

**Order No. 1/21**

**MANITOBA PUBLIC INSURANCE (MPI OR THE CORPORATION):  
COMPULSORY 2021/2022 DRIVER AND VEHICLE INSURANCE PREMIUMS  
AND OTHER MATTERS**

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**January 5, 2021**

**BEFORE:** Irene A. Hamilton, Q.C., Panel Chair  
Robert Gabor, Q.C., Chair  
Carol Hainsworth, Member

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## 1.0 Executive Summary

In Summary Order 146/20, dated December 16, 2020, the Public Utilities Board (Board or PUB) ordered an overall 8.8% rate decrease to Basic compulsory motor vehicle premiums (Basic or Basic Insurance) for the 2020/21 insurance year, effective April 1, 2021, for all major classes combined, and no changes in permit and certificate rates, the Driver Safety Rating System, vehicle premium discounts, service and transaction fees, or fleet rebates or surcharges. By this Order, the Board provides its reasons for the 8.8% rate decrease and addresses all other issues raised in the 2021 General Rate Application (GRA).

The Board's order for a rate decrease of 8.8% results from the Board's approval of rates calculated in accordance with Accepted Actuarial Practice in Canada (AAP) based on a Naïve interest rate forecast, taking into account actual interest rates as at August 31, 2020, and is comprised of the following:

- a 3.0% decrease resulting from changes to the *Automobile Insurance Coverage Regulation*, M.R. 290/88R;
- a 0.8% decrease in the break-even cost of Basic vehicle premiums; and
- a 5.0% capital release, in accordance with the Capital Management Plan (CMP) approved by the Board in Order 176/19.

The Board notes that, as above, 3.0% of the rate decrease is attributable to changes to Basic program design. Accordingly, that 3.0% is not a rate decrease in the typical sense, because the costs of coverage have been shifted in part from Basic premiums to Extension.

The Board's order for a decrease of 8.8% does not mean that rates for all motorists within each major vehicle class decrease by that amount. Rates paid by individual policyholders within each Major class are determined by their driving record and actual

claims experience, 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. As a result, some individuals will experience increases in insurance rates, and others will experience decreases.

### **Vehicles For Hire**

In Order 146/20, the Board's Summary Order on rates, the Board ordered a rate increase of 20% from current rates for the Passenger Vehicle For Hire (VFH) category, along with consecutive rate increases of 20% for the Passenger VFH Major class in the 2022/2023 and 2023/2024 GRAs, subject to the Board's ability to vary such increases based upon the experience filed within those GRAs and as the Passenger VFH rates approach actuarially indicated break-even rates. In this Order, the Board has provided its reasons for the rate increase.

The Board is satisfied that it is just and reasonable to increase Passenger VFH rates. Within the Passenger VFH Major Class, as of July 1, 2020, approximately 80% of policyholders purchased all four time bands, demonstrating that they are not simply operating on an occasional basis, but rather, are available full-time similar to taxicabs. As such, it is clear that Passenger VFH competes with Taxi VFH.

The Board is satisfied that the likelihood of cross-subsidization of the Passenger VFH Major class by other Basic customers is sufficiently high to warrant a significant increase in rates. The Corporation's plan to allow current Passenger VFH rates to approach actuarially indicated break-even rates within the approved rate making methodology over time will simply take too long.

The Board is further concerned that, due to the significant impact of COVID-19, the data for the current insurance year and perhaps the 2021/22 insurance year may not be of assistance in setting rates in the future, which will prolong this discrepancy.

Although the Board has determined that a significant increase in Passenger VFH rates is warranted, it is not persuaded that it should exceed the overall rate increase cap of plus or minus 20% established in Board Order 148/04. For this reason the Board has ordered that rates for the Passenger Vehicle VFH Major Class be increased by 20% for the 2021/2022 insurance year. There shall be corresponding rate increases in the next two GRAs, unless MPI can demonstrate that the Passenger VFH Major Class is no longer being subsidized.

MPI reported that it is undertaking a VFH framework review, and the Board has directed MPI to address a number of issues within that review and file a report on the review in the 2022 GRA.

The Board has also directed that a Technical Conference on VFH take place and a report concerning the technical conference be filed before the 2022 GRA. The Board expects that with the VFH framework and the Technical Conference, it will undertake a more detailed analysis of the VFH class in the 2022 GRA.

### **Interest Rate Forecast**

The adoption of the Naïve interest rate forecast, which assumes no changes to interest rates, reduces the complexity of interest rate forecasting. Using rate indications derived in accordance with Accepted Actuarial Practice (AAP) has shortened the length of the forecast. Notwithstanding this, uncertainty remains with respect to interest rate forecasting. To mitigate this uncertainty, in prior GRAs, the Board routinely requested the Corporation to provide an update to its rate indications to reflect market interest rates at the end of September, shortly prior to the commencement of the public hearings.

In the 2020 GRA, the Board accepted a new approach proposed by the Corporation. The Application and the public notice were based on a provisional rate request derived in the usual manner by the Corporation, but stated that the Corporation would be updating its rate indication following September 30, 2019, based on market interest rates as at that date.

In this GRA, MPI continued with this process in the Application filed on June 17, 2020, which contained a provisional rate indication of 10.5%, to be updated to a final rate indication based on market interest rates and actual financial results, as at August 31, 2020. In its Procedural Order, the Board gave directions to MPI in which it required MPI to file certain information in support of its final rate indication.

The Corporation filed its final rate indication on October 9, 2020, for rate decrease of 8.8%. The change in the rate decrease from June 17, 2020 to October 9, 2020, resulted from a change in the AAP indicated rate from -1.7% to -0.8%. The final rate indication continued to include a 3% reduction resulting from changes to the *Automobile Insurance Coverage Regulation*, M.R. 290/88R and a 5% capital release under the CMP.

The Board's approval of the use of the Naïve interest rate forecast is consistent with its position taken in Order 176/19 as well as Order 159/18. The Board finds that the volatility in market interest rates and the uncertainty in forecasting their movement are self-evident. The Board acknowledges that Basic insurance operations are less sensitive to interest rate movements because of the recent ALM initiatives, and that the use of AAP ratemaking has reduced interest rate forecasting risk by shortening the length of the interest rate forecast needed in the derivation of rate indications.

### **Capital Management Plan and Rate Stabilization Reserve**

In prior GRAs, the Board has deliberated on and ordered the appropriate level of and methodology for setting MPI's Basic Rate Stabilization Reserve (Basic RSR) and Total Equity 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.

In the 2020 GRA, prior to the filing of that application, the Government of Manitoba enacted the *Reserves Regulation*, M.R. 76/2019 (the Regulation), which set out the manner of determining the amount to be maintained by the Corporation in its reserves



for the Basic, Extension and Special Risk Extension lines of business for the purposes of *The Manitoba Public Insurance Corporation Act*. The Regulation also restricted the use of any surplus reserve funds in the Basic RSR, requiring that any amounts in excess of the amount required by the Regulation be used only for the purpose of reducing the Basic rate indication in a subsequent year. The effect of the Regulation was to set the Basic RSR at a minimum level of the amount determined using a Minimum Capital Test (MCT) ratio of 100%, rather than having the Basic RSR set by the Board through the GRA process. Upon hearing a motion filed by Consumers' Association of Canada (Manitoba) Inc., in Order 176/19, the Board found that the Regulation was invalid and therefore not binding on the Board for the purposes of setting Basic's target capital level, or in its assessment of the merits of the CMP. The Board found, however, that the CMP and the proposed Basic target capital level reflecting a 100% MCT ratio were just and reasonable in the circumstances and approved the Corporation's CMP for a two-year trial period, allowing the Board to fully assess the performance of the CMP and the Basic target capital level.

Following the conclusion of the public hearings and the issuance of this Order, MPI filed Special Rebate Application II (SRA II) with the Board. Contrary to the position MPI took in this Application, in SRA II it sought an order to issue to ratepayers a percentage of their Basic premiums earned between March 16, 2020 and November 21, 2020, for all vehicle classes, through a special rebate, in an amount equal to the approximate sum of \$69 million, by December 23, 2020 or as soon thereafter as reasonably practicable. The Board approved the rebate in Order 145/20, issued on December 14, 2020.

Accordingly, to the extent that MPI and Interveners raised the issue of the appropriateness of a rebate in the context of this Application, the Board finds that that issue is largely moot. That said, the CMP as approved by the Board in Order 176/19 did not contemplate the issuance of rebates. In Special Rebate Applications I and II, MPI was required to seek a review and variance of prior Board orders, in part, so it could issue rebates. It was the exceptional COVID-19 pandemic and the resulting excess capital that

justified a deviation from the CMP in those applications, but the Board does not anticipate that this will be an ongoing feature of the CMP and indeed, if that were to be the case, an amendment to the CMP would be required.

