cash flow discount rate and the expected return on investment assets supporting Basic Total Equity.

The Board will invite a representative from the Saskatchewan Auto Fund to the Technical Conference to participate and provide information on its Capital Maintenance Provision.

The Board also acknowledges that the Corporation will be conducting a review of its Service Fees and accordingly directs that the results of the Service Fees review be filed in the 2019 GRA.

4.0 DRIVER SAFETY RATING (DSR) PROGRAM

4.1. Proposed Changes To Driver Premiums by DSR Level

In this Application, MPI proposed to increase driver premium revenues by $17.5 million, resulting in an average overall premium revenue increase of 1.8%. With the change, driver premiums are forecast to increase from $50.3 million in fiscal year 2017/18 to $69.1 million in fiscal year 2018/19.

The proposed changes would apply only to driver premiums on the demerit side of the DSR scale, as follows:

Line No.	DSR Level	Current Rate	Proposed Rate	DSR Level	Current Rate	Proposed Rate
1	15	$15	$15	-1	$100	$200
2	14	$20	$20	-2	$100	$200
3	13	$20	$20	-3	$200	$300
4	12	$20	$20	-4	$200	$400
5	11	$20	$20	-5	$300	$450
6	10	$20	$20	-6	$300	$500
7	9	$25	$25	-7	$400	$650
8	8	$30	$30	-8	$400	$800
9	7	$30	$30	-9	$500	$900
10	6	$30	$30	-10	$500	$1,000
11	5	$30	$30	-11	$700	$1,200
12	4	$30	$30	-12	$900	$1,400
13	3	$35	$35	-13	$1,100	$1,600
14	2	$35	$35	-14	$1,300	$1,800
15	1	$40	$40	-15-	$1,500	$2,000
16	0	$45	$45	-16	$1,700	$2,200
17				-17	$1,900	$2,400
18				-18	$2,100	$2,600
19				-19	$2,300	$2,800
20				-20	$2,500	$3,000

MPI testified that the proposed rate changes are not actuarially indicated, because the rating structure MPI utilizes does not allow it to rate by driver. MPI noted that more vehicles are registered by drivers at the high end of the DSR scale than there are drivers, and that fewer vehicles are registered by drivers on the demerit side of the DSR scale than there are drivers. This phenomenon is attributed to the vehicle premium discounts increasing as the driver's DSR increases, resulting in vehicles being registered within families by the individual(s) with the highest discount. As such, vehicles insured at preferential discounts may potentially be primarily driven by high risk drivers, not reflecting the principal driver risk. The Corporation advised that although better analytical tools may be available, utilization of these tools would be part of a broader overall change to MPI's current driver premium ratemaking methodologies. At this time, MPI has no plans to change the ratemaking methodologies it uses.

However, MPI stressed that the proposed increase in driver premiums and its allocation to drivers on the demerit side of the DSR scale are directionally supported by statistical information. As a result, the proposed premiums have been determined on a policy rather than actuarial basis, but are guided by the statistical information available.

The basis for MPI's policy based decision was three-fold. First, the proposed changes were intended to reduce the rate indication for Basic vehicle premiums. As set out above, the initial rate indication for the present application was a 7.7% increase for Basic vehicle premiums. The proposed changes to the DSR scale were developed as part of management action to reduce the indicated rate for Basic vehicle premiums. The Corporation identified that, if an inflationary factor was considered, an increase of $18 million in driver premiums would have been justified, and therefore, a $17.5 million increase in driver premiums was appropriate.

Secondly, the proposed changes would reduce the largest negative discrepancy between some premiums paid per driver (both vehicle and driver premiums) and the claims costs per driver at each DSR level. That is, the projected premiums per driver and claims cost per driver were determined (including all non-comprehensive claims cost to drivers) based upon drivers' at fault frequency by DSR level, and by assigning all comprehensive claims cost to drivers based upon their expected comprehensive claims frequency by DSR level. This analysis illustrated a negative discrepancy between some premiums paid per driver and claims cost per driver throughout most of the demerit side of the DSR scale.

Finally, the Corporation advised that allocation of the driver premium should further incent better driver behavior, which contributes to road safety and loss prevention efforts. The proposed changes would apply only to driver premiums on the demerit side of the DSR scale, and were structured so that no demerit driver would face an increase in their 2018/19 driver premium relative to what they paid in 2017/18, provided they qualify to move up the DSR scale with an "incident free" year of driving in 2017/18. Therefore, drivers on the demerit side of the DSR scale can improve their driving behavior and avoid increases. Further, the snap-back provision on the DSR scale quickly rewards good driving behavior as it allows a driver at the highest demerit level to return to zero demerits within five years, based upon a safe driving record.

MPI was of the view that ratepayers support the concepts of rewarding good driving behavior while providing a financial deterrent to poor or dangerous driving behavior, that good drivers should not be subsidizing the cost of poor drivers, and that a driver's premium should accurately reflect the cost of that driver.

4.2. Interveners' Positions

CAC

CAC opposed the Corporation's proposal to increase driver premiums on the demerit side of the DSR scale until more research and comprehensive reform has been undertaken. CAC proposed a review of the effectiveness of MPI's current ratemaking methodology and the DSR system in terms of associating insurance risk to the cost of insurance, including comparison to ratemaking methodologies using in other Canadian jurisdictions. CAC believes that consideration should be given to other factors, such as designation of principal and secondary drivers to a vehicle, and that improved analytical tools be used for setting premiums which more accurately reflect the risk.

CAA

CAA was supportive of the proposed changes to the DSR scale, commenting that it has no issues with drivers on the demerit side of the scale paying substantially more when their driver behaviour behind the wheel is creating risks for road users and driving up costs.

CMMG

CMMG took no position with respect to the proposed changes to the DSR scale.

4.3. Board Findings

The Board recognizes the importance of providing incentives to improve poor driving behavior, and the need for the public to have confidence that riskier drivers are paying more than safe drivers. Therefore, the Board is in agreement in principle that there should be a change to the DSR scale and that drivers on the merit side should not be assessed an increase in premiums. The Board further recognizes that an increase of $18 million premiums would have been justified by virtue of inflation, although the Corporation has not grounded its request in this information.

The Board has previously expressed its concern about the lack of actuarial evidence supporting the evaluation of driver risks so that higher risk drivers pay more than safer drivers for both driver and vehicle premiums. In Board Order No. 89/09, the Board noted MPI's commitment to monitoring experience as it unfolds by DSR level toward applying "for future rate changes that are consistent with the actuarial evidence on a directional basis".

The Board expects that in future applications, MPI will utilize more robust analytical tools to provide a more statistically driven and performance-based evaluation to support driver premiums and vehicle premium discounts. In the next GRA, MPI should be prepared to provide driver premiums that are more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale; and, within three years, proposed vehicle premium discounts that are actuarially indicated based on principal driver performance evaluation, rather than simply being based on registered driver rating.

The Board is prepared to order the changes to the DSR as requested by the Corporation. However, taking into account the Board's concerns as noted above, the Board further directs that MPI participate in a Technical Conference, facilitated by the Board, on the availability and practicality of other analytical tools and ratemaking methodologies to better determine DSR rates and vehicle premium discounts based on principal driver rating rather than simply registered driver rating. The date of the Technical Conference is to be mutually agreed upon as between the Board and MPI, but shall be sufficiently early so that the information shared in the Technical Conference will be included in the 2019 GRA.

The Board orders that, for the 2019 GRA, the Corporation file proposed driver premium rates that are more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale.

Further, the Board orders that for the 2021 GRA, the Corporation file proposed vehicle premium discounts that are actuarially indicated based on principal driver performance evaluation.

5.0 PROGRAM COSTS

The costs associated with providing Basic Insurance to Manitoba motorists fall into the following major categories:

	Total Estimated Expense 2018/19 ($ millions)	Percentage of Total Program Costs
Net Claims Incurred	**$864.3**	**74.1%**
Claims Expenses	**137.9**	**11.8**
Road Safety/Loss Prevention	**13.1**	**1.1**
Operating Expenses	**74.9**	**6.4**
Commissions	**40.6**	**3.5**
Premium Taxes	**31.6**	**2.7**
Regulatory/Appeal expenses [1]	**4.1**	**0.4**
Total Program Costs	**$1,166.5**	**100.0%**

[1] Regulatory and appeal expenses relate to: Public Utilities Board, Crown Corporations Council and Automobile Injury Claims Appeal Commission.

5.1. Basic Claims Incurred

Claims Incurred represent the costs that are paid or forecast to be paid to claimants for the various benefits provided under the Basic Insurance program. Net Claims Incurred were $860.0 million in 2016/17, which was $178.3 million or 26% over the budget presented at last year's GRA.

The 2018/19 Net Claims Incurred Forecast increased by $125.5 million from the forecast presented in the 2017 GRA, as a result of the following:

- A $90.9 million unfavourable interest rate impact;
- An $18.7 million Physical Damage increase before interest rate impacts; and
- PIPP and Bodily Injury increase of $7.7 million before interest rate impacts.

Claims Incurred for the fiscal years 2013 - 2017 for the major coverages were as follows:

For years ending February 28/29 ($ millions)	2013	2014	2015	2016	2017	5 Year Change	
Physical Damage - All Perils							
Collision	318	374	315	354	409	91	28%
Comprehensive	75	77	70	123	118	43	57%
Property damage	42	48	38	41	43	1	2%
Sub-total	**435**	**499**	**423**	**518**	**570**	**135**	**31%**
PIPP Accident Benefits	225	245	317	142	284	59	26%
Public Liability	1	3	6	6	6	5	500%
Total Claims Incurred	**661**	**747**	**746**	**666**	**860**	**199**	**30%**

Overall Total Claims Incurred were $860 million in 2016/17, and are forecast to be $739.4 million in 2017/18, $864.3 million in 2018/19, and $912.9 million in 2019/20, for an overall increase of $52.9 million from 2016/17.

A major component of Total Claims Incurred are collision claims costs, which were $392.5 million in 2016/17. The Corporation indicated that relative to the long-term average, the last three accident years have had below average collision frequency. Some of the reduction in frequency can be attributed to mild winters although there has also been a reduction in summer collision frequency over the last five years.

The Corporation also advised that collision total loss frequency has been increasing over the past decade - as vehicles become increasingly complex and more expensive to repair, there has been an increase in the percentage of collision claims resulting in total losses.

The largest component of Total Claims Incurred is Accident Benefits which are payable to claimants regardless of fault for a collision, including Medical Expenses, Rehabilitation Expenses, Funeral Expense Reimbursement, Death Payments, Impairment Benefits, Income Replacement Indemnity and Personal Care Assistance. The estimated cost of Accident Benefits under the PIPP program are updated based upon actuarial reserving practices taking into account changes in interest rates on long term claims liabilities.

The following table compares actual PIPP Accident Benefit costs with those previously forecast by the Corporation:

Year Ended February 28/29	**Original Forecast**	**Revised Forecast**	**Actual Cost**	**Difference Original/ Actual** ***Favourable (Unfavourable)***
2008	$237.3	$231.3	$167.2	$70.1
2009	$242.1	$239.3	$186.1	$56.0
2010	$249.8	$236.2	$175.0	$74.8
2011	$252.9	$244.6	($59.7)	($312.6)
2012	$253.3	$197.3	$222.8	($30.5)
2013	$203.5	$204.2	$224.2	($20.7)
2014	$210.9	$208.5	$243.9	($33.0)
2015	$184.4	$148.9	$314.5	($130.1)
2016	$166.1	$90.6	$143.0	$23.1
2017	$148.7	$117.9	$283.9	(135.2)

Current fiscal period Claims Incurred are affected by the current year's claims activity, as well as prior years' claims activity. When a claim is first incurred, claims adjusters make an estimate of the ultimate cost of that claim. Over time, as more is learned about the nature of the underlying injury and as partial claim payments are made, adjustments are made to the prior estimate of the ultimate cost of the claim. These adjustments, sometimes called "runoff", flow through Claims Incurred in the fiscal year in which the adjustments are made.

5.2. Basic Expenses Overview

Operating expenses incurred by the Corporation are allocated to Basic pursuant to a cost allocation methodology approved by the Board in Order 157/12. The cost allocation methodology distributes Corporate expenses to four lines of business, and then further segregates them into four expense categories: Claims, Road Safety/Loss Prevention, Operating and Regulatory/Appeal.

The details of Basic Operating expenses are as follows:

	For the Years Ended February 28/29 ($ millions)				
	2017A	**2018B**	**2019P**	**2020P**	**2021P**
Total Corporate Expenses	**$279.1**	**$293.5**	**$302.5**	**$304.6**	**$310.5**
Basic Allocated Corporate Expenses					
Claims Expense	120.9	134.3	137.9	139.8	142.8
Road Safety/Loss Prevention	12.5	13.2	13.1	12.9	13.2
Operating	72.8	72.6	74.9	75.5	77.3
Regulatory/Appeal	4.9	4.0	4.1	4.2	4.3
Total Basic Allocated Corporate Expenses	**$211.2**	**$224.1**	**$230.0**	**$232.5**	**$237.6**
Percentage of Corporate Operating Expenses	76%	76%	76%	76%	77%
** A = Actual B = Budget P = Projected					

5.3. Claims Expenses

Claims expenses represent the administrative costs associated with processing and settling claims, and account for approximately 55% of Basic program costs. Claims expenses were $118.6 million in 2015/16, $121.0 million in 2016/17, budgeted to be $134.3 million in 2017/18, and are projected to be $139.8 million in 2019/20, a five-year increase of $21.2 million, or 15%.

5.4. Operating Expenses

Operating expenses allocated to Basic were $72.8 million in 2016/17, budgeted at $72.6 million in 2017/18, projected to be $74.9 million in 2018/19 and $75.5 million in 2019/20, equivalent to an increase of 3.6% over the four-year period. The Corporation has stated that, through its Innovation and Cost Containment Committee, it has reduced the 2018/19 and 2019/20 budget for Basic operating expenses by $7.8 million, comprised of the following:

- Reduction in compensation expenses in the amount of $3.8 million:
    - A reduction of five staff through attrition, due to the repurposing of the Pembina Highway Service Centre. This is forecast to result in savings of $.7 million;
    - A reduction of 25 staff through attrition, due to the implementation of the Physical Damage Re-Engineering (PDR) program. Savings are now forecast at $0.8 million, $1.4 million lower than $2.3 million savings forecast in the 2017 GRA. Due to PDR program delays, MPI indicates that the full realization of this savings will be delayed until 2019/20; and
    - A reduction of 15 full time equivalent positions (FTE) through attrition in operations. MPI achieved this through a $2.3 million savings, $0.5 million higher than the $1.8 million savings forecast last year.
- Postage reduction in the amount of $0.6 million; and
- IBM Data Centre Operations reduction of $3.5 million.