The Board accepts the Corporation's proposed 5% Capital Release provision, in line with the provisions of the CMP. The Board will continue to assess the performance of the CMP and the Basic target capital level over the trial period, after which the Board will undertake a detailed review of the CMP. The Board has directed that in the 2022 GRA, MPI file material to assist in its review of the CMP. This shall include an analysis supporting the level of the Basic target capital level (100% MCT) or the use of a single target capital level (vs. a range) to promote rate stability, consistent with the purpose of the RSR. Should the Board revert to a scenario-driven Basic target capital range or level (which the latest evidence from the 2019 GRA suggests is below 100% MCT), the Board acknowledges the practical impact of the current decision on the Basic target capital level would be to defer the otherwise appropriate Capital Release, given the current level of the Basic MCT ratio.

The CMP contains a commitment from MPI to transfer Extension retained earnings over 200% MCT to Basic. The evidence in this Application shows that MPI did not follow this commitment in the past year and instead issued a rebate to ratepayers. MPI also gave evidence in the public hearings indicating that while there were no current plans to do so, it is possible that Extension retained earnings could be used for purposes other than transfers to Basic during the fiscal year. It is of concern to the Board that within the first year of this two-year trial period MPI has already departed from its commitment to Extension transfers and is acknowledging the possibility this could happen again.

### **Driver Safety Rating**

In the 2018 GRA, the Corporation applied for an increase to the premiums on the demerit side of the Driver Safety Rating (DSR) system. The Board approved the Corporation's application in that regard, however it directed the Corporation to undertake further work

toward the implementation of more actuarially sound DSR premiums and vehicle premium discounts. In the 2020 GRA, the Corporation provided an update on its public consultation efforts and analysis of the cost of data collection for alternative rating models. In Order 176/19, the Board directed that in this GRA the Corporation provide its analysis of pricing, including the financial impact on premium revenue and the cost of modifying the system, and that MPI provide an update on which vehicle premium discount model it intends to implement. The Corporation applied to vary the latter directive, and in Order 6/20 the Board granted MPI's application. As a result, in this GRA, rather than reporting on which model it intends to implement, MPI was required to provide information as to the timeline and major milestones for a change to the DSR system. MPI also filed a pricing examination of its current DSR model.

Since the 2018 GRA, the Board has expressed concern with the evidence that the DSR scale does not accurately reflect risk. In Order 130/17, the Board approved an increase to rates on the demerit side of the DSR scale, however it made clear that MPI should strengthen its analytical tools in the determination of driver premiums.

The pricing examination in this Application confirmed that further refinement is required in order for rates to accurately reflect risk. In addition, using the Registered Owner rather than Primary Driver DSR model means that good drivers who are registered owners of vehicles are subsidizing bad drivers who are not. Given the history outlined above, the Board finds that sufficient time and examination has taken place in order for MPI to move towards more actuarially sound driver premiums and vehicle premium discounts by the 2022 GRA.

Further, given the evidence that the Primary Driver model would more accurately reflect risk, in the 2022 GRA the Corporation must bring forward a plan, including timelines, major milestones and implementation date, for any changes to the DSR model, including a date by which MPI file an application for any such changes with the Board. The timeline for MPI's major Information Technology initiative, Project Nova, requires that MPI move forward on DSR changes without delay. The Board has also directed that in the 2022

GRA, the Corporation shall file proposed driver premium rates and vehicle premium discounts that are more statistically consistent with the estimated claims cost per driver for each level of the DSR scale, including incorporating DSR into its minimum bias analysis used to set rating relativities.

## **Expenses**

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.

In this GRA the Board reviewed MPI's expenses against the backdrop of the COVID-19 pandemic. It appears that the Corporation has been prudent in its efforts to contain costs. However, the significant savings experienced in fiscal year 2020/21 to date have been due in large part to the impact of the pandemic, evidenced not only by the financial results reported in this Application but also by SRA I filed in April 2020, and SRA II filed shortly after the conclusion of the public hearings in this Application.

Therefore, fiscal year 2020/21 can be seen as unique and there may be little benefit to comparing its expenses to any other year. The Board will again review MPI's financial results in the 2022 GRA, by which time there may be a return to relative normalcy.

With respect to Information Technology expenses, the Board intends to engage in a detailed review of Project Nova, MPI's major initiative, in the 2022 GRA. In the public hearing, the Corporation advised that it intended to undertake a re-baseline of the project after the conclusion of the hearing. This deprived the Board of the ability to assess crucial factors, such as the updated project budget and contingency. The increased project costs of \$22.6 million to date are of concern to the Board.

Due to the timing of the re-baseline, understanding how MPI will respond and manage risks of Project Nova going forward is unknown. Project Nova is a significant undertaking, with many moving parts and the Board is concerned about MPI's progress to date. While

reliance on an external governance vendor to monitor and advise on project execution will assist with responding and continual planning, it is clear that Project Nova remains the most significant, costly, ambitious, and risky initiative that MPI has undertaken.

The Board therefore has directed MPI to file the results of the Project Nova re-baseline and will consider whether it would be appropriate to direct a Technical Conference on Project Nova following receipt of the re-baseline information.

The Board finds that Project Nova should be classified as a high-risk and reflect that level of risk in its business case. A contingency of 25% in the project budget is not reflective of medium risk. MPI should be able to identify the factors to be considered in determining when and to what extent the contingency will be applied, and has directed MPI to file this information in the 2022 GRA. The Board has also directed that in the 2022 GRA, MPI file:

- An update on Hybrid Agile benchmarks and metrics, with an explanation as to how they will be used for Project Nova; and
- A report on the number, duration and cost of Agile sprints undertaken or yet to be undertaken for Project Nova to the initiative delivery.

With respect to benchmarking, the Board accepts that COVID-19 has had an impact on MPI's efforts to complete its Crown benchmarking exercise. The Board views benchmarking as essential and undertaken as a matter of course in well-run corporations, and expects MPI to continue to assess its performance against its peers insofar as is possible. Accordingly, while the reason for the delay is understood, the Board directs MPI to file the Crown benchmarking report in the 2022 GRA.

The Board recognizes the impact that COVID-19 has had on many, if not all, aspects of MPI's operations. The Board is supportive of the efforts undertaken by MPI on Enterprise Risk Management and notes that it was able to respond in a nimble fashion to the challenges caused by the pandemic.

## Investments

The Board recognizes that its role is one of oversight and does not extend to directing the Corporation on the particulars of its portfolio management. In recent prior GRAs the Board has engaged in a detailed review of the Corporation's investments. This was in the context of MPI having undertaken, and beginning to implement, a new investment strategy informed by an Asset Liability Management (ALM) Study. In this GRA, given the rigorous examinations that had taken place in recent applications the Board did not find it necessary to undertake an in-depth review.

In Order 159/18, the Board found that MPI had selected from a range of reasonable options for its portfolios resulting from the ALM Study, and continues to find this to be the case. The composition of the Basic Claims portfolio has served to mitigate interest rate risk. The Board recognizes the particular sensitivity of the Motorcycle class to changes in long-term interest rates. It is the Board's understanding that MPI intends to consider the use of interest rates at points on the yield curve corresponding to the duration of the liabilities in the determination of the rate indication for each Major Use Class in the 2022 GRA. This is a change that MPI expects will benefit the Motorcycle class.

MPI's investment portfolio experienced the impacts of COVID-19 over the past year, as seen in a significant write-down of \$67.7 million taken at the Corporate level, which included a \$54.4 million reduction in equities. The Board notes that this write-down was taken in accordance with the Corporation's Investment Policy, and that by the time of the public hearings MPI reported that its portfolio had recovered from the initial losses taken in March due to the pandemic. Similarly to MPI's expenses, the Board views this past year as unique due to the pandemic, and expects that it will assess MPI's investments in future GRAs against more normal conditions, with fiscal 2020/21 (and perhaps 2021/22) being outliers.

## 2.0 THE RATE APPLICATION

### 2.1 *Procedural History*

On June 17, 2020, the Corporation filed with the Board the 2021 General Rate Application (GRA or Application) seeking approval of premiums for universal compulsory automobile insurance (Basic), commencing April 1, 2021 and ending March 31, 2022.

The Application as filed sought a rate decrease of 10.5% on a provisional basis, to be updated following the conclusion of MPI's second quarter at August 31, 2020. MPI filed its update with the Board on October 9, 2020, in which the provisional rate request was updated to a final rate request of 8.8%, comprised of:

- a 3.0% decrease resulting from changes to the *Automobile Insurance Coverage Regulation*, M.R. 290/88R;
- a 0.8% decrease in the break-even cost of Basic vehicle premiums; and
- a 5.0% capital release, in accordance with the Capital Management Plan approved by the Board in Order 176/19.

Prior to the filing of the Application, the Board issued Interim Procedural Order 79/20, in which it approved an Issues List for the Application on a preliminary basis. In doing so, the issues were placed in one of three categories: issues to be considered in the scope of the GRA in the normal course; issues requiring more detailed examination in the 2021 GRA; and issues deferred from the 2021 GRA to future applications, or which would be the subject of a technical conference or another process.

After the filing of the Application, and following the Pre-Hearing conference, by Order 88/20, dated July 6, 2020, the Board approved the Issues List on a final basis, and granted intervener status to the following parties:

- Consumers' Association of Canada (Manitoba) Inc. (CAC);

- Coalition of Manitoba Motorcycle Groups (CMMG); and
- Duffy's Taxi Ltd. and Unicity Taxi Ltd. (Taxi Coalition).

In Order 88/20, the Board also provided direction to MPI on the documents that it was required to file in support of the final rate indication. The Board also approved the process for the treatment of Commercially Sensitive Information (CSI) in the Application (CSI Process). The Board-approved CSI Process formalized that employed by the Board in the 2020 GRA. Pursuant to the CSI Process, MPI was not required to bring a motion for confidential status each time it filed material claimed as such with the Board. Rather, once all material claimed as confidential in this GRA was filed with the Board, MPI filed an omnibus motion seeking a Board order approving the confidential status of all the material. Prior to then, when MPI filed material claimed as confidential with the Board, it provided copies of that material to interveners and Board Advisors who had executed undertakings and confidentiality agreements. Publicly-available information was redacted by MPI, to prevent the release of any information claimed as confidential. By Order 123/20, dated October 9, 2020, the Board found that for the most part, the material claimed as confidential by MPI would be received in confidence, subject to one portion of information related to MPI information technology, which the Board ordered be placed on the public record.

Ten days of public hearings took place, during which the Board heard evidence from witnesses appearing on behalf of MPI and the Taxi Coalition. The Board also received submissions from presenters, both by teleconference and in writing. The public hearings began on October 19, 2020, and concluded on November 5, 2020.

Due to the exceptional circumstances caused by the COVID-19 pandemic, public access to the Board's hearing room was restricted, and no more than ten people were permitted in the hearing room at any given time in order to adhere to public health guidelines.

Following the conclusion of the public hearings, on November 27, 2020, MPI filed 2021 Special Rebate Application II (SRA II), seeking Board approval for a rebate in the



approximate amount of \$69 million to ratepayers, to be delivered by December 23, 2020 or as soon thereafter as reasonably practicable. This coincided with MPI providing the Board with a copy of a recently ratified agreement between MPI and Insurance Brokers Association of Manitoba (IBAM) setting out commission rates payable by MPI to brokers for a five-year period beginning April 1, 2021 and ending March 31, 2026 (IBAM agreement).

On November 30, 2020, the Board wrote to MPI that given the SRA II and the IBAM agreement, the Board was concerned that its decisions in respect of the GRA might be based on outdated evidence. The Board required that MPI file sworn information showing the impact, if any, of the changes to broker commissions and the SRA II (if granted), on the rate request in the GRA. As a result, any Order for the GRA would be held in abeyance until such time as the information is received. Upon receipt, the Board would determine if any further steps or processes were required.

On December 2, 2020, MPI advised the Board in reply that the rebate requested in SRA II would not affect the rate indication for the GRA, nor would the IBAM agreement materially affect the GRA forecast. The Board invited CAC, CMMG and the Taxi Coalition to provide written comments in reply. CAC advised that it was in agreement with MPI that the changes to broker commissions were unlikely to materially affect submissions or deliberations. Neither CMMG nor the Taxi Coalition took any position in that regard.

On December 14, 2020, the Board issued Order 145/20 in respect of SRA II, approving the rebate in the approximate amount of \$69 million.

On December 16, 2020, the Board issued Summary Order 146/20 in respect of this Application, on approved rates only. The Board did so in order to issue a decision on the most time-sensitive aspect of the Application as soon as possible following the conclusion of SRA II. In Order 146/20 the Board stated that it would issue this Order in due course, addressing all issues and directives in the Application.

In Order 146/20 the Board stated that it had taken into account MPI's letter of December 2, 2020 and the Intervener replies, and found that no further evidence or proceedings are required in order for it to decide all issues in the GRA. After considering all of the evidence and submissions the Board found that it was just and reasonable to approve the overall 8.8% rate decrease requested by the Corporation. However, with respect to the Passenger Vehicle For Hire (VFH) Major Class, the Board found that a rate increase of 20% was just and reasonable, along with successive 20% rate increases in the next two General Rate Applications (GRAs), subject to the Board's ability to vary such increases based upon the experience filed within those GRAs and as the Passenger VFH rates approach actuarially indicated break-even rates.

## **2.2 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, namely, Extension and Special Risk Extension (SRE).

In its provisional rate request filed on June 17, 2020, the Corporation requested an overall -10.5% rate decrease in Basic vehicle premium revenue, calculated in accordance with Accepted Actuarial Practice in Canada (AAP), based provisionally on the interest rate forecast as at March 31, 2020. This was updated to a final rate indication of -8.8% based on the interest rate forecast and updated financial results as at August 31, 2020.

The vehicle premium rates put forward by MPI include 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 2021.

According to the Corporation's rate design, the change to Basic compulsory motor vehicle premiums for each major vehicle class at the 8.8% rate decrease requested by MPI would have the following average vehicle premium changes:

<b>Major Class</b>	<b>-8.8% Experience Rate Change</b>
Private Passenger	-9.4%
Commercial	-2.1%
Public	-3.7%
Motorcycle	4.7%
Trailers	-11.3%
Off-road vehicles	0.0%
<b>Total</b>	<b>-8.8%</b>

Rates paid by individual policy holders within each major class are determined by their driving record and actual claims experience, 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. As a result, some individuals would experience increases in insurance rates, and others would experience decreases.

The Corporation sought no changes to miscellaneous permits and certificates, the Driver Safety Rating system, vehicle premium discounts, service and transaction fees or fleet rebates and surcharges.

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

<b>Year</b>	<b>Applied For (%)</b>	<b>Ordered (%)</b>
2021/22	-8.8	-8.8
2020/21	-0.6	-0.6
2019/20	2.2	1.8
2018/19	2.7	2.6
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

### **2.3 Compulsory and Extension Revision Project (CERP)**

On May 7, 2020, the Government of Manitoba enacted amendments to the *Automobile Insurance Coverage Regulation*, Man. Reg. 290/88 under The Manitoba Public Insurance Corporation Act, C.C.S.M. c. P215, which resulted in changes to MPI Basic insurance products.

The Application reflected the following changes to the Basic design, referred to as the Compulsory and Extension Revision Project (CERP):

- An increase in the Basic Autopac deductible from \$500 to \$750;
- An increase in third-party liability protection from \$200,000 to \$500,000; and
- An increase in the maximum insured value for vehicles from \$50,000 to \$70,000, which MPI indicated was an inflationary adjustment.

MPI advised that it will implement these changes so that ratepayers will not pay more under the new design than they do for their existing coverage. Ratepayers will be assigned into coverages similar to those under the current system. Basic ratepayers with

a \$500 deductible will be opted in to the new Extension coverage level deductible of \$500 to keep coverages similar to current coverage levels. If Basic ratepayers wish to maintain only Basic coverage and select the \$750 deductible, they will have to see a broker or an MPI service centre to make that change at no cost.

Extension deductibles will be available at levels of \$500, \$300 and \$200. The \$100 deductible level will no longer be offered. There will be two \$200 options: \$200 Standard deductible will have waivers for theft and collision with an animal; \$200 Plus level will include waivers for glass repair, vandalism, theft and collision with an animal.

Overall, MPI expects these changes will result in a rate decrease of -3.0% for Basic, and a rate increase of 17.0% for Extension.

Taken together, the new product offerings will provide comparable coverage at a comparable cost (i.e. rate neutral to customers who purchase the same coverage).

## 2.4 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 2021/22 and 2022/23, the years affected by the applied-for -8.8% rate decrease, based on the October 9, 2020 update, were as follows:

	2021/22 Projection Per October 9, 2020 Update (\$ millions)	2022/23 Projection Per October 9, 2020 Update (\$ millions)
Motor Vehicle Premiums	\$1,052.6	\$1,045.6
Drivers' Licence Premiums	67.6	68.7
Reinsurance ceded	(13.9)	(14.4)
Total Net Premiums Earned	1,106.3	1,100.0
Investment Income	87.9	86.7
Service Fees & Other Revenues	27.5	29.1
Total Earned Revenues	\$1,221.8	\$1,215.8
Claims Incurred	\$915.0	\$937.3
Claims Expenses	144.0	147.6
Road Safety Expenses	13.7	13.6
Operating Expenses	72.4	76.3
Commissions	43.7	43.5
Premium Taxes	33.6	33.4
Regulatory/Appeal expenses	5.2	5.2
Total Claims and Expenses	\$1,227.7	\$1,257.0
Net income (loss) – Basic	\$0.04	(\$41.2)

The above forecast was based on a Naïve interest rate forecast (assuming no changes in current interest rates) as at August 31, 2020, which MPI requested the Board use for rate-setting purposes.