MPI includes the budgeted savings in its operating budgets. MPI does not review whether targeted savings were achieved, but reviews actual total results against budgets to assess whether savings have been achieved. For the 2017/18 fiscal year, MPI undertook a zero-based budgeting approach whereby all applicable business units were involved in analyzing and supporting required budgets, as well as reducing budgets where possible. All budget submissions were subsequently vetted and approved through a Budget Review Committee. MPI indicated that this approach resulted in both Corporate and Basic operating expenses to be lower in 2018/19 and 2019/20, and throughout the outlook period.

Compensation expenses represent 58% of MPI's total operating costs. MPI incurred $168.4 million in compensation expenses in 2016/17, and has budgeted for compensation to grow to $177.6 million in 2017/18, $181.5 million for 2018/19, and $182.3 million in 2019/20. The Corporation adjusts the gross salary budget by a vacancy allowance, on an overall basis, to reflect what MPI anticipates will be the actual salary expenditures in a given year. The Corporation has stated that, at a given time, there are vacant positions within its staff complement, referred to as a vacancy provision, which reduces salary expenses. The Corporation has budgeted for a vacancy allowance of $6.8 million in 2017/18, $7.4 million in 2018/19, and $4.8 million in 2019/20.

MPI incurred net compensation of $162.6 million in 2016/17, and is forecasting net compensation of $170.8 million in 2017/18, $174.1 million in 2018/19, and $177.5 million in 2019/20.

Basic is allocated all operating expenses, including compensation costs, through the Corporation's integrated cost allocation methodology. Basic is allocated approximately 75% of Corporate compensation expenses. In the case of both the allocation of operating expenses and compensation expenses, the Board is unable to consider the appropriateness of the allocations as it lacks the jurisdiction over Extension. The allocation of compensation expenses to Basic has increased from $113.1 million in 2013/14 to $121.9 million in 2016/17, a compounded annual growth rate of 3.9%. Compensation expenses are forecast to be $128.8 million in 2017/18 and are projected to be $130.1 million in 2018/19 and $133.2 million in 2019/20. This represents a compound growth rate of 2.5% over the forecast period.

The Collective Agreement between MPI and the Manitoba Government and General Employees' Union (MGEU), which covers 90% of MPI's workforce, includes general economic increases of 2.0% for year one, 1.5% for year two, and a 2.0% increase for years three to five. The five-year contract is in effect for the period from September 18, 2016 to September 26, 2020.

In addition to the economic increase, the Collective Agreement also specifies a pay plan with six "step" salary ranges for each in-scope position in the Corporation. An employee will be eligible for up to five annual 3.5% increases until the employee reaches the maximum salary (step) for the position. Upon reaching the maximum salary, the employee will only be eligible to receive a general economic wage increases. MPI estimates that 50% of its employees are eligible for these annual "step" increases, which is the equivalent of an overall additional 1.75% annual wage increase. As a result of these two contractual requirements, MPI is forecasting an annual increase in compensation of 3.50% for 2017/18.

In Order 162/16 the Board directed MPI provide a zero-based budget for staffing using actual staffing levels as a starting point for forecasting purposes. In this regard, for the budgeting process relating to the 2017/18 and the forecast period, MPI started the budget process with the current FTE complement. From that point, management and executive worked to determine the required FTE complement to ensure effective service delivery.

MPI's total Corporate staff complement has decreased from 1,946.8 FTE in 2009/10 to 1,920.1 in 2016/17, and is forecast to grow to 1,926.9 FTE in 2017/18. The composition of MPI's staffing dedicated to operations and improvement initiatives is as follows:

Year	Normal Operations	Special Initiatives	Total Corporate
2009/10	1,752.9	193.9	1,946.8
2010/11	1,822.8	48.6	1,871.4
2011/12	1,862.9	15.4	1,878.3
2012/13	1,894.7	17.1	1,911.8
2013/14	1,890.3	15.0	1,905.3
2014/15	1,874.8	10.7	1,885.4
2015/16	1,866.7	15.7	1,882.4
2016/17 Actual	1,898.9	21.2	1,920.1
2017/18 Budget	1,911.0	15.9	1,926.9

MPI’s Normal Operations staffing levels increased from 1,752.9 FTE in 2009/10 to 1,898.9 in 2016/17. MPI committed to a permanent staffing reduction of 15 FTE in 2017/18 through attrition, which will result in an annualized savings of $1.4 million once completed. Taking into account targeted staff reductions, the Corporation is budgeting for 1,910 FTE in 2017/18 and 1,868.7 FTE in 2018/19 and 1,794.5 FTE each subsequent year through 2021/22.

MPI's actual Normal Operations staffing levels have been consistently below budgets as follows:

Fiscal Year	Actual	Budget	Over/(Under) Variance
2008/09	1,732.9	1,796.3	(63.4)
2009/10	1,752.9	1,783.8	(30.9)
2010/11	1,822.8	1,850.1	(27.3)
2011/12	1,862.9	1,926.5	(63.6)
2012/13	1,894.7	1,936.7	(42.0)
2013/14	1,890.3	1,934.7	(44.4)
2014/15	1,874.8	1,927.7	(52.9)
2015/16	1,866.7	1,898.7	(32.0)
2016/17	1,898.9	1,927.5	(28.6)
2017/18 Budget		1,910.0	

The consistent under budget variance is a reflection of the Corporation's Vacancy Management Program, which as discussed above, is used as a means to control costs.

5.5. Information Technology Expenses

The Corporation currently has a number of active or future Information Technology (IT) projects, with the total Corporate budgeted cost for these projects at $167.1 million.

Total Corporate IT expenses, including operating expenses and capital projects, have increased from $62.8 million in 2012/13 to $64.3 million in 2016/17, representing a compounded annual growth rate of 0.6%. IT expenses are forecast to be $69.3 million in 2017/18 and to increase to $77.0 million in 2021/22, representing a compounded annual growth rate of 2.7%.

In Order 162/16, the Board noted concern with the MPI's expenditures on IT and directed the Corporation to file an overall five-year strategic plan with respect to its IT projects. The Corporation responded in the Application that its ability to comply with that directive was limited by the fact that its corporate strategic direction had not been established by its new Board of Directors. The Corporation is expecting strategic direction from its Board of Directors in December of 2017, after which it will be able to apply the strategic direction to shape an IT strategic plan. Accordingly, MPI indicated in this Application that the IT Strategic Plan it filed in the 2016 GRA continued to be in place.

The Corporation advised that it has a limited set of IT investments planned during the rating years for this Application, which are a continuation or completion of existing projects, or to address a technical requirement to be completed. Those IT projects are: Human Resources Management System Phase 3 & 4, Customer Claims Reporting System, Customer Self Service, Technology Risk Management, and AOL/CARS Replacement.

In this Application, MPI provided detailed information about one of its major IT initiatives, the PDR program. The PDR program has been in progress since 2010/11 and is now scheduled for completion in 2019/20. MPI filed an evaluation of the PDR project prepared by Gartner Consulting, the Physical Damage Re-Engineering (PDR) Program Evaluation (Gartner Report). The Gartner Report was a follow-up to a report filed by the Corporation in the 2017 GRA, in response to Board Order 128/15, which directed the Corporation to file an independent assessment on the development and roll-out of the PDR project. In Order 162/16, the Board ordered that the Corporation file an independent assessment on the development and roll-out of the PDR Project, including the progress of the pilots, the timing of full implementation, the costs of the project and the anticipated savings to be derived from the project. The analysis was to incorporate all maintenance costs.

The Gartner Report filed in this Application found that in the past year the program had "made significant strides in completing some projects, and reevaluating and cancelling others that would provide low value." The Gartner Report also found that a number of significant components had been put into place over the previous year. There are five IT projects required to complete the PDR project, with four scheduled to be completed in 2017/18 and the fifth and final project, the Customer Claims Reporting System, to be completed in 2019/20. The original PDR program contained 20 projects, seven of which Gartner found had been cancelled. Eight of the IT projects contained within the PDR program are complete.

The Gartner Report found that the overall program budget had been consistent at $65.5 million, with $43.4 million spent to date and $18.1 million remaining to complete the program. The total projected spending would be $61.5 million, or $4 million less than the approved budget amount. The PDR program is expected to generate an internal rate of return of 7%, with a net present value of $13.7 million over the period from inception until ten years after full implementation. The Gartner Report found that the PDR program was starting to produce measurable benefits.

Martin Geffen of Gartner Group appeared as a witness called by MPI in the hearings, as he did in the 2017 GRA. He addressed the Gartner Report along with Gartner's CIO Scorecard and Infrastructure Benchmark (CIO Scorecard). Mr. Geffen is a Vice President of Gartner Group and provides consulting services in the areas of technology planning, architecture, design and implementation issues. Mr. Geffen was pre-qualified by Order 73/17, following the Pre-Hearing Conference, to testify as an expert in the area of the use and planning of information technology, and information technology governance.

In the 2017 GRA, Gartner had assessed that the PDR program had a net present value benefit overall of $18 million, with an internal rate of return of 8%. The cost/benefit analysis conducted by Gartner for the 2017 GRA did not include the cost of maintaining the program. Mr. Geffen testified in this Application that the updated calculation of the net present value of $13.7 million was conducted by MPI. The reason for the reduction in the net present value and internal rate of return was explained by Gartner as being due mainly to a reduction in the pace of the benefits realization. The Corporation also advised of its IT Modernization project, which is aimed at replacing legacy IT programs such as the Autopac Online (AOL) and Claims Administration and Reporting System (CARS). The IT Modernization project has a total corporate budget of $62 million.

MPI utilizes both internal FTEs and external consultants to maintain MPI’s IT systems and deliver on IT capital projects. MPI’s IT actual and forecast staffing levels including consultants are as follows:

IT Staff Complement

	Actual					**Forecast**		
Year Ended February 28/29	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Internal FTE	227	212	210	223	236*	248*	253*	249*
Consultants	129	120	110	114	107	92	81	80
Total	356	332	320	337	343	340	334	329
% IT Consultants	36%	36%	34%	34%	31%	27%	24%	24%

* rounded.

In Board Order 128/15, the Board directed MPI to assess opportunities for savings relative to external IT consultants, including bringing consultants in-house. In response, MPI undertook a comprehensive review and developed an approach to transition up to 27 positions from external to internal over the 2016/17 to 2019/20 fiscal years. This is expected to achieve $2.4 million in annual cost savings by 2019/20. In Order 162/16, the Board directed the Corporation to assess further opportunities for savings relative to external IT consultants, including a review of whether further savings can be achieved by bringing any of those consultants in-house and optimizing IT staffing levels in general. In response, the Corporation provided a summary of the progress made in the 2016/17 fiscal year:

- 15 positions were converted from external to internal;
- A further review of the external labour strategy resulted in the adjustment of priorities, resulting in four additional opportunities to replace consultants with staff being incorporated in the strategy, and four opportunities to replace consultants with staff identified for action in 2017/18 being deferred;
- The target remains at 27 external positions being converted to internal; and
- MPI is using students and third-party service providers to manage internal and external labour costs.

MPI advised it is "hawkish" on cost containment, and testified that it is now employing a formal Value Management Process (VMP) to manage new IT investments. The VMP will apply to all new initiatives with a budget of $500,000 or more. The VMP consists of the following components:

- Business case development: The first phase is a thin business case, which is a high-level presentation of the initiative. If the initiative is approved by the Corporation's leadership, further time is spent in determining the qualitative and quantitative elements of the proposal. The second phase involves developing a detailed business case in accordance with the template developed by the Corporation;
- Business case approval;

- Business Transformation Office (BTO) Project Delivery. The initiative will move through seven phases of project delivery, overseen by the BTO; and

- Post-Implementation Reviews. The Corporation advised that it is developing a template that will be used to conduct post-implementation reviews on all approved business cases. The reviews may be conducted by independent third-parties, depending on their size.

5.6. Benchmarking

As in previous GRAs, the Corporation filed with the Board its benchmarking framework reflecting four subject areas: Operational Efficiency, IT Service Delivery, Serving Manitobans and Community Impact. MPI uses the benchmarking results to identify opportunities to reduce costs, effective management approaches, and efficient resource allocation.

MPI engaged the Ward Group, as it has done previously, to provide an independent perspective on how the Corporation compares to other companies and monitor performance. The Ward benchmarking process involves on-site best practice analyses at MPI, and on-site meetings with MPI management to review customized results developed for MPI. The Corporation advised that after the second year of collecting information, a trend analysis report is prepared annually to assist MPI management in monitoring year-to-year performance improvement. Ward compared MPI to three benchmark groups:

- 10 Canadian insurers for the Canadian Personal Auto Benchmark Group;

- 10 Canadian insurers for the Canadian Benchmark Group; and

- 9 US insurers for the US Personal Auto Benchmark Group.

The Ward Group's 2015/16 comparison showed that the Corporation's total gross expenses, both as a percentage of gross premiums written and per policy in force, are below the comparators including the three benchmark groups listed. MPI's performance on FTEs per $100 million of Gross Premiums Written (GPW) has improved since 2011/12 moving from 150.6 to 130.9 in 2015/16; however, it remains materially higher than its peers, which range from 103.2 to 107.6. The Corporation explained that this is due to its business model, where customer service is performed by MPI employees. This requires more employees than other models, which use out-sourced call centres or damage estimates handled by repair shops. With respect to the latter, the Corporation has targeted staff reductions associated with the completion of the PDR program.

The Ward benchmarking also indicated that MPI's personnel expenses are lower than the comparators, which MPI attributed to lower base salaries and the fact that MPI does not pay employee bonuses.

The key observations from the Gartner CIO Scorecard, which was filed in this Application in respect of MPI's 2015/16 IT expenditures and staffing, were the following:

- MPI's IT expenditures as a percentage of revenue increased by 4.7% over the previous five years, while its peers increased their IT spending as a percentage of revenue by 5.1% from 2012/13 to 2015/16;
- MPI's IT expenditures as a percentage of operating expenses decreased by 4.5% over the last five years;
- Personnel expenses and staffing levels by MPI remain higher than its peers;
- MPI spends 63% of the IT budget on personnel, compared to 44% for its peers;
- MPI is focusing IT investment on reliability, availability and lowering risk;
- MPI improved its overall maturity rating from 3.34 in 2014/15 to 3.42 in 2015/16; and
- Business process management remains generally low, at 1.60 compared to 1.78 for MPI's peers.