The Application as initially filed reflected a provisional rate request for an overall -10.5% rate level decrease, based on market interest rates as of March 31, 2020.

Over the period from March 31 to August 31, 2020, the 10-year Government of Canada bond yield fell eight basis points, from 0.70% to 0.62%, and the new money yield decreased from 2.58% to 1.94%, pushing the Basic rate indication upward by 1.7% to an overall -8.8% rate level decrease.

MPI also updated its forecast for the current fiscal year, the subject of last year's GRA, for which it had forecast a net income of \$78.6 million. Based on the August 31, 2020 update, which included updated interest rates, experience and savings related to the COVID-19 pandemic conditions, this forecast was updated to net income of \$105.4 million. Further discussion of the impacts of COVID-19 is found in Section 7 below.

## **2.5 Vehicle Premiums**

Total premiums earned were forecasted to be \$1.11 billion in 2021/22, decreasing to \$1.10 billion in 2022/23. The revenue earned by Basic in respect of vehicle premiums can change due to any of 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 (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). MPI's combined Vehicle and DSR Upgrade factor is forecast to grow to 2.55% for 2020/21, 2.47% for 2021/22,, 2.53% for 2022/23, 2.54% for 2023/24, and 2.51% for 2024/25, reflected in the table below.

The Volume Factor is based upon the historical growth rate of *Highway Traffic Act* (HTA) vehicles only (including the Private Passenger, Commercial, Public and Motorcycle Major classes, and excluding trailers and off-road vehicles), which account for 76% of the fleet and over 98% of MPI's total Basic written premiums. Therefore, the HTA unit forecast is the most relevant to the overall Basic vehicle premium forecast.



Volume growth is forecast using policy year earned units, rather than the earned year units methodology used in prior GRAs. MPI made the change because the policy year earned unit is a leading indicator of volume growth when compared to the prior methodology. MPI forecasted Volume Factor growth of only 0.14% in 2020/21. MPI attributed the low Volume Factor growth rate to pandemic conditions. Volume forecast for 2021/22 was forecast at 1.79% and 1.06% for the years 2022/23 to 2024/25.

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

Year	Vehicle Upgrade Factor	DSR Upgrade Factor	Total Upgrade Factor	Volume Factor	Total Volume & Upgrade Factor
2019/20 (A)	2.57%	-0.14%	2.43%	0.44%	2.87%
2020/21	2.45%	0.10%	2.55%	0.14%	2.69%
2021/22	2.45%	0.02%	2.47%	1.79%	4.26%
2022/23	2.45%	0.08%	2.53%	1.06%	3.59%
2023/24	2.45%	0.09%	2.54%	1.06%	3.60%
2024/25	2.45%	0.06%	2.51%	1.06%	3.57%

## 2.6 Driver Premiums

The level of Driver Premiums paid by licenced drivers is set based on the DSR scale. In Order 130/17, issued after the 2018 GRA, the DSR scale was changed to a range from \$15 at level 15 to \$3,000 at level -20.

Driver Premiums were forecast to be \$67.6 million in 2021/22 and to increase to \$68.7 million in 2022/23. 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.

## **2.7 Investment Income**

The Corporation's funds available for investment are primarily the assets supporting the unearned premium reserves and unpaid claims reserves. As a result of the implementation of the Corporation's Asset Liability Management (ALM) Study, these funds have now been separated into five investment portfolios. The funds within the investment portfolios support the payment of Basic Claims, the Basic Rate Stabilization Reserve (RSR) and Employee Future Benefits (EFB), primarily the pension obligations of the Corporation. As well, the Corporation now has separate investment portfolios to support its Extension and Special Risk Extension lines of business.

Each of these portfolios has had unique asset allocations since the beginning of fiscal year 2019/20, which has allowed MPI to set appropriate investment goals for each.

The Corporation had short and long-term investments, including cash and equities, for the Basic Line of Business (Basic Claims, Basic RSR and EFB) totaling \$2.9 billion in 2019/20, which is forecast to grow to over \$3.4 billion by 2024/25.

Investment income earned from the Corporation's investment portfolio reduces the revenue that it required to collect through premiums. MPI realized \$59.6 million in investment income in 2019/20, which was allocated to Basic after an impairment charge of \$42.7 million, representing Basic's share of the Corporation's \$67.7 million write-down.

Based on the August 31, 2020 updated Naïve interest rate forecast, MPI forecasted investment income allocated to Basic of \$205.7 million in 2020/21, \$87.9 million in 2021/22 and \$86.7 million in 2022/23. Further discussion on MPI's investment portfolios and returns is found in Section 8 of this Order.

## **2.8 Service Fees and Other Revenues**

The Corporation reported that service fees and other revenues 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 projects income from Service Fees and Other Revenues of \$28.2 million in 2020/21, \$27.1 million in 2021/22, and \$28.6 million in 2022/23.

MPI did not apply for any changes in service fees.

## 2.9 Extension Operations

The Corporation filed historical financial information and forecasts for Extension operations in conjunction with its CMP, which assumes the transfer of excess retained earnings from Extension to Basic, to assist with the building of Basic capital:

	<b>2021/22 Projection Per Oct 9, 2020 Update (\$millions)</b>	<b>2022/23 Projection Per Oct 9, 2020 Update (\$millions)</b>
<b>EXTENSION</b>		
Motor Vehicles	\$170.0	\$183.5
Reinsurance ceded	(1.8)	(1.9)
Total Net Premiums Earned	168.2	181.6
Investment Income	7.5	8.0
Service Fees & Other Revenues	12.9	13.5
Total Earned Revenues	\$188.6	\$203.1
Claims Incurred	\$82.3	\$96.6
Claims Expenses	11.2	11.7
Road Safety Expenses	1.1	1.1
Operating Expenses	8.0	8.6
Commissions	37.2	40.3
Premium Taxes	5.1	5.5
Total Claims and Expenses	\$144.8	\$163.8
Net income (loss) – Extension	\$44.3	\$39.3

MPI committed to implementing CERP changes with no impact on Basic customers. MPI advised that it expects a reduction in the Extension profit margin to ensure that changes related to CERP are both revenue and rate neutral.

The changes in coverage will result in a loss transfer of collision and comprehensive claims costs from Basic to Extension of \$12.9 million in 2021/22 and \$26 million in 2022/23. The Extension forecasted overall rate change for 2021/22 before product changes is was a rate decrease of -7.5%. With an Extension premium revenue forecast increase of 17.0% due to CERP, this resulted in an overall 9.5% rate increase for Extension for 2021/22.

The target profit margin for Extension for both 2021/22 and 2022/23 was 28.0% (before changes related to CERP). Changes to CERP will partially affect 2021/22, due to staggered renewals, and fully affect 2022/23. The expected profit margin drops from 28% to 24.8% in 2021/22 and 20.7% in 2022/23.

### **3.0 RATE INDICATIONS**

#### **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 Order 162/16, the Board approved the rate indication prepared by the Corporation based on AAP, and directed that the Corporation follow AAP as the basis for its rate indications in future rate applications, which the Corporation commenced doing in the 2018 GRA and continued in this Application.

The Corporation's estimate of its overall rate requirement is sensitive to the methods and assumptions used in its derivation. In this Application, no significant changes were introduced by the Corporation with respect to methodology or the basis of selection of assumptions in this regard. This includes the continued use by the Corporation of a Naïve interest rate forecast, for purposes of estimating the appropriate discount rate of interest for use in discounting expected future cash flows in accordance with AAP.

Five aspects of the AAP ratemaking methodology were explored in some detail through the GRA process: the new money yield, the treatment of Serious vs. Other than Serious losses in deriving rate indications by Major Use class, claims forecasting, the duration of motorcycle claims liabilities, and Vehicle for Hire ratemaking methodology, which is reviewed in Section 5 below.

### **3.1.1 New Money Yield**

The 2021 GRA forecast was initially based on a Naïve interest rate forecast as at March 31, 2020, using the Government of Canada ten-year term bond yield of 0.70%, and a weighting of the spreads of ten-year duration Provincial (1.46%) and Corporate (3.07%) bonds, resulting in an estimated 2.58% new money yield assumption.

The interest rate forecast was to be updated based on market information shortly before the start of the public hearing. The update was filed with the Board by MPI on October 9, 2020, and was based on a Naïve interest rate forecast as at August 31, 2020, using the Government of Canada ten-year bond yield of 0.62%, and a weighting of the spreads of ten year duration Provincial (1.04%) and Corporate (2.07%) bonds. This resulted in a 1.94% new money yield assumption. The impact of the lower interest rate forecast was to increase the breakeven AAP rate request by +1.7 percentage points from -2.5% based on March 31, 2020, to -0.8% based on August 31, 2020, excluding changes in Basic coverage or capital release provisions.