In his testimony, Mr. Geffen commented on MPI's efforts to transition third-party contractors to staff, which he described as a positive step. When it comes to IT expenditures, MPI is spending more than its peers on initiatives to grow the business, and its spending is in line with peers on IT initiatives associated with running its business. Mr. Geffen indicated that MPI had improved its overall IT maturity score, which was a positive trend.

Mr. Geffen also commented on certain recommendations that Gartner had made to the Corporation in respect of IT in previous years, and how they might affect MPI's business process management. In particular, Mr. Geffen commented on the following recommendations:

- 3.05: Plan the future state architecture to support MPI's goals of access and support for existing and new services.

Mr. Geffen commented that future state architecture could include workflow management tools and other business process analytics tools, to achieve better business process management.

- 3.06: Perform a baseline of the current state, and perform gap analyses as the architecture is implemented.

Similarly, Mr. Geffen commented that the purpose of this recommendation would be for the Corporation to develop a baseline to establish whether the Corporation had any kind of business process in place, any workload tools, or any analytics in place to assess effectiveness of business processes, and from there develop a gap analysis and a plan to close any gaps.

- 3.07: Continue to increase the span of Enterprise Architecture's influence throughout business areas by ensuring that governance processes (as measured by process maturity) and their importance is clearly communicated such that they are not circumvented. Often this involves building up stakeholder support and requires clear communications regarding Enterprise Architecture’s value to the business.

Lastly, the purpose of the third recommendation would be to ensure that the Enterprise Architecture organization has the requisite authority or influence to drive the changes that are required.

The Corporation had advised its progress on the implementation of these three recommendations, which was:

- 3.05: the progress was on hold, to be reviewed in the fourth quarter of fiscal year 2017/18;
- 3.06: the progress was on hold, to be reviewed as part of the budgeting process in the third quarter of fiscal year 2017/18; and
- 3.07: In progress.

In Order 128/15, the Board had directed MPI to seek to gain insight on longer tail experience from outside the Province of Manitoba, and in particular, from the Société de l'assurance automobile du Québec (SAAQ). In the 2017 GRA, the Corporation advised that it did not undertake the review as directed, and has indicated that it will conduct a review of mortality assumptions in the coming year, on the assumption that SGI and SAAQ are willing to share their mortality experience with the Corporation. As a result, in Order 162/16 the Board again directed the Corporation seek to gain insight on longer tail experience from SAAQ, and report back on the results of its efforts in the 2018 GRA. The Corporation did not comply with this directive, and advised that the Chief Actuary had begun discussions with outside parties, but was unable to complete this task prior to the 2018 GRA filing due to other priorities.

5.7. Business and Injury Improvement Initiative (BI3)

The Business Improvement and Injury Initiative (BI^3) was implemented by the Corporation in 2010. The purpose of BI^3 was to implement a new claims management system for the Corporation's Personal Injury Protection Program (PIPP). Central to BI^3 was the implementation of injury claims management software and a document management system, along with resulting organizational changes.

In Order 135/14, the Board ordered that MPI file in the 2016 GRA:

> 11.5 - An update on the claim duration issue including whether pre-BI^3 benchmarks are being achieved, and when post-BI^3 benchmarks will be implemented and what those benchmarks will be; and

11.6 - An external, independent review of the management and oversight of PIPP claims in the context of post-BI^3 implementation, to learn whether the initiative is providing the desired impact.

MPI indicated in the 2016 GRA that it was not in a position to fully comply with the Board's directives and advised that an external, independent review of the management and oversight of PIPP claims in the context of post-BI^3 implementation would take two years to complete. The Corporation advised at the time that as BI^3 was implemented in September 2010 and, at that time was entering its fifth year post-implementation, it was too early to finalize post-BI^3 benchmarks as open post-BI^3 claims were not yet fully developed. MPI stated that the BI^3 business case indicated that it would take at least seven years for the initiative to be fully functioning and achieving desired outcomes. Accordingly, in Order 162/16, the Board directed MPI in this Application, now seven years post-implementation, to provide a full set of preliminary benchmarks to assess the performance of BI^3.

In response, the Corporation filed the Post-Implementation Review of the Business and Injury Improvement Initiative (BI^3), prepared by Ernst & Young LLP (Ernst & Young Report), dated April 27, 2017.

The Ernst & Young Report has concluded that the BI^3 initiative has met or exceeded its anticipated benefits. The findings of the Ernst & Young Report are summarized as follows:

- Qualitative Benefits - IT Systems Renewal: the purpose of BI^3 was to implement a "best in class" claims management system, in order to minimize organizational and financial risk to PIPP. Ernst & Young found that the functionality as envisioned in the business case was in place and meeting the Corporation's stated business goals;

- Qualitative Benefits - Organizational Effectiveness: Ernst & Young found that the document management and case management capabilities had generated benefits across all identified areas;

- Quantitative Benefits - Productivity Savings: Ernst & Young calculated actual savings to the Corporation of $9.53 million associated with the implementation of BI^3; and

- Quantitative Benefits - Leakage Savings: Ernst & Young found favourable claim duration reductions in excess of the Corporation's 4-day benchmark target, as a result of processing efficiencies.

MPI stressed the following with respect to IT:

- That IT is essential in any modern business and that MPI pursues IT initiatives that ensure security, and system reliability, as well as enhance the customer experience. IT initiatives support the business strategy, and MPI has a demonstrated track record of delivering IT initiatives on time and on budget;

- The VMP is maturing and formalizing elements such as business cases;

- That MPI's IT initiatives deliver value and reduce risks, but IT expenditures have many drivers and initiatives are often not discretionary; and

- That Gartner has found that MPI's overall IT maturity is improving and that MPI is successfully implementing an external staffing strategy. The PDR program is on track, and although it has evolved, its original objectives have been preserved and project costs have been consistent.

5.8. Interveners' Positions

CAC

CAC was critical of the Corporation's IT expenditures. It noted that MPI continues to operate at a low level of business processes maturity and is investing significantly more in infrastructure and operations than its peers, including significantly higher investments in staffing, outsourcing and software.

CAC commented that IT personnel levels remain relatively high and MPI compares unfavourably with its peers in respect of staffing expenditures. There should be further opportunities to reduce staff over time.

With respect to PDR, CAC stated that the program was initiated in the absence of a well-articulated business case and the program has changed dramatically in scope. CAC noted this resulted in the cancellation of projects which had been part of the original PDR program, and the replacement of the CARS program, originally part of the PDR budget, has now been removed from the program. CAC was also critical that key projects forming the PDR program, such as the Customer Claims Reporting System, lack independent business cases. CAC further stated that there is not much available information on what transpired with the Remote Estimating pilot, except that the program is at risk and on hold, which would have significant implications for rural Manitobans. In addition, operating and maintenance costs have been excluded from the calculation of the PDR project costs. With respect to the budget for PDR, CAC observed that in addition to the overall budget, there are projects which have been described by Gartner as linked with the PDR program but have been excluded from the budget, including Predictive Analytics at a budget of $2.2 million and Centre of Excellence at a budget of $6.3 million.

CAC made recommendations for certain findings in respect of PDR:

That, notwithstanding the exclusion of capital costs of the Predictive Analytics project from the cost side of the cost/benefit analysis, the savings from that program have been included on the benefit side;

That the assessment of the business case for the PDR program is not consistent with good practice because it did not incorporate the Corporation's weighted cost of capital; and

That the calculation of the net present value of the PDR program cannot be relied upon.

With respect to other aspects of IT, CAC suggested that MPI has not demonstrated that it is practicing modern IT portfolio management or optimization, and there is an absence of financial information related to a large expenditure, the replacement of the AOL/CARS systems. With respect to AOL/CARS, there is currently no project charter or business case, nor does the Corporation have an estimate of the cost of maintenance of these programs.

CAC recommended that for the next GRA, the Corporation file an analysis of the financial impact of IT costs on rates, and for IT Modernization (the replacement of AOL/CARS), the Corporation file a detailed calculation of the total cost of ownership, a net present value analysis, and an internal rate of return analysis.

CAC also recommended that in the next GRA, MPI file an articulation of how it conducts project portfolio management and demonstrate how projects are aligned to strategic organizational objectives, as well as an update on opportunities to achieve savings in software and staffing.

CAC observed that depreciation and amortization account for approximately 10% of all Basic expenses for fiscal year 2017/18, and the compound annual growth rate from 2013/14 to 2016/17 was 17.5%. The forecast for 2017/18 through to 2019/20 is a compound annual growth rate of 13.3%. Amortization and deferred development has been growing rapidly at the Corporate level, and a significant proportion of total project costs are borne by Basic.

5.9. Board Findings

The Board has in the past characterized one of the key elements of its independent review function and rate-setting role as ensuring that actual and projected costs incurred are necessary and prudent, in the context of setting just and reasonable Basic rates. The Board's jurisdiction to do so is derived from *The Crown Corporations Governance and Accountability Act*, and in particular, s. 25 thereof.

The Board notes that the Corporation has stressed that it is continuing to make efforts to control and reduce costs. The Board is keenly interested in the Corporation's operating expenses and cost containment efforts and intends to review them in detail in the 2019 GRA.

The Board points out that the Corporation again did not comply with last year's directive requiring MPI to seek to gain insight on longer tail experience in other jurisdictions. As such, the Board again expects that in the 2019 GRA, MPI will be in a position to report back on its efforts to seek insight on longer tail experience from outside, and in particular from SAAQ, and directs the Corporation to do so.

The Board notes MPI's comments that its IT initiatives make up a small proportion of its overall expenses. Nonetheless, the Board finds that strategic and appropriate IT expenditures can serve to create efficiencies and reduce future costs to the Corporation, as was found by Ernst & Young with respect to BI[3]. IT projects that are not subject to rigorous controls or oversight can result in cost overruns to the Corporation.

In Order 162/16, the Board expressed concern about MPI's costs relative to both the level of IT staff and the level of external IT consultants. The Board notes that Gartner has observed that MPI’s overall personnel spending and staffing are higher than peers. The Board is encouraged by the Corporation's efforts to continue to reduce reliance on IT consultants and reduce the number of IT staff overall. The Board notes that the Corporation has targeted further staff reductions associated with the completion of the PDR program and anticipates that the Corporation will be able to demonstrate achievements in that respect in the future.

The Board directed in Order 162/16 that in this Application, MPI file an overall five-year strategic plan with respect to its IT projects, including all major projects, full business cases with cost/benefit financial metrics for each of the projects, and articulating the benefits of the projects, with updates on their progress to implementation. This was not done, as the Corporation advised that it was awaiting strategic direction from its Board of Directors in the fourth quarter of 2017/18.

Accordingly, the Board expects to receive a new IT Strategic Plan from the Corporation, and directs that it be filed with the Board forthwith following its approval by the MPI Board of Directors, which the Board understands will take place following its presentation to the Board of Directors in December 2017. The Board looks forward to receiving the IT Strategic Plan and anticipates that this will be an important issue, which will be subject to a thorough review, or "deep dive", in the 2019 GRA.

In Order 162/16, the Board expressed concern at the lack of business cases in the IT area. The Board notes the implementation of the Value Management Process, which it understands will apply to all new initiatives with a budget of $500,000 or more, and expects that this process will bring in valuable controls and contribute to better business process management in IT. However, the Board expresses some concern over the fact that business cases will not be created for any IT projects currently "in-flight", that do not already have business cases.

With respect to PDR, the Board finds that although Gartner's evaluation has indicated that the program will be completed under the initial budget of $65.5 million, there have been significant budgetary adjustments such that MPI has not clearly established that the program is in fact operating within its original budget. Most significantly, the Board finds that the Optimized Adjusting project, which had an original budget of $32.6 million, and was conceived as a replacement for the CARS / First Notice of Loss systems, has now been removed from the PDR program budget. Accordingly, notwithstanding Gartner's observations, a further, more detailed review of the evolution of the PDR budget leads the Board to the conclusion that the Corporation has been challenged in reining in spending on the PDR program. The Board further finds that the net present value and internal rate of return calculations for the PDR program are of limited value as they do not take into account the costs of operating and maintaining the program and utilize a 3% discount rate, which may not reflect the risks of the project. The Board also notes that there has been a deterioration in the assessed benefits of the PDR program since the Gartner analysis filed in the 2017 GRA.

The Board finds, as was stated by CAC, that the PDR program was initiated in the absence of a well-articulated business case and the program has changed dramatically in scope. The Board is also concerned with the fact that there are projects that are linked with the PDR program but have been excluded from the budget. In addition, the Corporation has not disclosed the costs to operate the PDR program. The Board views this information as a critical component in assessing the costs and benefits associated with the program and accordingly orders that in the 2019 GRA, the Corporation file a detailed breakdown of its analysis on the costs to operate and maintain the PDR program. Further, the Board finds that there is a lack of information on the costs and benefits of the IT Modernization program. Therefore, the Board also orders that in the 2019 GRA, the Corporation file:

- An update, prepared by Gartner, to the PDR Program Evaluation;
- A cost/benefit analysis of the five remaining projects to be completed as part of the PDR program, if no such cost/benefit analyses form part of the new IT Strategic Plan. The discount rate used in the cost/benefit analysis should be higher than the 3% previously used in the PDR project cost benefit evaluation. The Board finds that 3% discount rate is not fully reflective of the risks associated with the program. The Board will expect the Corporation to select and justify the use of an appropriate discount rate consummate to the risks inherent in the project; and
- A business case and a cost/benefit analysis for the IT Modernization project, specific to the AOL and CARS redevelopment or replacement.

6.0 INVESTMENTS

6.1. Investment Portfolio

The funds available for investment by the Corporation are primarily the assets supporting the unearned premium reserves and unpaid claims reserves. The Corporation's overall investment portfolio was over $2.5 billion as at February 28, 2017. MPI's assets must be managed in accordance with the Investment Policy Statement approved by its Board of Directors.

The recent actual and forecast composition of the Basic investment portfolio is summarized below:

Basic Investment Portfolio				
	2016/17 Actual		**2017/18 Forecast**	
	Ending Asset Values (C$ millions)	**Portfolio Composition**	**Ending Asset Values (C$ millions)**	**Portfolio Composition**
Cash/Short Term Investments	37	0.3%	-	0.0%
Canadian Fixed Income	1,056	42.5%	1,287	46.5%
MUSH Non-Marketable Bonds*	623	23.9%	639	23.1%
Total Long Term Bonds	**$1,716**	**66.7%**	**$1,926**	**69.6%**
Canadian Equities	302	13.0%	285	10.3%
US Equities	167	6.8%	139	5.0%
Real Estate	264	9.8%	291	10.5%
Infrastructure & Venture Capital	85	3.7%	128	4.6%
Total	**$2,535**	**100.0%**	**$2,769**	**100.0%**

** MUSH bonds are Manitoba rural municipality, school division and healthcare facility bonds and debentures which are not tradable in the fixed income market. MUSH bonds are held at book value and the portfolio's value does not vary with changes in interest rates.*

6.2. Investment Management

Basic premiums are not set to fully recover claims costs; instead MPI typically depends on investment income to break even. MPI's substantial investment portfolio is managed jointly by the Corporation and the Province of Manitoba, through a committee known as the Investment Committee Working Group (ICWG), which is co-chaired by MPI's Vice President of Finance and

Chief Financial Officer, and a representative from the Manitoba Department of Finance, Assistant Deputy Minister (ADM), Treasury Division, currently Garry Steski.

Mr. Steski has held the position of ADM for approximately three years, with one year as Acting ADM and two years permanently in the position. His role as ADM, through the Department of Finance, involves management of the debt and investments of the Province of Manitoba, along with providing support to Crown Corporations. Mr. Steski sits on the ICWG and attends meetings of the Investment Committee of MPI's Board of Directors. He has been a member of the ICWG for eight years, as he previously held the role of Director of Capital Markets with the Treasury Division.

The Board called Mr. Steski as a witness. Mr. Steski's testimony related to the decision-making process and authority in respect of the Corporation's investment portfolio, as well as the Corporation's intended strategy to increase its allocation to corporate bonds to 18% of its total portfolio, which will be discussed in further detail later in this Order.

Mr. Steski confirmed that the role of the Department of Finance vis-à-vis MPI's investment portfolio (Fund) and the investment thereof is to manage the Fund and implement investment direction and decisions consistent with approved investment policies and strategies, and, through participation on the ICWG, develop proposed investment policies and strategies and the parameters for the fund for recommendation to the board and approval by the Minister. However, Mr. Steski advised that the Corporation is ultimately responsible for the Fund. He characterized the role of the Department of Finance in respect of the Fund as two-fold: to provide input on MPI's investment decisions through the ICWG, and to monitor the Fund and to report to the Minister with any concerns about the management of the Fund. He described the Department's role on the ICWG as a "watchdog".

With respect to the ICWG generally, Mr. Steski confirmed its mandate as:

- To act as liaison between the Department of Finance and the Investment Committee of the MPI Board of Directors (IC);
- To develop strategies for investment exposure for consideration by the IC and the Department of Finance;
- To support Mr. Steski as ADM in reviewing, screening and selecting investment managers;
- To monitor performance of investment managers;
- To prepare draft investment policies and annual strategies and draft parameters for the fund for review by the IC and the Department of Finance;
- To implement investment policies and direction; and
- To provide regular reports to the IC and the Department of Finance as required.

Mr. Steski advised that typically, the Investment Department of MPI will bring forward recommendations to the ICWG - the Department of Finance does not typically initiate recommendations. He described the ICWG as a forum for discussion, to provide recommendations to the IC, rather than a decision-making body.

With respect to the authority to implement changes to the Fund or the Investment Policy Statement, Mr. Steski testified that the MPI Board of Directors has the authority to make any changes, provided that the changes are within permitted classes of investments under the provisions of *The Financial Administration Act*, C.C.S.M. c. F55. For any changes to the Fund that fall outside *The Financial Administration Act*, approval from the Minister of Finance is required, and if given, are done by way of Order-In-Council. Mr. Steski recalled that Ministerial approval was given to MPI in the past, to permit investments in real estate and infrastructure. This occurred during his time as a member of the ICWG. He advised that he was aware of an occasion, prior to his tenure on the ICWG, where Ministerial approval was denied for a request by MPI to invest in international equities. This occurred sometime after the financial crisis of 2008-2009. Mr. Steski advised that, from his perspective, if MPI were to request an allocation to international equities at this time, he would not have concerns.

With respect to the work that is performed to assess risks to the Fund or due diligence associated with changes to the Fund, Mr. Steski advised that this is done by the Investment Department of MPI.

6.3. Corporate Bond Strategy

The rate increase that was applied for by MPI, 2.7%, was based on an assumed change in its investment strategy, to increase the allocation of corporate bonds to a target weight of 18% of its overall portfolio. The change had been approved in principle by the IC, subject to necessary due diligence. MPI assumed that the corporate bond portfolio would match the composition of the investment grade long-term Canadian corporate bond market, which is approximately 60% “A” rated bonds and 40% “BBB” rated bonds.

This increased allocation to corporate bonds follows a change that was made to the Investment Policy Statement on April 27, 2017, which added an explicit allocation to corporate bonds. With that change, the Corporation reported that the marketable bond allocation was changed to incorporate a 5% target and a 10% maximum allocation to corporate bonds.

MPI forecasted that approximately $435 million in corporate bonds would be purchased by the end of 2017/18, funded by the sale of government bonds, bringing the total holdings to approximately $500 million. The Corporation indicated that the anticipated increase in the allocation to corporate bonds would increase the investment returns to the Corporation and in turn, lower the indicated rate (in combination with other efforts by the Corporation) to 2.7%.

However, the Corporation advised that approval in principle of this increased allocation to corporate bonds would be contingent on certain conditions:

- MPI having a sufficient capital reserves as requested by MPI, characterized by MPI as a lower threshold of $201 million, and an upper threshold of $438 million based on a 100% Minimum Capital Test (MCT) ratio;

- The approval of actuarially indicated rates without offset by investment income generated from the RSR; and

- The use of the Naïve interest rate forecast in establishing actuarially indicated rates.

In addition, MPI indicated that it is awaiting the outcome of a further Asset Liability Management (ALM) study, to ensure the proper investment portfolio.

The current proposed investment plan to increase allocation of corporate bonds to 18% of the total portfolio is also awaiting approval by the Minister of Finance. This is because, as was indicated by Mr. Steski in his testimony, investing in BBB-rated bonds is not permitted under *The Financial Administration Act*. In his testimony, Mr. Steski was unable to offer any comment on the status of that request made to the Minister.

6.4. Investment Returns

The size of the Corporate investment portfolio was projected to be $2.77 billion for 2017/18, increasing to $3.24 billion for 2020/21. For 2016/17, MPI had investment income for Basic of $82.9 million. Based on the Corporation's proposed use of a Naïve interest rate forecast, the Corporation's investment income is projected to be $119.7 million for 2017/18, of which Basic's share is $101.8 million or 85.0%.

As noted above, following the Naïve interest rate forecast as at September 30, 2017, of 2.10% (which reflected an increase of 46 basis points from 1.64%, which was used by the Corporation in the GRA filing), the Corporation revised its projected investment income of $34.9 million for Basic, to offset a revised underwriting income forecast at $22.9 million.

MPI realized a $96.5 million return in investment income in 2016/17, of which Basic's share was 85.9%, totaling $82.9 million in income. The investment returns were due primarily to interest rate forecast changes and higher equity investment income due to strong equity markets. MPI's projected allocation to Basic from investment income have changed materially since last year's application, due primarily to interest rate forecast changes, and higher than expected equity investment income due to rebalancing. The actual and projected allocations for Basic are as follows:

Allocation of Investment Income ($ millions) to Basic				
	2016/17	**2017/18**	**2018/19**	**2019/20**
2018 GRA	$82.9	$101.8	$78.1	$80.0
2017 GRA	$90.8	$36.3	$25.6	$42.7
Difference	($7.9)	$65.5	$52.5	$37.3

The Corporation provided a five-year comparison of its investment returns with those of the Workers' Compensation Boad (WCB), the Teachers' Retirement Allowance Fund (TRAF), and the Civil Service Superannuation Board of Manitoba (CSSB). The comparison indicated that MPI had outperformed the average return for WCB, TRAF and CSSB in 2016 by 1.03%. However, the Fund underperformed by 2.66% over the five-year period. The Corporation reported that in 2016, the Fund outperformed those other funds in equities and real estate by 13.7% and 4.9%, but underperformed in bonds and infrastructure by 0.3% and 8.0% respectively. However, the Corporation also reported that when the asset allocations of those other funds were adjusted to match that of MPI, the other funds' returns fell to 4.0%, underperforming MPI by 2.5%.

MPI also provided a comparison of its investment results with those of Saskatchewan Auto Fund (SAF), a comparable public insurer with an investment portfolio of $2.3 billion (versus $2.6 billion for MPI). For the last completed fiscal year March 31, 2017, SAF reported investment income of $173.8 million and $16.5 million for its prior fiscal year, higher returns than those reported by MPI.

SAF's higher returns were attributed, in part, to the diversification of its portfolio including investments in global equities and global small cap equities and mortgages. By contrast, MPI currently does not have any investments in global equities or mortgages.

SAF also employs two distinct invesment portfolios: a matching portfolio comprised of mortgage securities, and a return-seeking portfolio that includes equities, real estate, and infrastructure investments.

6.5. Interest Rate Risk

In Order 151/13, the Board directed MPI to have the composition of its investment portfolio reviewed by an external expert consultant, with a view to determining whether the current asset mix should continue, or should be revised. MPI engaged AON to complete an Asset Liability Management study in 2014, and filed the study in the 2016 GRA. In the 2017 GRA, the Corporation brought forward a witness from AON to speak to the report. CAC called Mr. Valter Viola to discuss investment portfolio management and the risk/reward framework, and to provide several recommendations related to MPI's investment portfolio design.

In Order 162/16, the Board expressed its concern with the Corporation's continued exposure to interest rate risk and found an ALM study should be conducted more frequently than has been the practice with the Corporation. The Board directed MPI to obtain an updated ALM study to be filed in the 2018 GRA, which study was to address each of 18 recommendations that had been made by Mr. Viola.

The Corporation did not file an updated ALM study in this Application. The Corporation stated that it was not "logistically possible" to do so in time for the 2018 GRA. The Corporation further advised that an updated ALM study could not be usefully and purposefully be completed in the absence of RSR capital targets.

In the hearing the Corporation advised that, since the filing of the Application in June 2017, it had issued a Request for Proposals for the Study on September 12, 2017, and had engaged Mercer Canada to deliver the Study by November 30, 2017. The Corporation put in place an accelerated process to have a study produced in that time frame. The Corporation further advised that Mercer Canada was aware of the RSR capital targets for which it had applied in this Application.

6.6. Investment Income Forecasting

At the 2014 GRA, the Corporation proposed a new methodology to forecast its investment income. This methodology measured the impact of interest rate changes on investment income and claims liabilities, whereas the methodology employed by the Corporation previously did not do so. MPI now models changes in the fair market value of its marketable bonds and the changes to bond values flow through the allocation of net income to Basic because those assets are categorized as Fair Value Through Profit and Loss.

In the 2017 GRA, the Corporation put forward a request for the 50/50 interest rate forecast. In Order 162/16, the Board found that there was no compelling evidence that persuaded it to accept the 50/50 forecast, and, citing the challenges in interest rate forecasting in recent years, directed the Corporation that a Technical Conference on Interest Rate Forecasting be held to further explore that issue. The Corporation reported on those aspects of the discussion in the Technical Conference that were incorporated into its forecasting methodology.

MPI’s Board of Directors has rejected the SIRF for budgeting purposes, as it has proven to be inaccurate, and produces financial forecasts that bear little resemblance to reality. The bank forecasting approach(s) are proprietary, but MPI observed that they appear to rely on a mean reversion approach. The long-term average yield of long term bonds is higher than current yields, producing an upward bias that has been both inaccurate and detrimental to MPI’s financial health. Utilization of the bank interest rate forecasts in the 2014/15 through 2016/17 GRAs resulted in a $163 million premium deficiency (relative to what would have been charged based on the actual interest rates). The majority of this risk is created from the forecasting process rather than from the inherent risk of interest rate movements. MPI accordingly submitted that the Naïve forecast presented in the Application should be used for rate-setting purposes, which indicated that interest rates had increased to 2.10%, a 46 basis point increase from when the Application was filed. Last year MPI had indicated that risk remains with any forecast, but MPI's position was that the 50/50 interest rate forecast reduced this risk on a forward looking basis.

The forecasted changes in interest rates based on the Application, an updated September forecast, and an expanded base forecast and MPI's 50/50 interest rate forecast proposal were as follows:

Government of Canada 10-Year Interest Rate Forecast

Fiscal Year	Application			SEPTEMBER 30th UPDATE		
	Naïve Forecast Application	Expanded SIRF	50-50 Forecast	Naïve Forecast Update	Expanded SIRF	50-50 Forecast
2016/17A	1.64%	1.64%	1.64%	1.64%	1.64%	1.64%
2017/18	1.64%	2.10%	1.87%	2.10%	2.20%	2.15%
2018/19	1.64%	2.58%	2.11%	2.10%	2.72%	2.41%
2019/20	1.64%	2.92%	2.28%	2.10%	3.10%	2.60%
Basis Point Change (2020-2017)	0 BPS	128 BPS	64 BPS	46 BPS	146 BPS	96 BPS

In his testimony, Mr. Steski stated that provision was made in the Government of Manitoba's 2017 budget for an increase in interest rates.

6.7. Interveners' Positions

CAC

Along with Andrea Sherry, CAC called Dr. Wayne Simpson as a witness in this hearing. Dr. Simpson is a Professor of Economics at the University of Manitoba, and was pre-qualified in Order 73/17 as an expert in applied econometrics, applied microeconomics, and quantitative methods.

Dr. Simpson and Ms. Sherry prepared a report on the RSR target capital range, and in the context of that report, addressed interest rate assumptions. Dr. Simpson also testified in the public hearings as to interest rate assumptions. Dr. Simpson noted that the SIRF has continued to predict that interest rates would begin to rise and accordingly, the Naïve forecast would be unrealistic. The Bank of Canada announced increases in the overnight interest rate to 0.75% on July 12, 2017, and 1% on September 6, 2017. This was followed by increases at Canadian banks and in bond markets, with the Government of Canada bond rate rising to 2.07% as of September 14, 2017, as compared to 1.64% in the Naïve forecast. Dr. Simpson's opinion was that there is now good reason to believe that interest rates will continue to rise. Accordingly, Dr. Simpson was supportive of the use of the 50/50 interest rate forecast, as a cautious approach to interest rate forecasting, taking into account what appears to be a trend of increasing interest rates.