### ***3.1.2 Treatment of Serious vs. Other than Serious Losses for Deriving Rate Indications by Major Use Class***

In Order 176/19, the Board noted that in respect of Accident Benefits Other (Indexed) and Weekly Indemnity, the Corporation used a common set of loss development assumptions in the analysis of Serious vs. Other losses for deriving rate indications for the Private Passenger, Commercial and Public Major Use classes. In its evidence, the Corporation agreed that there are observed differences in loss development patterns between Serious vs. Other losses, with Serious losses typically being slower to emerge, and that the Corporation's analysis approach did not fully recognize these differences. While indicating that there might be limitations as to possible remedies to address this, due to sparseness of the data, the Corporation undertook to review its approach for this GRA.

In this GRA, based on its review of development factors, MPI agreed that there are differences in loss development patterns between Serious losses and Other than Serious losses. MPI agreed that using the same loss development factors for all losses could potentially understate the estimated ultimate Serious losses for major classes with a greater propensity to incur such a loss. As such, MPI made a change to reflect these differences. For Accident Benefits Other (Indexed) and Weekly Indemnity, separate loss development factors were determined for Serious losses and Other than Serious losses. Loss development factors for Other than Serious losses were determined based on a review of incurred loss development triangles for these losses by coverage. Loss development factors for Serious losses were determined such that the total ultimate losses for both Serious losses and Other than Serious losses by coverage match the ultimate losses per the Appointed Actuary's Report as at March 31, 2020.

There were also changes by MPI in the weights applied to the accident years:

- For Private Passenger, Commercial and Public, in the 2020 GRA a 10% weight was given to each of the ten most recent accident years for Serious losses, and a 20% weight was given to each of the five most recent accident years for Other

than Serious losses. In this GRA, the most recent two accident years were excluded due to volatility concerns, and a 10% weight was given to each of the ten prior accident years for Serious, and a 20% weight was given to each of the five prior accident years for Other than Serious losses.

- For Motorcycles, in the 2020 GRA, a 10% weight was given to each of the ten most recent accident years for each of Serious losses and Other than Serious losses. In this GRA, the most recent two accident years were excluded due to volatility concerns, and 10% weight was given to each of the ten prior accident years for Serious losses, and a 20% weight was given to each of the five prior accident years for Other than Serious losses.

The combined impact of these changes (use of separate loss development factors and excluding the most recent two accident years) was greatest on Motorcycles, increasing the credibility weighted required rate from \$831.56 to \$867.46, an increase of +4.3%. The next largest impact was applicable to Commercial, which increased +2.0%.

### **3.1.3 Claims Forecasting**

MPI has assumed that there are no ongoing impacts of the COVID-19 pandemic on the 2021/22 or 2022/23 accident years. MPI reported that due to the uncertainty surrounding the pandemic, this assumption was its best estimate.

In 2018, MPI implemented Centralized Reserving, whereby a centralized team handles case reserving for all Personal Injury Protection Plan (PIPP) claims that are still open after 24 months.

For Weekly Indemnity, the forecast claims for this Application were approximately \$10 million higher per year compared to the 2020 GRA. According to MPI, Centralized Reserving has resulted in earlier reporting of case reserves. Loss development factors increased for the first 12 to 60 months of claims development. It is not yet clear whether the earlier loss development will be offset by favourable development beyond 60 months.

For Accident Benefits – Other (Indexed), the forecast claims for this Application were approximately \$6 million lower per year compared to the 2020 GRA. Actual experience indicated that earlier case reserving is resulting in favourable development later in the claim life cycle (i.e., the “tail” development).

MPI estimated average severity trends for PIPP and Bodily Injury coverages based on severity groups weighted by incurred loss amounts. In response to Information Requests, the Corporation provided alternative severity trends for each coverage, using claim counts as weights instead of loss amounts and indicated that it now considered the approach weighting by incurred loss amounts to be inappropriate. The indicated trends were higher with the alternative approach. MPI did not update its claims forecast based on these alternative trends, but indicated an intention to follow the alternative approach in the 2022 GRA.

#### **3.1.4 Duration of Motorcycle Claims Liabilities**

Order 176/19, Directive 13.12 stated: *“The Corporation shall consider an investment strategy, or other strategy, to ameliorate the effect of interest rate changes on the Motorcycle Class, including the inclusion of equities or other growth assets in the reserves supporting long-tail liabilities, and report on the results of that review in the 2021 GRA.”*

In the Application, MPI stated that it uses the new money yield of the Basic claims investment portfolio as the basis for discounting expected policy cash flows for ratemaking purposes. The claims liability duration is used to estimate the new money yield. The ALM strategy for the Basic Claims portfolio precludes the use of growth assets to back claim liabilities. MPI advised that it does not support the idea of creating a special asset backing portfolio specifically for Motorcycle claims liabilities purely for the purposes of lowering the Motorcycle rate indication. However, a reasonable consideration that could be applied fairly to all vehicle types would be to use interest rates at points on the yield curve corresponding to the duration of the liabilities to discount cash flows (instead of a single discount rate which is currently used). This approach would provide a more



appropriate discount rate for policy cash flows. For PIPP claims, which are very long tail, the cash flows would generally be discounted at a higher rate given that the yield curve is typically upward sloping. Since the Motorcycle Class has a very large concentration of PIPP claims relative to other vehicle classes, this change would be expected to benefit Motorcycles. Because the current yield curve is very flat, there is no significant benefit to Motorcycles from using such an approach at this time. MPI advised that it would consider making this change in the 2022 GRA after a more thorough impact assessment is completed for all vehicles.

MPI estimated the impact on the rate indication using the PIPP average claims duration as a proxy for Motorcycles. Given the very large concentration of PIPP claims for Motorcycles, increasing the claims liability duration from ten years to eleven years would increase the new money yield by 6 basis points (based on the yield curves as of August 31, 2020). This, in turn, reduced the Motorcycle rate indication by 0.4 percentage points.

### **3.1.5 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, which includes rates for Vehicles for Hire. MPI did not report any 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 were 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 aggregates 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.

### **3.2 *Intervenors' Positions***

#### **CAC**

CAC argued that it could not conclude that the Corporation's best estimates for the 2021/22 year were reasonably reliable. Given the conditions caused by the COVID-19 pandemic it is highly uncertain whether there will be a return to normal for the 2021/22 year. This, according to CAC, suggests that the Board may wish to play a more assertive monitoring role, informed by monthly MPI updates. Nevertheless, CAC conceded that while it cannot have confidence in them, it could not suggest a better alternative and recommended approval of the applied-for 8.8% rate decrease.

#### **CMMG**

CMMG submitted that while MPI has indicated that its ALM strategy has reduced the impacts of changes in interest rates on the Basic portfolio generally, the same is not true for each vehicle class. The very conservative investment strategy has had a deleterious impact on the Motorcycle Major class in particular. CMMG noted MPI's acknowledgment that interest rate fluctuation was the second major factor that negatively affected Motorcycle rates in the Application. CMMG argued that the Corporation has a responsibility to mitigate interest rate risk for all ratepayers, not just for the Major classes with the most ratepayers. The Motorcycle Major class has only 17,500 customers, with a completely different makeup than other classes, and with a heavy weight to PIPP. These characteristics should not preclude the Board from holding the Corporation to its stated mandate that interest rate risk must be mitigated.

CMMG further argued that while the Board cannot direct MPI to invest in a particular way, pursuant to Section 25(4) of *The Crown Corporations Governance Accountability Act*, the Board may consider other factors that the Board considers relevant in its review of rates, including the investment decisions of the Corporation. In that regard, the Corporation had the opportunity to invest in a way that would mitigate interest rate risk for all classes of vehicles and chose not to do so. Instead, MPI pursued an investment strategy that is detrimental to the mitigation of long-term interest rate risk, which in turn is detrimental to the Motorcycle Major class. CMMG recommended that the Board reject the increase in the Motorcycle rate indication, which is attributable to reduction of interest rates.

CMMG was critical of the Corporation's decision to implement ratemaking methodology changes for Serious and Other than Serious losses. MPI applied loss development factors for Serious losses as the difference between total ultimate and non-Serious Ultimate, instead of calculating them based on their own loss development triangles, but conceded that using different loss development triangles for Serious and non-Serious would be more precise than the current methodology. The impact of the methodology changes was severe for the Motorcycle class. CMMG argued that a methodology change that negatively affected one vehicle class should demand review and testing of the actuarial soundness of the calculations completed by the Corporation prior to implementation.

CMMG recommended that MPI be directed to remove this change from the ratemaking methodology, and/or direct that a more thorough examination of this methodology and its impacts be undertaken in the 2022 GRA.

### **3.3 Board Findings**

In Order 146/20, the Board's Summary Order on rates, it approved an overall rate decrease of 8.8%, based on the Naïve interest rate forecast updated to August 31, 2020. The Board finds that it is just and reasonable to order the rate decrease as requested by MPI.