CAC was critical of the Corporation's approach in responding to the ALM study ordered by the Board. In particular, it was critical of the fact that the Corporation had initially suggested that it would require a six month period to complete the study, and then managed to compress the schedule to approximately two and a half months. Further, CAC expressed concern that the analysis to be conducted by Mercer Canada will be unduly constrained, because it has been provided with the Corporation's intended RSR targets as a key constraint.

With respect to MPI's investment portfolio, CAC stated that there are grounds to be concerned that the Corporation is accepting undue investment risk for insufficient benefit, and that the equities portfolio is unduly concentrated in Canadian equities when compared with SAF. There may be opportunities to reduce portfolio risk through diversification and maintain or improve returns. CAC made the overall comment that MPI does not look like other "well regarded portfolios". Further, CAC was of the view that the Corporation had delayed the implementation of an unrealized opportunity for investment in higher yield corporate bonds, which was recommended by AON in 2014.

With respect to the decision-making process for the investment portfolio, CAC noted that key decisions made by MPI do not require approval from the Minister. CAC commented that there may be a significant opportunity for the Corporation to invest in corporate bonds, noting that Mr. Steski was of the view that the Department of Finance would be supportive of further investment in corporate bonds.

With respect to interest rate forecasting, although made in the context of comments regarding the RSR total target capital range, CAC stated that the Corporation's proposal to use the Naïve forecast had been overtaken by actual fluctuations in interest rates since the filing of the Application. Based on the evidence of Dr. Simpson, CAC was supportive of the use of at least the 50/50 interest rate forecast for forecasting of its revenue requirement, but also indicated that it would not object to the use of the SIRF.

CMMG

CMMG commented that the Corporation is showing reasonably robust returns in its investment portfolio for fiscal year 2017/2018 through to 2021/2022. Accordingly, CMMG was of the view that the Corporation is not in any vulnerable financial position and given the increases in interest rates since the filing of the application and expected further increases in rates, this should have a positive impact on the Corporation's financial position.

CAA

CAA was of the view that the Corporation could take some simple steps to improve its financial outlook by enhancing its investment portfolio, which it in turn believed would significantly assist in reducing costs to ratepayers.

6.8. Board Findings

The Board has previously expressed its view that the Corporation should be investing in corporate bonds. The Board notes that the Corporation took the step in the Investment Policy Statement to include reference to corporate bonds, and is supportive of the Corporation's intention to increase its allocation to corporate bonds to 18% of its investment portfolio.

The Board recognizes that this increased allocation to corporate bonds is contingent on approval by the Minister of Finance. However, the Board refers to the testimony of Mr. Steski, which served to clarify for the Board the role of the Corporation and the Department of Finance in decision-making regarding MPI's investment portfolio generally. In Order 151/13, the Board had commented, based on the testimony of the previous Assistant Deputy Minister, that the ICWG seeks consensus between the Department and MPI on recommendations to be provided to the Minister of Finance on investment decisions, that the ICWG was responsible for the investment returns, but the ultimate responsibility rested with the Minister of Finance. Mr. Steski's testimony provided the helpful distinction between those investment decisions falling within *The Financial Administration Act* and those falling outside it. The Board accepts Mr. Steski's testimony and finds that the ICWG is a forum for discussion, with investment decisions being driven by the Investment Committee of the MPI Board of Directors, and that ultimate responsibility for the Fund rests with MPI.

The Board also finds that the Corporation's investment returns do not compare favourably with those of SAF. The Board notes the diversification in the SAF portfolio as compared to that of the

Corporation, and accepts that the lack of diversification in the current composition of MPI's investment portfolio is contributing to its lower returns. The Board expects that there will be further opportunity for the Corporation to explore diversification of its investment portfolio, following the results of the ALM study, due to be complete by November 30, 2017.

With respect to the ALM study, MPI failed to comply with the Board's directives in Order 162/16, to have the study complete and filed in this Application. Considering that MPI is now of the view that it will be able to have the process completed in under three months, the Board rejects the Corporation's response that it would not have been logistically possible to comply with the Board's directive. Further, the Board is concerned the study may be of limited utility in that it will be issued after this hearing and the Corporation has provided constraints to Mercer Canada based on an RSR range that, until the issuance of this Order, remained under consideration by the Board. By delaying the ALM study, this unfortunately creates a perception that the Corporation was intending to influence the Board's decision on the RSR range, because the results of the study would not prove useful if the Board were to order a range other than that applied for by MPI. Nevertheless, the Board hereby orders the Corporation to file the Mercer Canada ALM study with the Board concurrently with its delivery to the MPI Board of Directors, and the Board further orders that:

- The Corporation shall require Mercer Canada to update the ALM study as necessary in order to take into account the directives issued in this Order, and to add an analysis of the bucket matching approach similar to that used by SAF;

- The Corporation shall require Mercer Canada to update the ALM study as necessary in order to address each of the 18 recommendations made by Mr. Viola in the 2017 GRA, which recommendations are set out in Appendix E to Order 162/16; and

- That a Technical Conference be held on the ALM study, on a date to be mutually agreed upon by the Board and MPI, but early enough so the information shared in the Technical Conference will be included in the 2019 GRA.

With respect to interest rate forecasting, the Board notes that a Technical Conference was held in accordance with the directive in Order 162/16 and that the Corporation has reported that it incorporated some of the discussions into its forecasting. In Order 162/16, the Board commented on the challenges associated with interest rate forecasting due to the economic climate of the previous number of years. In this Application, the evidence was that the economic climate is now changing; in particular, the Board would point out that interest rates have risen on two occasions since the Application was filed. As reported by the Corporation, the actual market interest rate as of September 30, 2017 was 2.10%, which reflected an increase of 0.46% from 1.64% when the 2018 GRA was filed.

Given that interest rates have begun to rise in recent months, the Board does not accept that the Naïve forecast should be relied on for rate-setting purposes. The Board has difficulty with the Corporation having proposed a 50/50 interest forecast last year, when interest rates were flat, and in this Application, proposing a Naïve forecast, and continuing to do so after recent increases in interest rates. However, the Board refers to its previous finding in Order 162/16 that the bank forecasts in the previous years were inaccurate. As interest rates have not risen in some time until recently, the Board expresses caution in reliance on the SIRF at this time.

The Board also notes the evidence of Mr. Steski, that in its most recent budget, the Government of Manitoba took into account an increase in interest rates.

The only expert testimony before the Board on interest rate forecasting was from CAC's expert, Dr. Simpson. The Board accepts the evidence of Dr. Simpson that the 50/50 interest rate forecast is the appropriate approach for rate-setting and target capital purposes at this time. The Board acknowledges that this is a departure from its findings in Order 162/16, and grounds its decision in this regard on the recent change in interest rates, the lack of accuracy in the SIRF, and the evidence of Dr. Simpson and Mr. Steski.

As the Board has endorsed the 50/50 interest rate forecast, the Compliance Filing process requested by the Corporation is rendered moot.

7.0 RATE STABILIZATION RESERVE AND TARGET CAPITAL RANGE

7.1. Purpose of the RSR

By Order 162/16, the Board approved the following definition of the purpose of the RSR:

> *To protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from non-recurring events or factors.*

7.2. Basic RSR and Total Equity Balances

In its Application, the Corporation requested a Basic Total Equity target capital range of $201 million to $438 million. The lower threshold of $201 million was based on an adaptation of the Dynamic Capital Adequacy Testing (DCAT) analysis at a 1-in-40-year probability level, with routine management / regulatory action, over a two-year time horizon. The requested upper threshold was based, not on the scenario testing adapted from the DCAT, but on the Minimum Capital Test (MCT) at a ratio of 100%.

In Order 162/16, the Board approved a lower RSR threshold of $159 million, based on a revised DCAT report that was filed in August 2016, with MPI's applied-for 4.3% rate indication. The Board approved a rate increase of 3.7% in Order 162/16. The Corporation advised in this Application that a lower RSR target of $159 million would have left Basic in a deficient financial condition given the approved rate increase from the prior Order. Accordingly, the Corporation set the Basic Total Equity lower threshold at $181 million as of February 28, 2017. The Board of Directors directed that $27.8 million be transferred from the Extension line of business to the Basic RSR as at February 28, 2017 to reach this threshold.

A summary of the recent actual and expected future, composition of Basic total equity is provided below:

	Actual		**Forecast**	**Projected**	**Outlook**
Years Ending 28/29 February	**2016**	**2017**	**2017**	**2018**	**2019**
Basic RSR Opening Balance	178	194	99	99	157
Basic Net Income (Loss)	(56)	(123)	(45)	58	(21)
Basic RSR Before Transfers	122	71	54	157	136
Transfer in from Non-Basic Retained Earnings	73	27.8	-	-	-
Basic RSR	**194**	**99**	**54**	**157**	**136**
Basic AOCI	37	82	62	63	69
Basic Total Equity	**231**	**181**	**116**	**220**	**205**

As in the past, the Board also looks to the overall financial strength of the Corporation in establishing rates. On an overall basis, as at February 28, 2017 the Corporation reported retained earnings of $261.5 million (including $162.3 million in Extension and SRE) and total equity of $357.2 million (including $176.2 million in Extension and SRE).

The DCAT report on Basic's financial condition was prepared internally by MPI's Chief Actuary, in accordance with the Standards of Practice of the Canadian Institute of Actuaries and AAP. The Standards of Practice indicate that an entity's financial condition will be satisfactory, if throughout the forecast period, it is able to meet all its future obligations under the base scenario and all plausible adverse scenarios, and meet the minimum regulatory capital requirement under the base scenario. Based on this definition, the Chief Actuary concluded that Basic's future financial condition was not satisfactory, because forecasted Basic Total Equity in the base scenario fell below the Corporation's proposed $201 million lower threshold for the Basic Total Equity target capital range, which it adopted as the minimum regulatory capital requirement. The DCAT base scenario used by the Corporation is substantially identical to the Application's financial forecast, and therefore now adopts the Naïve interest rate forecast rather than the more optimistic 50/50 Forecast used in the prior DCAT.

7.3. Basic RSR / Total Equity Target History

The issue of the appropriate methodology and range for the Basic Total Equity has been the subject of considerable discussion in previous applications before the Board. This was again a topic of significant discussion in this Application.

In Order 135/14, the Board indicated its preference for setting Basic target capital levels based on scenario testing adapted from the annual Basic Dynamic Capital Adequacy Testing (DCAT) investigation. In Order 128/15, the Board directed that for fiscal 2015/16, the lower threshold for the Basic target capital range be set based on the 1-in-40-year Combined scenario. This would include routine management and regulatory actions over a two-year time horizon (calculated at $231 million by the Corporation). The Board also notionally approved the MCT at a ratio of 100% for the setting of the upper threshold; however, the Board withdrew its support for the MCT in Order 162/16, favouring a scenario-based approach for the setting of the upper threshold. The Board also directed that a Technical Conference be held on the issue of the DCAT methodology.

The Corporation reported on the results of the Technical Conference in the Application. A number of action items were created by the Corporation, based on its interpretation of the discussions at the Technical Conference, and among them, the Corporation reported on its position, as follows:

- The Corporation was in agreement that future iterations of the DCAT-based RSR target calculations should be based on the iterative process which was first described in the 2017 GRA;

- The Corporation provided modelling on a range of scenarios to support the upper RSR threshold and/or the appropriate RSR target range; and

- The Corporation continued to support the collaborative process employed with the Board's stakeholders, with a view to reaching a consensus on the methodology for the upper threshold.

Although the Corporation stated agreement with the use of an iterative process for target capital purposes, the scenario testing approach adopted by the Corporation in this Application was not consistent with the iterative process as reflected in MPI Exhibit #77 from the prior GRA, as discussed at the April 2017 Technical Conference. The Corporation based its estimates of the target capital range thresholds on scenario testing against the Application's "best estimate" financial forecast. However, the approach from the April 2017 Technical Conference uses iterative scenario testing against a modified financial forecast, designed to simulate the behaviour of Basic insurance were it operating at a level of capitalization over the forecast period approximately equivalent to the proposed threshold.

7.4. Lower Threshold for the Basic Target Capital Range

As indicated above, the Corporation's proposed lower threshold of $201 million was based on scenario testing adapted from the Basic DCAT to be sufficient to protect against Basic Total Equity falling below $0 at a 1-in-40-year (or 97.5th percentile) probability level under the Combined Scenario over a two-year time horizon and including routine management / regulatory actions.

The Corporation also provided alternative scenario testing based on an iterative modeling approach, which evolved from work required by Order 135/14. This alternative scenario testing indicated a lower threshold for the Basic Total Equity target capital range of $161 million to be sufficient to protect against Basic Total Equity falling below $0 at a 1-in-40-year (or 97.5th percentile) probability level under the Combined Scenario over a two-year time horizon and including routine management/regulatory actions.

7.5. Upper Threshold for the Basic Target Capital Range

The Corporation's proposed upper threshold of $438 million was based on an MCT ratio of 100% arising from the Basic DCAT. The Corporation supported the use of the MCT and the selection of a 100% target ratio as an objective and accepted industry standard, also used for Basic auto target capital purposes in Saskatchewan and British Columbia.

As a result of the collaborative process, the DCAT report also included information on the suitable methodology to determine an appropriate upper threshold for the RSR. The methodology was based on DCAT modeling of the expected variability of financial results over selected forecast periods and at selected probability levels. The Corporation proposed to model the target based on a 1-in-40-year scenario before routine management / regulatory actions over a three-year time horizon and testing to maintain Basic Total Equity above the Corporation's proposed lower threshold of $201 million. The outcome of that analysis was a proposed target capital range of $241 million, resulting in a maximum capital threshold of $442 million (the equivalent of the $201 million lower threshold plus $241 million). An upper threshold of $442 million would represent the equivalent of a 101% MCT ratio.

The projected regulatory target levels, based on the DCAT analysis conducted by the Corporation, as well as on a 100% MCT Basis, would be as follows:

Fiscal Year Beginning ($ millions)	**Minimum RSR**	**Maximum RSR**	**100% MCT**
2018/19	$201	$442	$438
2019/20	$219	$478	$475
2020/21	$232	$507	$503
2021/22	$239	$525	$521

The Corporation also provided alternative scenario testing utilizing the iterative approach referred to above with respect to different upper thresholds for the Basic Total Equity target capital range, based on testing to maintain Basic Total Equity above the level of the $161 million indicated lower threshold, and varying depending on the probability level selected and whether or not routine management / regulatory actions were included. As an example, the indicated upper threshold at the 1-in-40-year (97.5th percentile) probability level over a two-year time horizon ranged from $315 million before routine management / regulatory actions, down to $295 million including routine management / regulatory actions.

In support of its proposal to use the MCT and a threshold MCT ratio of 100%, the Corporation noted that it is an objective industry standard capital adequacy test that considers the risks facing Basic. As it is an industry standard, the MCT allows for the Corporation to be compared to other property and casualty insurers. Further, as the MCT is based on MPI's balance sheet, it is different than the scenario testing employed with the DCAT and diversity in approaches in setting RSR target ranges is preferable.

MPI provided the following reasons in support of the MCT ratio of 100%:

- At 100% MCT, capital available is equal to capital required, which is an appropriate target for Basic's circumstances;
- A 100% MCT ratio is supported by the DCAT analysis provided by MPI which indicated a similar capital requirement ($442 million); and
- There should not be any concern about moral hazard based on a 100% MCT ratio. Constraining capital levels is a "blunt instrument" not appropriate for addressing moral hazard concerns.

7.6. Interveners' Positions

CAC

Dr. Simpson and Ms. Sherry, witnesses for CAC, co-authored a report on the DCAT and the RSR target range, and Dr. Simpson provided testimony in that regard at the hearings. Dr. Simpson was not supportive of using the 100% MCT for the setting of the upper threshold, and was supportive of the DCAT scenario-based testing. With respect to the DCAT base scenario, he commented that a culmination of rising interest rates and premium rate increases in line with forecast inflation would produce significantly higher total equity for the base scenario in 2018/2019 and beyond. Higher total equity in the base scenario would significantly reduce the RSR lower and upper thresholds in the DCAT.

Dr. Simpson commented that the broader social interest must balance MPI's legitimate business interests in stabilizing rates with value to consumers. An overly large reserve affects ratepayers' opportunity to otherwise spend or invest. Based on DCAT modelling, the proposed upper threshold of $438 million would only be exhausted by a 1-in-2000 year event, or even greater, as the modelling did not identify any adverse scenario with management action that could exhaust such a reserve. Dr. Simpson noted that even the Red River Floodway was designed to protect against 1-in-700 year event, a substantially lower risk.

He recommended the DCAT analysis as the best vehicle to assess the risks facing the Corporation, and that it be used consistently and collaboratively to determine the lower and upper thresholds for the RSR. In his view, the appropriate methodology for setting the upper RSR threshold was based on the use of the DCAT in a comparable fashion to the methodology used to establish the lower threshold for the RSR, involving testing of at least 99th/99.5th percentile outcomes, and the use of the Naïve forecast in the DCAT should be replaced with at least the 50/50 forecast. Further, in Dr. Simpson's opinion, the DCAT base scenario should assume a 2% rate increase in 2019/20, 2020/21, and 2021/2022 as expected future costs and price inflation.

CAC did not support the use of the 100% MCT for the upper threshold for the RSR or the RSR range. CAC advocated that the DCAT is the correct tool to assess the risk of a draw-down of the RSR, and the appropriate threshold and range of the RSR must be determined in light of the harm it has been developed to address, which CAC characterized as rate shock related to uncontrollable and unforeseen events. As well, the threshold should take into account the risk tolerance of those whom it is designed to protect, taking into account their opportunity costs and its implications.

With respect to the MCT targets of SGI and ICBC, CAC noted that those targets were selected through a political process and not via an independent regulator.

CAC argued that, as a legislative monopoly, MPI is in a unique position in that ratepayers have no place to go in the event that the Corporation increases rates. Further, the Corporation's Extension line of business enjoys a *de facto* monopoly due to its administrative proximity to Basic when policies are being issued at the broker level. Accordingly, the Extension division benefits from the Basic line of business.

CAC recommended that MPI apply the RSR wider range using the DCAT technique based on plausible adverse scenarios as were recommended by Dr. Simpson for setting the upper RSR threshold. Based on Dr. Simpson's recommendations, the RSR range would be from $201 million to $310 million, based on a two year combined scenario. Further, the DCAT base scenario should assume a 2% rate increase in each of 2019/20, 2020/21, and 2021/22 as a reasonable assumption about expected future costs and price inflation. CAC was supportive of MPI continuing to calculate the MCT metric and comparing the metric to the DCAT ranges.

Lastly, CAC recommended that the Corporation develop RSR rebuild/rebate guidelines on the lower and upper RSR ranges and that they be brought forward for review in the next GRA, taking into account the overall health of the Corporation, including the level of reserves in the Extension and SRE lines of business.

CMMG

CMMG commented that there are millions of dollars held in Extension reserves that the Board is not permitted to scrutinize, notwithstanding that the Corporation is a monopoly and "piggy-backs" its Extension efforts on its Basic program. CMMG advocated for full transparency with respect to the Basic and Extension portfolios, with a view to minimizing basic RSR fluctuations by regular transfers from the Extension reserves.

In CMMG's view, the amounts sought by the Corporation for the RSR range are not required. CMMG referred to the purpose of the RSR being to protect against non-recurring events and factors and expressed the view that fluctuations in the stock market or in interest rates are all recurring factors, and therefore the risks associated with those fluctuations should not be taken into account in determining the appropriate RSR range.

CAA

CAA was supportive of the testimony put forward by Dr. Simpson and urged that there be some finality to the appropriate target capital levels, stressing that stable and predictable rates are what the Corporation should strive to achieve and uphold.

7.7. Board Findings

The Board considers the lower threshold for the Basic Total Equity target capital range to be significantly more important to the protection of the public interest than is the case for the upper threshold. The lower threshold mitigates the risk of insolvency and protects the interests of ratepayers, and in particular claimants. It ensures that Basic insurance is sufficiently capitalized to provide reasonable comfort that it will be able to meet its policyholder obligations. By contrast, the upper threshold mitigates the risk of prematurely triggering an RSR rebate. While RSR rebates are of general interest to Basic ratepayers, the public interest is best protected by setting an appropriate upper threshold to meet the risks of unforeseen events. This must be balanced against the opportunity cost created by Basic retaining capital that would otherwise be retained by Basic ratepayers.

With respect to the lower threshold, MPI's proposed approach in this Application is closely aligned with the approach adopted by the Board from the previous Application, reviewed in the Technical Conference in 2017 and adopted again in this Order. Both seek to protect against Basic Total Equity falling below $0 over a two-year time horizon at a 1-in-40-year (97.5th percentile) outcome level after routine management / regulatory actions. The key difference is in the modeling approach. The Corporation bases its estimate ($201 million) on scenario testing against the Application's "best estimate" financial forecast. The Board's approach has evolved from Order 135/14 and bases its estimate ($161 million) on iterative scenario testing against a modified financial forecast designed to simulate the behaviour of Basic insurance were it operating at a level of capitalization over the forecast period approximately equivalent to the proposed threshold.

The Corporation has noted its reservations about the iterative modeling approach, namely that creating the modified financial forecast requires significant transfers from its competitive lines that do not reflect best estimate expectations. The Board agrees that such transfers are not best estimate expectations, but rather sees these transfers as a theoretical means to an end, that "end" being the testing of Basic's resilience to adverse circumstances when operating at about the proposed threshold level.

Since the Board has decided to approve use of the 50/50 forecast of interest rates (rather than the Naïve forecast), the Board notes that the Application's lower threshold estimate of $201 million increases by approximately $16 million, to $217 million, based on the September 30, 2017 50/50 forecast. Accordingly, the Board has estimated the approved lower threshold for the Basic Total Equity target capital range as $180 million reflecting the $161 million iterative estimate plus the $16 million adjustment for changing to the 50/50 forecast, subject to rounding up.

With respect to considerations relating to the upper threshold, the Board understands the merits of the MCT for providing a relatively simple, convenient and objective metric of Basic's relative financial strength. Nevertheless, the Board continues to prefer to have the upper threshold determined in a like manner to the lower threshold, thereby directly reflecting Basic's risk profile through scenario testing substantially modeled from Basic's own experience.

Throughout these proceedings, the Board has come to appreciate the advantages of basing the modeling for the upper threshold on scenario testing against the risk of triggering an RSR rebuilding fee. In effect, this modeling approach tests the width of the Basic Total Equity target capital range. It has the added advantage of not requiring the modeling of events at exceptionally remote probability levels, as might be required when scenario testing against the risk of insolvency.

The Board has concluded that testing over the same time horizon as used for lower threshold purposes (two years) is appropriate, since this again provides a reasonable time frame for formation, proposal and approval of a non-routine management / regulatory response to the emerging adverse circumstances.

In reaching its conclusion, the Board balanced the public interest considerations noted earlier, and its assessment of the level beyond which it is no longer reasonable and appropriate for the Corporation to hold funds against possible adverse circumstances, instead of rebating these excess funds back to ratepayers. As indicated by Dr. Simpson, an overly conservative reserve affects ratepayers' opportunity to otherwise spend or invest. Moreover, alternative measures, such as extending rebuilding over fiscal years (as has been ordered in the past), can ameliorate the impact of rebuilding fees and the Corporation's concerns of rate shock. For the purposes of this Order, the Board has decided to align this choice with that used for lower threshold purposes, namely testing 1-in-40-year adverse outcomes against the risk of triggering an RSR rebuilding fee.

The Board has decided that scenario testing in support of determining the upper threshold should be after routine management / regulatory <u>rate change</u> actions (i.e., not including routine management / regulatory RSR rebuilding fee actions). The Board finds that it would be counter-productive to include routine RSR rebuilding fee actions when scenario testing against the risk of triggering an RSR rebuilding fee.

For clarification, the Board's use of the term "routine" in this context means historically "normal" actions (i.e., not exceptional), which could reasonably be expected to be taken in response to the emerging adverse circumstances being modeled, over and above any rate change or RSR rebate or RSR rebuilding fee that is included in the underlying base scenario financial forecast. The scenario testing provided by the Corporation did not align with the Board's request to include routine management / regulatory <u>rate change</u> actions. Accordingly, an approximation has been made to account for this in the Board's decision on the upper threshold. In future applications, the Board expects the Corporation to provide scenario testing consistent with this meaning of routine management / regulatory actions.

Based on these considerations, the Board has estimated the approved upper threshold for the Basic Total Equity target capital range as $325 million, comprised of $295 million to reflect iterative modeling of a 1-in-40-year scenario over a two-year time horizon after routine management / regulatory actions testing to maintain Basic Total Equity above the iterative $161 million lower threshold, plus the $16 million adjustment for changing to the September 2017 50/50 forecast as applied for lower threshold purposes, plus $11 million as an approximation to reverse the estimated impact of including a 2% RSR rebuilding fee as a routine management / regulatory action in 2019/20 (one-half of 2% of 2019/20 net written premium, reflecting the estimated earned portion of the assumed RSR rebuilding fee at the end of fiscal year 2019/20 as referenced in MPI Exhibit #44), subject to rounding up.

The Board notes that in the history of MPI, Total Equity supporting Basic RSR has only exceeded a threshold of $325 million once, as a result of an actuarial adjustment in the last quarter of fiscal year 2011. At that time, Total Equity exceeded $600 million which, of course, exceeds even the current request for an upper threshold at 100% MCT or $438 million and would have resulted in a rebate in any event.

As set out in past Orders, the Board has demonstrated a willingness to rebuild the total equity of the Corporation when necessary through premium surcharges. A multi-year RSR plan was last approved in 1995 to rebuild the Corporation's retained earnings for the Basic insurance plan, which at that time was in a deficit position of $49.9 million.

The Board has previously stated that, in principle, total equity should not be used to offset Basic premium increases which would be necessary to ensure that forecasted revenue is sufficient to cover forecasted costs in a particular year.

Lastly, the Board continues to hold the view, as it has expressed in the past that the Extension line of business should be regulated, given the Corporation's market position as a *de facto* monopoly provider of non-compulsory auto insurance in Manitoba. The evidence in this Application was that the Corporation has never held less than 95% of the Extension market since 2008. In the public hearings in this Application it became apparent to the Board that the process employed at the broker level for issuance and renewal of Basic insurance policies favours MPI policies over those of competitors, because the program used by brokers integrates Basic coverage with options for MPI-provided Extension coverage. The broker asks the customer a series of questions about the type and amount of insurance to be purchased. Basic (compulsory) insurance consists of third-party liability insurance of $200,000 and a $500 deductible. Any additional level of coverage selected by the ratepayer is optional. The broker receives a separate and higher commission for Extension coverage than for Basic coverage.

During the hearing the Corporation was asked what it would do with the Extension reserve if Basic was self-sufficient and the Extension reserve funds were not required to cover any shortfall. MPI counsel stated that Extension reserves are owned by the Government of Manitoba and the Government has the ability to determine what to do with the funds. In such an instance, rates paid by ratepayers could effectively be used to subsidize taxpayers.

In the case of Basic, regulation is a proxy for competition. In the absence of evidence that there is any real competition to Extension, it necessarily follows that there should be regulation of Extension. This is especially the case considering that the majority of operating costs are allocated to Basic, but the Board cannot analyze what proportion of expenses should be allocated to Basic versus Extension.

The Board recommends to the Government of Manitoba, therefore, that the Board's jurisdiction be extended to give to the Board the same powers over the Extension line of business as it has over

Basic pursuant to sections 25 to 27 of *The Crown Corporations Governance and Accountability Act*, C.C.S.M. c. C336.

The Board points out that it has a process to protect commercially sensitive information should the Corporation be concerned about disclosure of information through the review of the Extension line of business.

8.0 ROAD SAFETY

The Corporation acknowledges that it shares the Board's view that successful loss prevention and road safety strategies can minimize economic and social costs to ratepayers.

MPI is forecasting to spend $13.1 million in Basic Road Safety and Loss Prevention programs in 2018/19. The largest expenditure is Driver Education, including the High School Driver Education program at approximately $3.7 million, or 28% of the overall budget. Impaired Driving prevention strategies are the second largest expenditure, at $1.9 million, or 15% of the overall budget. Expenditures for Auto-Crime prevention strategies are $1.7 million, or 13% of the overall budget. The balance of the Road Safety expenditures is for Advertising and Sponsorships, Road Safety Programming, and RoadWatch.