The overall rate change is made up of three components: a 0.8% rate decrease based on AAP breakeven pricing, a 3.0% rate change due to change in Basic coverage, and a 5.0% Capital Release provision. In that regard, the Board would point out that the 3.0% component of the rate decrease attributable to Basic coverage changes is not a true decrease because of a corresponding increase in the proportion of premiums paid under Extension coverage.

The Board's approval of the use of the Naïve interest rate forecast is consistent with its position taken in Order 176/19 as well as Order 159/18. The Board finds that the volatility in market interest rates and the uncertainty in forecasting their movement are self-evident. The Board acknowledges that Basic insurance operations are less sensitive to interest rate movements because of the recent ALM initiatives, and that the use of AAP ratemaking has reduced interest rate forecasting risk by shortening the length of the interest rate forecast needed in the derivation of rate indications.

The Board's approval of the use of the Naïve interest rate forecast follows its finding in Order 159/18 that this represents a best estimate for rate-setting purposes. The Board notes that in Order 159/18 it also observed that prior to the 2017 GRA, the parties applied the Standard Interest Rate Forecast (SIRF), notwithstanding eight years of flat interest rates and there was inconsistency from year to year in the interest rate forecasts advocated by the parties.

With respect to the treatment of Serious and Other than Serious losses in deriving rate indications by Major Use class, the Board appreciates the Corporation's decision to revise its approach in this regard but accepts CMMG's position that these findings should be reviewed prior to implementation. The Board orders the Corporation to remove this change in approach and the change in weights applied to the historical years for the purposes of this GRA. The Board also recommends that MPI ask its external actuary to provide loss development factors for each of Serious and Other than Serious losses for each of Accident Benefits Other (Indexed) and Weekly Indemnity.

It is the Board's understanding that MPI intends to consider the use of interest rates at points on the yield curve corresponding to the duration of the liabilities in the determination of the rate indication for each Major Use Class in the 2022 GRA. The Board directs MPI to provide a rate indication by Major Use Class including this change, as well as an alternative rate indication by Major Use Class excluding this change, in the 2022 GRA, in order to determine the impact on Major Use Classes of this potential change.

#### **4.0 CAPITAL MANAGEMENT PLAN AND BASIC TARGET CAPITAL LEVEL(S)**

In Order 176/19, the Board approved the Corporation's proposed Capital Management Plan (CMP), including the 100% Minimum Capital Test (MCT) Basic target capital level, on a trial basis for the 2020/21 and 2021/22 insurance years.

The CMP is comprised of the following:

- A single Basic target capital level based on a 100% MCT ratio;
- A commitment to transfer excess Retained Earnings from the Extension line to Basic, where excess is determined relative to the single Extension target capital level of a 200% MCT ratio;
- A phase-in approach to move towards the Basic target capital level over a number of years through Capital Build or Capital Release provisions;
- Determination of the need for any Capital Build or Capital Release provisions in each GRA after consideration of the Basic rate level change indication and the expected capital transfers from Extension;
- Use of judgmentally selected 5-year and 3-year phase-in periods for Capital Build and Capital Release provisions, respectively;

- The imposition of a judgmentally selected 5% cap on the combination of the overall Basic rate indication and any Capital Build provision; and
- The imposition of a judgmentally selected 5% cap on any Capital Release provision.

In the 2020 GRA, the Corporation committed to transferring excess retained earnings over 200% MCT from Extension to Basic, regardless of the Basic MCT ratio at the time. Transfers from Extension to Basic would be automatic under the CMP for any amounts over 200% MCT held by Extension in its reserves at the end of a fiscal year. At that time, MPI forecasted transferring \$75.1 million in 2019/20, \$42.5 million in 2020/21, and \$44.5 million in 2021/22 from Extension to Basic. Because the forecasted capital transfers from Extension to Basic have an impact on the Basic rate request, this necessarily draws elements of the Extension forecast within the oversight of the PUB.

In this Application, MPI requested approval of a 5.0% Capital Release provision in accordance with the CMP. The proposed Capital Release would draw down the capital over a three-year period, to achieve an MCT of 100% by the end of 2023/24.

A summary of the recent actual, and expected future, composition of Basic Total Equity reflecting the Capital Release under the CMP is provided below:

### Basic Statement of Changes in Equity

<b>BASIC</b> (\$ Millions)	<b>2020A</b>	<b>2021FB</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
<b>Basic RSR</b>						
Beginning Balance	319.9	440.5	551.1	583.9	578.9	565.5
Basic Net Income (Loss)	120.6	105.4	-	(41.2)	(53.2)	(56.0)
Premium Rebate	-	(58.0)	-	-	-	-
Transfer from Extension Retained Earnings	-	63.2	32.7	36.2	39.8	42.2
<b>Total Basic RSR</b>	<b>440.5</b>	<b>551.1</b>	<b>583.8</b>	<b>578.9</b>	<b>565.5</b>	<b>551.7</b>
Accumulated Other Comprehensive Income	(34.3)	(50.0)	(43.1)	(38.1)	(33.7)	(29.3)
<b>Total Equity Balance</b>	<b>406.2</b>	<b>501.1</b>	<b>540.7</b>	<b>540.8</b>	<b>531.8</b>	<b>522.4</b>
<b>Minimum Capital Test</b>						
<b>Basic Total Equity</b>	<b>406.2</b>	<b>501.1</b>	<b>540.7</b>	<b>540.8</b>	<b>531.8</b>	<b>522.4</b>
Less: Assets Requiring 100% Capital	(35.5)	(39.7)	(61.9)	(70.0)	(67.6)	(58.5)

Capital available	370.7	461.4	478.8	470.8	464.2	463.9
Minimum Capital Required (100% MCT)	356.1	400.1	431.8	446.8	461.7	477.6
<b>MCT Ratio %</b>	<b>104.1%</b>	<b>115.3%</b>	<b>110.9%</b>	<b>105.4%</b>	<b>100.5%</b>	<b>97.1%</b>

MPI did not transfer any funds from Extension to Basic in 2019/20. Instead, it rebated \$52 million from Extension directly to Basic ratepayers, along with the rebate of \$58 million from Basic approved by the Board on May 1, 2020, in Order 67/20 following Special Rebate Application I (SRA I).

MPI is now forecasting transfers of \$63.2 million in 2020/21 and \$32.7 million in 2021/22. MPI cited uncertainty around COVID-19 in the decision not to transfer Extension excess retained earnings to Basic in 2019/20. The annual transfers are now forecast to be lower in the forecast period due to expected reduced profitability of Extension after the changes in Basic coverage.

MPI advised that it has no plans to do anything with the Extension excess capital other than transferring it to Basic. MPI considers Extension to be a competitive line of business that is designed to earn profits and expressed the view that it would be reasonable and in the spirit of the CMP to make use of some monies for Extension purposes if the need arose. The Corporation's position was that it has discretion to use profits for other purposes than a transfer to Basic prior to the end of a fiscal year, and that Basic should be self-sustaining but should benefit from excess capital transfers from Extension to the extent possible.



The forecast of Extension Total Equity and the transfers of excess retained earnings to Basic to maintain a 200% MCT for Extension consistent with the CMP are as follows:

### Extension Statement of Changes in Equity

EXTENSION (\$ Millions)	2020A	2021F	2022F	2023F	2024F	2025F
		B				
<b>Retained Earnings</b>						
Beginning Balance	105.0	142.9	84.4	95.9	99.0	100.7
Net Income	37.9	56.7	44.3	39.3	41.5	45.8
Premium Rebate	-	(52.0)	-	-	-	-
Transfer to Basic Retained Earnings	-	(63.2)	(32.7)	(36.2)	(39.8)	(42.2)
<b>Total Retained Earnings</b>	142.9	84.4	95.9	99.0	100.7	104.3
Accumulated Other Comprehensive Income	(2.4)	5.3	7.4	9.0	10.5	11.7
<b>Total Equity Balance</b>	<b>140.5</b>	<b>89.7</b>	<b>103.3</b>	<b>108.0</b>	<b>111.2</b>	<b>116.0</b>
<b>Minimum Capital Test</b>						
<b>Extension Total Equity</b>	140.5	89.7	103.3	108.0	111.2	116.0

Less: Assets Requiring 100% Capital	(3.0)	(3.4)	(5.4)	(6.1)	(6.0)	(5.2)
Capital available	137.5	86.3	97.9	101.9	105.2	110.8
Minimum Capital Required (100% MCT)	43.3	43.1	48.9	50.9	52.6	55.4
<b>MCT Ratio %</b>	<b>317.6%</b>	<b>200.2%</b>	<b>200.2%</b>	<b>200.2%</b>	<b>200.0%</b>	<b>200.0%</b>

MPI's position in the Application was that it considers additional rebates to not be desirable. At the time of the hearing, it cautioned the Board to avoid the temptation of seeing a rebate as the best possible solution to deal with this period of uncertainty. MPI expressed that the cost of issuing rebates (of over \$900,000 in postage and printing costs) is another reason that rebates are not preferable.

Notwithstanding this position, following the conclusion of the public hearings, MPI filed SRA II in which it sought Board approval to provide a rebate in the approximate amount of \$69 million from Basic to ratepayers.

#### **4.1 *Intervenors' Positions***

##### **CAC**

CAC characterized the following as the philosophical underpinnings of the CMP:

- Recognition that Basic and Extension are intertwined not only in the eyes of the Manitoba public, and not only in the eyes of the business where they enjoy a statutory monopoly on one side and a market dominance on the other, but also in the eyes of MPI and for the purposes of the regulatory process. There is an implicit recognition that Extension's dominance would not exist without Basic.
- Recognition by MPI that excess capital, whether in Extension or Basic, should

be returned to Basic ratepayers.

- Trade-offs given in exchange for significantly more conservative financial targets for Basic, an end to what MPI considered to be disruptive rate rebates, and enhanced rate stability through the 5% annual cap on releases.

CAC argued that over the past year, MPI's actions have not been consistent with the above statements. First, excess capital in Extension at year end 2019/20 was not transferred to Basic and instead was used to give a rebate directly to ratepayers. Second, MPI's position that it could use excess retained earnings from Extension ratepayers in order to fund capital projects was not raised in the 2020 GRA. CAC expressed concern that the "walk-back" of a non-discretionary Extension transfer commitment indicates a risk that excess capital will either be stranded or dissipated in Extension. Lastly, CAC argued that the idea of rate stability when it comes to rebates and releases has become a myth, given the approximately \$200 million in returns to ratepayers in the current year.

CAC commented that the Corporation acted appropriately in the initial wave of the COVID-19 pandemic. Issuing the rebate in SRA I and seeking a further -8.8% rate reduction for 2021/22 were reasonable, in light of the pandemic, the actuarial evidence and the Corporation's excess capital. However, MPI failed to respond to the evidence of ongoing impacts of COVID-19 in the third quarter of this year. A commitment to the 5% cap on Capital Releases would leave excess capital in the hands of Basic at a time of acute customer need. CAC interpreted MPI's choice not to seek a greater release for ratepayers in light of the ongoing impacts of COVID-19 as an example of an inflexibly applied cap to promote the myth of rate stability. CAC recommended that the 5% capping rule on Capital Releases is interfering with the timely return of excess capital at a time of substantial hardship for many Manitobans. It expressed a preference for the Board to order a second COVID-19 rebate in the amount of \$70 million, calculated by taking the difference between the fourth quarter COVID-19 best estimate of \$147 million in net income and subtracting the net income projected at the time of the GRA filing of \$78.6 million.

## 4.2 Board Findings

Following the conclusion of the public hearings and the issuance of this Order, MPI filed SRA II with the Board. Contrary to the position MPI took in this Application, in SRA II it sought an order to issue to ratepayers a percentage of their Basic premiums earned between March 16, 2020 and November 21, 2020, for all vehicle classes, through a special rebate, in an amount equal to the approximate sum of \$69 million, by December 23, 2020 or as soon thereafter as reasonably practicable. The Board approved the rebate in Order 145/20, issued on December 14, 2020.

Accordingly, to the extent that MPI and Interveners raised the issue of the appropriateness of a rebate in the context of this Application, the Board finds that that issue is largely moot. That said, the CMP as approved by the Board in Order 176/19 did not contemplate the issuance of rebates. In SRAs I and II, MPI was required to seek a review and variance of prior Board orders, in part, in order to allow it to issue rebates. It was the exceptional COVID-19 pandemic and the resulting excess capital that justified a deviation from the CMP, however, the Board does not anticipate that this will be an ongoing feature of the CMP and indeed, if that were to be the case, an amendment to the CMP would be required.

The Board accepts the Corporation's proposed 5% Capital Release provision, in line with the provisions of the CMP. The Board will continue to assess the performance of the CMP and the Basic target capital level over the trial period, after which the Board will undertake a detailed review of the CMP. The Board therefore directs that in the 2022 GRA, MPI file material to assist in its review of the CMP. This shall include an analysis supporting the level of the Basic target capital level (100% MCT) or the use of a single target capital level (vs. a range) to promote rate stability, consistent with the purpose of the RSR. Should the Board revert to a scenario-driven Basic target capital range or level (which the latest evidence from the 2019 GRA suggests is below 100% MCT), the Board acknowledges the practical impact of the current decision on the Basic target capital level would be to

defer the otherwise appropriate Capital Release, given the current level of the Basic MCT ratio.

The CMP contains a commitment from MPI to transfer Extension retained earnings over 200% MCT to Basic. The evidence in this Application shows that MPI did not follow this commitment in the past year and instead issued a rebate to ratepayers. MPI also gave evidence in the public hearings indicating that while there are no current plans to do so, it is possible that Extension retained earnings could be used for purposes other than transfers to Basic. It is of concern to the Board that within the first year of this two-year trial period MPI has already departed from its commitment to Extension transfers and is acknowledging the possibility this could happen again.

Lastly, despite severing the tie between the Basic Financial Condition Testing (FCT) and the setting of Basic target capital levels, the Board encourages the Corporation to annually undertake, and file with the GRA, the Basic FCT investigation as a part of its prudent risk management and good governance processes.

## **5.0 VEHICLES FOR HIRE**

### **5.1 *History***

In Procedural Order No. 88/20, the Board confirmed that one of the issues for this GRA would be the claims experience to date for the Vehicles for Hire (VFH) Class and the implications, if any, on new market entrants.

The VFH class is relatively new, having been introduced on March 1, 2018. As a result of a lack of claims experience and data, the Board approved the rates for the class based upon certain initial assumptions used by MPI within the approved ratemaking methodology. Until now, the Board has not undertaken a substantive review of all aspects of the VFH class.

When MPI created the Passenger VFH insurance use, it understood that individuals would drive for a ride sharing company or Transportation Network Company (TNC) on a casual basis and pick up passengers as part of their regular day-to-day driving from one place to another. Accordingly, the initial rating for this insurance use reflected this understanding and MPI assumed a moderately higher rate for Passenger VFH as compared to all-purpose, to reflect the increased risk exposure. Based upon a jurisdictional scan, MPI determined that the average VFH rate in other jurisdictions was approximately 8% to 25% higher than the All Purpose rate. The Corporation judgmentally set that difference at 20% above the current Passenger vehicle all-purpose rates for corresponding vehicle type and rate group.

In the 2019 GRA, the Corporation acknowledged a significant difference in rates between the Passenger VFH and Taxicab VFH classifications. It advised that as experience data became available, it would ensure that the rates assigned to each VFH category would be reflective of the risk and actuarially supported.

## **5.2 Current Application**

The Corporation now has two full insurance years of claims experience for the VFH Class, and provided a breakdown of the claims experience for each of those years. The breakdown provided a comparison among the six classifications of VFH insurance uses, based upon the number of earned units (essentially the number of vehicles), the earned premium, and the loss incurred for each classification for each insurance year, as of February 29, 2020.

The classifications were separated into two Major Classes: the Private Vehicle VFH Major Class consisting of Passenger Vehicles and Trucks of 4,499 kg or less GVW (Light Trucks); and the Public Vehicle VFH Major Class consisting of Accessible Vehicles, Limousines and Taxicabs.

The Loss Ratio, being the loss costs relative to the premium earned for each of the Major classes revealed that the Loss Ratios for Passenger Vehicle VFH were 129.6% and 120.0% for the insurance years 2018 to 2019, respectively. By comparison, the Loss Ratio for the Public Vehicle VFH Major Class was 88.1% and 89% for those same years. In particular, the Taxicab VFH Loss Ratio was 86.5% for 2018 and 85.6% for 2019.

The Corporation acknowledged that, based on actual claims experience as of February 29, 2020, the rates for Passenger Vehicle VFH do not fully reflect the loss costs and that the Loss Ratio is a clear indication that the Corporation is not collecting enough premium for the Public Vehicle VFH Major Class. A Loss Ratio in the range of 70-80% would be necessary to break even, net of all costs.

The Corporation further acknowledged that, based on the actual claims experience as of February 29, 2020, Passenger Vehicle VFH did not have an appropriate starting rate. However, the Corporation maintained that it does not believe Passenger VFH operates in the same capacity as Taxicab VFH; that there are differences between Passenger VFH operators in terms of how long they drive in their capacity as a Passenger VFH and that, on average, Passenger VFH operators are on the road significantly less than Taxicab VFH operators. Therefore, the Passenger VFH rate should fall somewhere between the Passenger All Purpose rate and the Taxicab VFH rate, although the magnitude of the difference in rates would not be precise.