For the year 2015, the Corporation reported there were 69 fatal collisions and 78 fatalities. There was a spike in fatalities and fatal collisions in 2016, with 96 fatal collisions and 107 fatalities. The Corporation attributed this to typical statistical fluctuations, commenting that preliminary data for 2017 show the number of fatalities returning to levels more in line with recent years.

The Corporation provided information on the progress of its Loss Prevention Strategy, and indicated that the Loss Prevention Dashboard Project was initiated with the identification of Phase 1 and Phase 2 development priorities. Loss prevention programs were grouped into three areas: Driver Safety Programs, Vehicular Programs and Loss Cost Reduction Programs. Data have been assembled from the Corporation's programs and transferred to a new visualization software tool, called "Tableau." Loss Prevention Dashboards are designed in Tableau and provide visual information about MPI programs, illustrating opportunities that may be shared with stakeholders to gain consensus on future direction for MPI's loss prevention programs. The next steps for the Corporation will be to commence work on the second phase of the Dashboard Project.

The Corporation also provided information on its continued stakeholder engagement on Loss Prevention. The Corporation is involved in two major stakeholder forums with respect to Loss Prevention: the Provincial Road Safety Committee; and the External Stakeholder Committee on Loss Prevention.

The Provincial Road Safety Committee is chaired by representatives from Manitoba Infrastructure and MPI. The purpose of the Road Safety Committee is to develop a strategic and holistic approach to road safety, facilitate the prioritization of road safety issues, promote greater cooperation and collaboration among stakeholders, and focus resources to maximize results. To date, the primary deliverable of the Road Safety Committee is the road safety plan for the Province of Manitoba, entitled *Road to Zero*, which was released just prior to the public hearings and filed in this Application.

The External Stakeholder Committee on Loss Prevention includes representatives from Manitoba Infrastructure, the City of Winnipeg, and many others, including representatives from all interveners in this Application. The Corporation advised that through the External Stakeholder Committee, it has consulted on 2017/2018 road safety priorities, provided information on new program concepts and detailed MPI's specific upcoming initiatives for the current fiscal year.

In Order 162/16, the Board directed the Corporation file a five-year strategic plan addressing all of its road safety programming. The Corporation did not file a five-year strategic plan, but instead filed its 2017-2020 Road Safety Operational Plan with the Board. This is a follow up to MPI's first Road Safety Operational Plan, which was filed in the 2015 GRA. The 2017-2020 Road Safety Operational Plan provides information on the Corporation's mandate, priorities, planning, and role in road safety, among other things. The road safety priorities for 2017/2018 identified by the Corporation included the top three priorities to change the behaviour of road users: distracted driving, speed and impaired driving. Other priorities within this category included intersection safety, occupant restraints, and vulnerable road users (VRUs).

With respect to distracted driving, the Corporation advised that in 2017/2018 it will apply a significant emphasis in its programming to develop a comprehensive renewed strategy to address this issue.

With respect to impaired driving, the Corporation advised of the results of a September 2016 survey that was conducted to gather data on the prevalence of drugs in Manitoba drivers as a key priority to inform drug impaired driving strategies in Manitoba. The survey had a sample size of 1,230 drivers. The drivers participated by providing voluntary breath and saliva samples, and completing a questionnaire on drug and alcohol use and driving. The results were as follows:

- 124 out of 1,230 drivers in the survey (10%) tested positive for drugs; and
- The majority of positive drug tests were for marijuana (53%), followed by cocaine (31%), opioids (12%), benzodiazepines (2%), and amphetamines/methamphetamines (2%).

The Corporation indicated that the survey results delivered a clear message that drugs are present in Manitoba drivers, giving reason for concern and lending support for targeted drug and driving awareness. The Corporation advised that it does not intend to do any further road side testing on the prevalence of drugs in Manitoba drivers until such time as the anticipated federal legislation legalizing recreational cannabis use has been in force. Accordingly, the Corporation does not intend to conduct any further surveys until 2019.

The Corporation's major effort to tackle the issue of drug impaired driving is the Drug Impaired Driving Communication Strategy, targeted at students in the High School Driver Education program, youth in general, parents of teen drivers, the medical community, and the general population. The Communications Strategy was rolled out in September of 2017.

The Corporation also advised that it launched a new technology in the spring of 2017 to address the issues of distracted driving, impaired driving, and speed. This is DRIVR-X Virtual Reality Experience. Through the use of virtual reality headsets, simulated vehicles, and sensor systems, the system allows participants to explore a virtual reality environment that requires them to make decisions about distracted driving, impaired driving, and speeding. There is a mobile version of the DRIVR-X experience which the Corporation advised it would incorporate into the High School Driver Education program, beginning in September 2017. In addition to schools, the DRIVR-X Virtual Reality Experience would also be made available at community events.

The Corporation advised of its efforts to address road safety in rural areas of Manitoba. MPI has implemented a new gravel road strategy which will include a new awareness campaign, increased training for students and new drivers, and enhanced enforcement on gravel roads intended to increase the perception of apprehension for traffic offences on gravel roads.

The Corporation also filed data dashboards in the Application on the effectiveness of the High School Driver Education Program (HSDE), which, according to MPI, confirmed that the HSDE Program results in better driver readiness, demonstrated through higher performance on testing and relatively lower claims and claims costs once high school drivers are on the road.

In Order 162/16, the Board directed the Corporation as follows:

- In the 2018 GRA, the Corporation clarify its stance on the use of Safe Systems Model or a Vision Zero target for collisions; and

- In the 2018 GRA, the Corporation provide information to the Board regarding its intention and/or efforts, if any, to employ consideration of social costs of collisions to set road safety programming priorities.

In this Application the Corporation advised that adoption of a Safe Systems Model and Vision Zero approach to road safety require jurisdictional support, which would be achieved through the Provincial Road Safety Committee, and advised that it fully supports the adoption of these approaches by the Provincial Road Safety Committee. It also expressed the view that the social costs of collisions are best addressed at a jurisdictional level, as they involve multiple other factors over which MPI does not have jurisdiction.

The Board also ordered in Order 162/16 the Corporation provide an estimate of the cost to the Corporation in providing full reimbursement, or reimbursement of 50%, of the cost of the Experienced Rider Program to those who complete the program. The program, targeted at motorcyclists, was created in 2013 in response to a request by the CMMG. The student fee is $279.00; accordingly, a 100% reimbursement subsidy by MPI would represent $279.00 per student. A 50% subsidy would amount to $139.50 per student. The Corporation advised that to date, the program has only generated enough interest to run on one occasion, with a total registration of nine individuals.

The Corporation also filed, in response to a directive in Order 162/16, an analysis of the road safety budgets of SGI and ICBC, their annual road safety budgets, and budget breakdown by initiative, as compared to MPI. SGI and ICBC differ significantly from the Corporation in their funding of infrastructure improvements. In Manitoba, road infrastructure spending is undertaken by the

Provincial government and municipal governments. The analysis demonstrated that in total, road safety programming, promotion and evaluation spending was approximately $5.7 million for MPI in 2015/2016, compared to $2.1 million for SGI in 2013, and $8.5 million for ICBC in 2015.

With respect to wildlife collision prevention, the Corporation advised that in 2016/2017 it expanded its wildlife collision awareness efforts by working with municipal and federal park authorities to install seasonal variable message signs along a selection of roadways known to have high concentrations of deer vehicle collisions in Manitoba. The Corporation indicated that this initiative would be extended in 2017/2018.

In Order 162/16, the Board directed the Corporation to do the following with respect to wildlife collision prevention:

- The Corporation further study the use of fencing to prevent wildlife collisions, including discussion with other jurisdictions that employ wildlife collision management plans, and in the 2018 GRA, provide a report on its further study of wildlife collision management plans; and

- The Corporation work with CMMG on a proposal for a pilot project involving the use of fencing in order to study its effectiveness in reducing wildlife collisions.

The Corporation responded that it has engaged directly with CMMG on the issue of further study on the use of fencing and has previously explained its position on this matter. With respect to a pilot project, the Corporation advised that it cannot spend financial resources on a pilot project that is a road infrastructure project and therefore outside its jurisdiction. Accordingly, the Corporation had indicated that until such time as it receives new instructions from the Province of Manitoba permitting it to fund road infrastructure, the Corporation would not be undertaking any such expenditures. Under the Board's rules, the Corporation should have filed a request for variance of the Board's Order with the prescribed time frame (30 days). The approach followed by the Corporation was not appropriate. The Corporation also refiled with the Board in this application, previous studies that it had undertaken on the issue of wildlife collision prevention.

8.1. Interveners' Positions

CAC

CAC commented that since 2013, MPI and the Province of Manitoba have taken steps to develop strategies in respect of road safety, and brought in a more evidence-based approach to road safety programming. CAC expressed that there remain concerns with respect to rural collisions and VRUs. It pointed out that of the 107 fatalities in 2016, 65.4% resulted from collisions in rural areas, and that a significant proportion of fatal collisions occur on gravel roads.

While CAC had positive comments on MPI's progress in road safety and loss prevention, it pointed out that there remain opportunities for improvement. For example, MPI could improve its data on loss prevention and there are opportunities for MPI to modernize the Fleet Rebate Program. Further, MPI was not able to advise as to whether there are any areas where it would look to greater police enforcement participation.

CAC recommended that MPI review the effectiveness of the Fleet Rebate Program. It also recommended that MPI add measurements to the *Road to Zero* road safety plan, involving stakeholders, and file an update in the 2019 GRA. CAC also supported the recommendation made by CAA, that MPI conduct regular roadside surveys regarding cannabis use.

CMMG

CMMG expressed disappointment in what it described as a flat budget for motorcycle safety initiatives. It stated that the Corporation is light on actual research, initiatives and results. CMMG also suggested that a subsidy for the Experienced Rider Program be taken up as a pilot project, to see if that would increase participation in the program. CMMG also expressed concern at the increase in fatalities in 2016, casting doubt on MPI's position that there is an overall downward trend in fatal collisions.

CAA

CAA indicated that while the External Stakeholder Committee on Loss Prevention provides a valuable platform for discussion of road safety issues, there should be a mechanism for members to provide feedback and recommended that a survey of members be conducted.

CAA also expressed that the Corporation has a large challenge ahead of it with respect to the legalization of the recreational use of cannabis, as well as with distracted driving. With respect to distracted driving, CAA was of the view that MPI should be spending more on initiatives to address distracted driving.

With respect to the legalization of cannabis, CAA proposed that MPI conduct regular roadside surveys ahead of July 1, 2018, aggregate the data, and draw a baseline average to use as a comparison after legalization.

CAA also expressed the hope that in the 2019 GRA, the Corporation advise on the successes and results in its use of social media tools to tackle road safety issues.

BW

BW commented that MPI has an important role to play in developing road safety and loss prevention programming that serves to control the number of collisions and the resulting costs, from a human toll and insurance cost perspective. In its view, there is a disconnect between the commentary from the Board, that social costs of collisions are to be addressed in the context of GRAs, and the Corporation's perspective in that regard.

BW expressed its regret that MPI is reluctant to assume a wider jurisdiction on road safety initiatives, stating that MPI is in a unique position to take on a larger role than it has historically. In that regard, BW referenced the Corporation's response on Order 162/16 with respect to a pilot project for wildlife fencing. BW argued that MPI in fact has the jurisdiction to undertake such initiatives, along with other infrastructure investments.

BW also expressed its concern with MPI's approach to tracking collisions and fatalities in "hot spots" involving VRUs. BW stated that MPI appears to take the position overall on road safety that when things are going well, it is due to MPI's efforts, but when there is a downward trend, MPI attributes it to randomness.

8.2. Board Findings

The Board acknowledges MPI's continued efforts to prevent collisions and accordingly, claims costs. The Board was pleased to receive the *Road to Zero* plan and has considered with interest the coordinated efforts among stakeholders in road safety to reduce collisions.

However, the Board notes with concern the increase in fatal collisions and fatalities in 2016. Although it appears that fatal collisions in 2017 have returned to more typical levels, a year such as 2016 is alarming.

The introduction of the data dashboards provided a useful visual complement to the road safety and loss prevention information provided in the Application, and the Board notes that the Corporation has made progress in implementing new measures for evaluating and planning road safety efforts. The Board expects that MPI will soon be facing a significant challenge with the advent of the legalization of the recreational use of cannabis.

While MPI continues to make progress on its road safety planning and programming, the Board would note its dismay in the failure of the Corporation to adequately respond to certain of the Board's directives in Order 162/16. In that regard, the Board notes that MPI did not comply, or did not adequately comply with:

- The Board's directive for MPI to file a five-year strategic plan addressing all of its road safety programming; or

- The Board's directives with respect to wildlife collision prevention: to study the use of fencing and provide a report in this Application, and to work with CMMG on a proposal for a pilot project on the use of fencing.

The Board remains of the view that the Corporation can do more on the issue of wildlife collision prevention and again directs that MPI enter into discussions with CMMG regarding a proposal for a pilot program for wildlife collision prevention initiatives. The Board will expect to be advised of the discussions as they develop.

As is clear from the significant amount of evidence filed and input from interveners in this and previous applications, road safety and loss prevention is a complex, multi-faceted area involving multiple stakeholders, with challenging emerging issues such as drug-impaired driving and distracted driving. Given this complexity, the Board finds that, for the purposes of future GRAs, road safety and loss prevention would be best addressed by devoting a Technical Conference to the many issues involved in reviewing road safety and loss prevention. Further, as the legalization of the recreational use of cannabis is scheduled for July, 2018, following the anticipated filing of the next GRA, the Board expects that the Technical Conference will take place in early 2019, so that the information generated from the Technical Conference can be filed in the 2020 GRA. As such, the issue of road safety will not need to be reviewed in the same level of detail in the 2019 GRA as it was in this GRA.

Accordingly, the Board orders that a Technical Conference on road safety and loss prevention be held in early 2019, which shall be initiated by the Board but on dates that are mutually agreed to between the Board and MPI. Included within the Technical Conference will be the following:

- Progress on the implementation of the Loss Prevention Strategy and Framework;
- Reports on the activities of the External Stakeholder Committee on Loss Prevention and the Provincial Road Safety Committee;
- Progress on the 2017-2020 Road Safety Operational Plan;
- Progress on the Provincial Road Safety Plan - *Road to Zero*;
- Reports on MPI's priorities for road safety and loss prevention;
- Reports on the success of the Drug Impaired Driving Communication Strategy and any other efforts undertaken by MPI to address drug-impaired driving;

- Reports on MPI's efforts to address speed and distracted driving;

- Progress on the High School Driver Education Program Redevelopment;

- An update on MPI's rural road strategy;

- A discussion / review of the incorporation of the social costs of collisions in MPI's road safety efforts;

- An effort to obtain feedback from members of the External Stakeholder Committee on Loss Prevention on the effectiveness of that committee; and

- A jurisdictional scan conducted by the Corporation of road safety measures, including wildlife collision prevention initiatives.

In addition to the interveners in this Application, the Technical Conference would benefit from the involvement of the membership of the Provincial Road Safety Committee and the Board intends to invite those members to participate in the conference. The Board expects that addressing road safety and loss prevention matters in this venue will invite productive discussion and collaboration such that significant progress in that regard will be demonstrated in the 2020 General Rate Application.

9.0 PRESENTERS

The Board heard from a series of presenters at the hearing of the Application. The presenters are not sworn witnesses and were not cross-examined. As such, although the content of the presentations is not evidence, the Board, MPI and the interveners received the information presented for consideration only. As always, MPI will respond to each presenter in writing, with respect to the presentation made to the Board and file a copy of the response with the Board

Ian Pfeiffer

Mr. Pfeiffer presented on the issue of registration fees charged upon renewal of his insurance policies. He indicated that he has a number of vehicles and noted that he was charged a registration fee of $154 on a "regular vehicle." For trailers, he has paid registration fees of $92 and $84. In total, he has paid $715 in registration fees in one year. He advised of his efforts to determine the purpose of these fees, which are collected by MPI. He learned that the registration fees are passed through to the Minister of Infrastructure and Transportation. This was of concern to Mr. Pfeiffer.

Robyn Grey

Mr. Grey advised that he has been in the motorcycle business for over 50 years, owning and running three motorcycle shops for 28 years. He started the Coalition of Manitoba Motorcycle Groups (CMMG) 25 years ago.

He noted that he had appeared as a presenter in the 2017 GRA and raised the issue of how motorcyclists are compensated in the event of a total write-off where the motorcycle had extra parts and labour, such as a custom paint job. MPI had been advised by the Board to answer Mr. Grey's questions in that regard and he appeared again in response to the information he had received.

Mr. Grey expressed concern with the response he had received. In particular, Mr. Grey took issue with the principle of indemnity and how it is applied in the event of a total loss of a motorcycle. He raised an issue of a specific claim of which he has aware in which, in his view, the policyholder had not been fully indemnified for his loss on an actual cash value basis.

In addition, Mr. Grey expressed concern with the manner in which brokers sell policies of insurance to policyholders with "extras" on their motorcycles. All the policyholder is asked is for the declared value of the motorcycle and the policyholder may not appreciate that they will only be indemnified for the actual cash value of the motorcycle at the time of the loss.

Mr. Grey encouraged the Board to require that MPI implement a policy so that motorcyclists be assured that they are insured for an appropriate amount in the event of a total loss.

Andrew Chimko

Mr. Chimko made a written presentation, which was read into the record at the public hearings. Mr. Chimko commented that the general rate increase is subject to approval by the Board, but that there is what he described as a "unregulated increase" that applies to new vehicles. As the vehicle population is replaced by newer vehicles, average insurance rates increase even if the Board approves no general rate increases. After ten to 15 years, rates for the total population of vehicles doubles even if the Board orders no increases.

Mr. Chimko also expressed that the Board PUB must review and limit the "rainy day fund" maintained by MPI. He described it as a "form of abuse" of the ratepaying public.

Public Comments

In addition to in-person presentations, for the first time, the Board received written comments from members of the public on its website. Those comments that were received by the outset of the public hearings were anonymized and filed as an Exhibit in the public hearings.

10.0 IT IS THEREFORE RECOMMENDED THAT:

10.1. That the Board's jurisdiction be extended to give to the Board the same powers over the Extension line of business as it has over Basic pursuant to section 25 of The Crown Corporations Governance and Accountability Act, C.C.S.M. c. C336.

11.0 IT IS THEREFORE ORDERED THAT:

11.1. There shall be an overall 2.6% rate increase in compulsory Motor Vehicle Premiums for 2017/18 insurance year, effective March 1, 2018 for all major classes combined, which rate increase BE AND HEREBY IS APPROVED. This rate increase is as derived by the Corporation in accordance with accepted actuarial practice, based on a 50/50 interest rate forecast taking into account interest rates as at September 30, 2017, and using an estimated new money rate for cash flow discounting purposes.

11.2. The Corporation shall file for approval by the Board, within five business days from the date of this Order, a table of indicated rate changes and approved rate changes (i.e., after capping and rebalancing) by Major Class (and overall) reflecting the approved overall 2.6% rate increase.

11.3. There shall be an overall rate increase of 1.8% in driver premiums through the demerit side of the Driver Safety Rating program, which rate increase BE AND HEREBY IS APPROVED.

11.4. MPI's requests that there be no change in Permit and Certificate rates, Vehicle Premium Discounts, Service and Transaction Fees, Fleet Rebates or Surcharges, or the discount on approved after-market and manufacturer/dealer installed anti-theft devices BE AND HEREBY ARE APPROVED.

11.5. There shall be a Technical Conference, facilitated by the Board at a mutually convenient time and in sufficient time to allow any findings from the Technical Conference to be fully reflected in the 2019 GRA, which shall seek a consensus approach to estimating a Capital Maintenance Provision, as well as seeking consensus on the following matters relating to the interpretation of rate setting in accordance with Accepted Actuarial Practice in Canada:

- Basing the cash flow discount rate assumption on the expected new money rate averaged over the full proposed rating year rather than as at the start of that rating year;
- Segregating the pension liabilities and the related supporting investment assets from the determination of the cash flow discount rate and the expected return on investment assets supporting Basic Total Equity; and

- Improving recognition of investment fees in the determination of the cash flow discount rate and the expected return on investment assets supporting Basic Total Equity.

11.6. The Corporation shall file the results of its Service Fees review in the 2019 GRA.

11.7. There shall be a Technical Conference, facilitated by the Board, on the availability and practicality of other analytical tools and ratemaking methodologies to better determine DSR rates and vehicle premium discounts based on principal driver rating rather than simply registered driver rating. The date of the Technical Conference is to be mutually agreed upon as between the Board and MPI, but shall be sufficiently early such that the information shared in the Technical Conference will be included in the 2019 GRA.

11.8. In the 2019 GRA, the Corporation shall file proposed driver premium rates that are more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale.

11.9. In the 2021 GRA, the Corporation shall file proposed vehicle premium discounts that are actuarially indicated based on principal driver performance evaluation.

11.10. In the 2019 GRA, MPI shall report back on its efforts to seek insight on longer tail experience from other jurisdictions, and in particular from the Société de l'assurance automobile du Québec.

11.11. The Corporation shall file its new IT Strategic Plan with the Board forthwith following its approval by the MPI Board of Directors.

11.12. In the 2019 GRA, the Corporation shall file a detailed breakdown of its analysis on the costs to operate and maintain the PDR program.

11.13. In the 2019 GRA, the Corporation shall file an update, prepared by Gartner, to its 2017 PDR Program Evaluation.

11.14. In the 2019 GRA, the Corporation shall file a cost/benefit analysis of the five remaining projects to be completed as part of the PDR program, should no such cost/benefit analyses form part of the new IT Strategic Plan. The discount rate used in the cost/benefit analysis shall be higher than the 3% previously used in the PDR project cost benefit evaluation. The Corporation shall select and justify the use of an appropriate discount rate commensurate with the risks inherent in the project.

11.15. In the 2019 GRA, the Corporation shall file a business case and a cost/benefit analysis for the IT Modernization project, specific to the AOL and CARS redevelopment or replacement.

11.16. The Corporation shall file the Mercer Canada Asset Liability Management study with the Board concurrently with its delivery to the MPI Board of Directors.

11.17. The Corporation shall require Mercer Canada to update the Asset Liability Management Study as necessary in order to take into account the directives issued in this Order, to add an analysis of the bucket matching approach similar to that used by Saskatchewan Auto Fund, and to take into account each of the 18 recommendations made by Mr. Viola in the 2017 GRA, which are set out in Appendix E to Order 162/16.

11.18. A Technical Conference shall be held on the Mercer Canada Asset Liability Management study, at a date to be mutually agreed upon as between the Board and MPI, but shall be sufficiently early such that the information shared in the Technical Conference will be included in the 2019 GRA.

11.19. The 50/50 interest rate forecast shall be used for rate-setting and target capital purposes.

11.20. For fiscal year 2017/18, the lower threshold for the Basic Total Equity will be $180 million, based on the iterative modelling approach over a two-year time horizon at a 1-in-40-year (97.5th percentile) outcome level after routine management / regulatory actions BE AND IS HEREBY APPROVED.

11.21. For fiscal year 2017/18, the upper threshold for Basic Total Equity will be $325 million, based on the iterative modeling of a 1-in-40-year scenario over a two-year time horizon after routine management / regulatory actions BE AND IS HEREBY APPROVED.

11.22. MPI shall enter into discussions with CMMG regarding a proposal for a pilot program for wildlife collision prevention initiatives and shall advise the Board of the discussions as they develop.

11.23. A Technical Conference shall be held on road safety and loss prevention in early 2019, which shall be initiated by the Board but on such dates as are mutually agreed as between the Board and MPI. Included within the Technical Conference shall be the following:

- Progress on the implementation of the Loss Prevention Strategy and Framework;
- Reports on the activities of the External Stakeholder Committee on Loss Prevention and the Provincial Road Safety Committee;
- Progress on the 2017-2020 Road Safety Operational Plan;
- Progress on the Provincial Road Safety Plan - Road to Zero;
- Reports on MPI's priorities for road safety and loss prevention;
- Reports on the success of the Drug Impaired Driving Communication Strategy and any other efforts undertaken by MPI to address drug-impaired driving;
- Reports on MPI's efforts to address speed and distracted driving;
- Progress on the High School Driver Education Program Redevelopment;
- An update on MPI's rural road strategy;
- A discussion / review of the incorporation of the social costs of collisions in MPI's road safety efforts;
- An effort to obtain feedback from members of the External Stakeholder Committee on Loss Prevention on the effectiveness of that committee; and

- A jurisdictional scan conducted by the Corporation of road safety measures, including wildlife collision prevention initiatives.

11.24. On or before April 1, 2018 the Corporation shall file with the Board an update on the status of its compliance with all directives in this Order.

It is of great concern to the Board that the Corporation chose to not fully comply with a significant proportion of the directives in Order 162/16. When the Board issues directives the Corporation may choose to file a request for variance or seek leave to appeal from the Manitoba Court of Appeal. The Corporation may not simply refuse or fail to comply with the directive. For the benefit of future GRAs, the Board would remind the Corporation that the Board retains the jurisdiction to impose financial penalties, and/or stay any future applications, in the event that the Corporation does not fully comply with all or part of a Board order.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure. The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Robert Gabor, Q.C."
Chair

"Darren Christle, MPA, B.A., CCLP, P.Log, MCIT"
Secretary

Certified a true copy of Order No. 130/17 issued by The Public Utilities Board

Secretary

Appendix A

Glossary of Acronyms and Terms

Application	2018 General Rate Application
AOCI	Accumulated Other Comprehensive Income
Basic	Compulsory motor vehicle insurance
Board	Public Utilities Board
BW	Bike Winnipeg
CAA	Canadian Automobile Association
CAC	Consumers' Association of Canada (Manitoba) Inc.
CLEAR	Canadian Loss Experience Automobile Rating
CMMG	Coalition of Manitoba Motorcycle Groups
Corporation	Manitoba Public Insurance Corporation
DART	Driving Ahead in Real Time
DCAT	Dynamic Capital Adequacy Testing
DSR	Driver Safety Rating
Extension	Optional motor vehicle insurance
FTE	Full-Time Equivalent
Government	Government of Manitoba
GRA	General Rate Application
HRMS	Human Resource Management System

HTA	Highway Traffic Act
ICWG	Investment Committee Working Group (MPI)
IT	Information Technology
MGEU	Manitoba Government Employees' Union
Monopoly	Policies that can only be sold by one corporation (MPI)
MPI	Manitoba Public Insurance Corporation
Naïve Forecast	Interest rate forecast reflecting no change in interest rates from current levels
No-fault	Accident benefits not related to the fault of the driver
PDR	Physical Damage Re-engineering
PIPP	Personal Injury Protection Plan
Province	Government of Manitoba
RoadWatch	MPI Initiative to target impaired driving through deterrence and detection including the use of enhanced enforcement
RSR	Rate Stabilization Reserve
SIRF	MPI's Standard Interest Rate Forecast
SRE	Optional Special Risk Extension motor vehicle insurance

Appendix B

Appearances

K. McCandless / R. Watchman	Counsel for the Public Utilities Board (“the Board”)
M. Ghikas / S. Scarfone	Counsel for Manitoba Public Insurance Corporation (“the Corporation”)
B. Williams / K. Dilay	Counsel for the Consumers’ Association of Canada (Manitoba) Inc. (“CAC”)
R. P. Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups (“CMMG”)
E. Miller	Canadian Automobile Association (Manitoba Division) (“CAA”)
C. Monnin	Bike Winnipeg ("BW")

Appendix C

Witnesses

Witnesses for the Corporation

L. Johnston	Chief Actuary and Executive Director of Pricing and Economics
P. Yien	Acting Vice-President Finance and Chief Financial Officer
W. Keith	Vice-President, Business Development & Communications and Chief Product Officer
M. Geffen	Vice President, Gartner Consulting

Witnesses for CAC

Dr. W. Simpson	Professor of Economics, University of Manitoba
A. Sherry	Actuary

Witnesses called by the Board

G. Steski	Assistant Deputy Minister, Government of Manitoba Department of Finance, Treasury Division

Appendix D

Interveners

Canadian Automobile Association (“CAA”)

Coalition of Manitoba Motorcycle Groups Inc. (“CMMG”)

Consumers’ Association of Canada (Manitoba) Inc. (“CAC”)

Bike Winnipeg ("BW")

In-person Presenters

I. Pfeiffer	Private Citizen
R. Grey	Private Citizen
A. Chimko	Private Citizen