In the Application, the Corporation adjusted the rates for all VFH classifications based upon the current ratemaking methodology and did not propose any special adjustments to the Passenger Vehicle VFH rates. The Corporation considered the Loss Ratio for Passenger Vehicle VFH not to be credible, given the small number of vehicles (that is, earned units) within these classifications and the short period of time over which experience data has been collected.

By comparison, the Passenger Vehicle VFH Major Class had 452.9 earned units in 2018 and 746.2 earned units for 2019, whereas the Taxicab VFH classification had 540.4

earned units in 2018 and 624.5 in 2019. Although the number of earned units may not be significantly different, the Corporation noted that it has mature loss experience for the Taxicab VFH as a rollover from the previous Taxi Livery Passenger Vehicle insurance use. As such, the rates for the Taxicab VFH class are reflective of the potential loss cost with minor year-over-year adjustments. In addition, the Corporation noted that the Passenger Vehicle VFH classifications had no serious losses recorded (i.e. claims over \$500,000.00) during the two insurance years.

Accordingly, in determining the VFH rates, the Corporation assigned a minimum credibility weighting of 10% to the current experience and 90% to the current rate. This is similar to the ratemaking methodology applied to other insurance uses.

The Corporation acknowledged that there is a likelihood of some subsidization of the Passenger Vehicle VFH Major Class, but took the position that there is no cross-subsidization because any deficiency is taken from the RSR as an unforeseen deficiency, which is squarely within the purpose of the RSR.

The Corporation also acknowledged that the likelihood a rate increase of a larger magnitude is required is high, but that it could not provide a level of detail.

As indicated above, the Corporation expressed concern that it only had two years of claims experience and that there may be a number of possible explanations for the high Loss Ratios in these years. It was the Corporation's evidence that an insurance use indicating a Loss Ratio exceeding 130% is rare, but can occur where the insurance use has a smaller number of units whereby a single large loss can throw off the overall Loss Ratio for that use. As well, this can occur in new insurance uses where the Corporation has insufficient data to accurately determine an appropriate starting rate. The Corporation's position was that unless a Loss Ratio is 400-500%, no special rate adjustment (i.e., deviation from the ratemaking methodology) is necessary. MPI stated that it is actively addressing the Loss Ratio for the Passenger VFH through the approved ratemaking methodology. Further, although certain rating classifications may have



different loss ratios in the short term, all rating classifications eventually move toward indicated break-even actuarially required rates.

In this regard, in response to an Information Request by the Taxi Coalition, the Corporation estimated that based upon the information currently available, Passenger Vehicle VFH rates would have to increase approximately 56% to approach actuarially indicated break-even rates. The applied for average rate for Passenger Vehicle VFH for the 2021 GRA is \$1,995, such that a 56% increase beyond the 2021 GRA would result in an increase of a further \$1,117. Maintaining the current ratemaking methodology would take approximately 10 years, beyond the 2021 insurance year, for the rate for this classification to reach the actuarially indicated break-even rates.

The Corporation took the position that the determination of just and reasonable rates must take into account the credibility of the observed data and the current rate. Proposed rates move understandably slower from the current rate to an actuarially indicated break-even rate where there is lower credibility, due to less evidence that the actuarially indicated rate is in fact the "true" break-even rate. Giving full weight to very low credibility experience would typically not be seen as "reasonable" and, therefore, it is just and reasonable to have proposed rates that do not completely reflect observed experience if the observed experience has very low credibility.

MPI also acknowledged that, due to the COVID-19 pandemic, the claims experience for the 2020/21 and possibly the 2021/22 insurance years may not be reliable, further postponing the collection of data to better determine appropriate rates.

With respect to incentives available to the Taxicab VFH classification, the Corporation noted that taxi drivers were just recently allowed to take advantage of the DSR discounts and it is still too early to assess the impact that will have on this classification. The Corporation recognized that more data might be useful, such as collecting kilometers driven, but that this may be difficult to obtain and would require drivers' self-reporting.

MPI noted that no taxi owner met the Fleet Program requirement of 10 vehicles; however, the Corporation does not believe the Fleet Program is a reasonable alternative for taxis. The Corporation's position was based upon the potential of extreme volatility by lowering the threshold for the qualification for Fleet Program to fewer than 10 vehicles. Further, the Corporation would require additional resources to administer the program and the number of corporate taxi registrants would likely be very small.

Finally, the Corporation also advised that it is presently in the process of conducting a review of its VFH products in order to address known issues with its current design, including:

- Significant differences between Taxicab VFH and Passenger Vehicle VFH rates;
- Significant differences in exposure (i.e. kilometres driven) and driver risk, not being adequately captured by the current system;
- Feedback from TNC's that the current product offering does not meet their needs (i.e. no kilometre rate available, blanket coverage, etc.); and
- Lack of incentives to improve driving behaviour (i.e. flat rated Taxicab VFH).

The Corporation advised that the following principles will guide the development of a new VFH framework:

- The rating model is actuarially-based and uses experience-based adjustments to reflect the risk;
- The model and/or pricing does not have to apply identically and/or consistently between VFH sub-categories; and
- No cross-subsidization outside of the VFH class or between VFH classes.

The Corporation indicated that this review would be completed in the Fall of 2020.

### **5.3 *Intervenors' Positions***

#### **CAC**

CAC's position was that the undercharging of premiums for Passenger Vehicle VFH results in a cross-subsidy and retained earnings, such as the RSR, are not intended to absorb or mitigate the effects of such cross-subsidisation. To the extent that retained earnings exceed the appropriate financial targets, they represent excess funds which should be repaid to captive ratepayers.

CAC was not in favour of MPI's approach to achieve actuarially indicated break-even rates for Passenger Vehicle VFH which, effectively, is a ten-year plan. CAC was also not in favor of the Taxi Coalition's suggestion of an immediate 56% increase to deal with the rate adjustment in one year. Rather, CAC advocated a directional pricing signal sufficient to address the issue within a five-year period, recognizing that each additional year of data may give better insight.

#### **Taxi Coalition**

The Taxi Coalition called two expert witnesses who had jointly filed pre-hearing testimony in respect of the issues of Taxi VFH Risk and Incentives and the Appropriateness of the Passenger VFH rates.

The Taxi Coalition called Mr. Jeff Crozier, a consultant with InterGroup Consultants Ltd. as an expert in the area of regulated auto insurance generally. Although the Corporation was not prepared to consent to Mr. Crozier's pre-qualification at the Pre-Hearing Conference, during the course of the public hearing, the Corporation consented to Mr. Crozier being qualified as an expert in regulated automobile insurance. Mr. Crozier holds a Master of Arts and Economics from McGill University and was employed as Director of Regulatory Affairs with MPI from 2016 to 2020.

Mr. Patrick Bowman is the principal consultant with Bowman Economic Consulting, which provides consulting services on utility regulation. Bowman holds a Master in Natural Resources Management from the University of Manitoba and has previously testified as an expert before utility regulatory tribunals across Canada, including the Board. Bowman was pre-qualified by Board Order 88/20 to testify as an expert in the area of the application of regulatory principles and concepts appropriate for regulated crown utilities.

With respect to Taxi VFH risk and incentives, Mr. Crozier testified that Taxi VFH represents an unusually high risk relative to both the Public Vehicle Major class and the broader fleet of vehicles insured by MPI. The risk associated with Taxi VFH has not been assessed in the context of time the vehicles are on the road or the distance travelled; two factors MPI acknowledges in assessing risk. Mr. Crozier noted that MPI does not capture and accumulate data on these factors and has not yet explored options to acquire such data, although MPI has acknowledged that such data could allow it to better differentiate risk within the insurance use. Accordingly, Mr. Crozier recommended that MPI collect this data so as to contribute to an understanding of the risk presented by Taxi VFH and VFH classes generally.

Mr. Crozier further testified that Taxi VFH face the principal driver risk problem. That is, Taxi VFH operations in Winnipeg are generally independently owned, often with two or more taxicabs and multiple drivers operating on a shift-work basis. As such, the risk associated with the vehicle and the pricing of the insurance policy may not reflect the actual risk as it is based on the registered owner. He further testified that there has been no response by the Taxi VFH classification to DSR incentives (through vehicle premium discounts) that can be distinguished from the general trend in Taxi VFH raw relativities.

Further, Mr. Crozier noted that MPI's Fleet Program, which provides for rebates and surcharges and is mandatory for all fleets of 10 vehicles or more, is not available to corporate customers who own under 10 vehicles. Accordingly, the Taxi VFH classification and any small corporation fleets are unduly discriminated against based on the legal status of ownership, whether sole proprietorship, single or multi owner corporation. Mr.

Crozier recommended that MPI develop a framework for Taxi VFH rates and VFH rates generally that provides effective incentives and addresses the principal driver risk issue. Further, he recommended that MPI find a solution to address the gap in incentives available to small corporate customers, i.e., those with fewer than 10 vehicles.

With respect to the appropriateness of Passenger VFH rates, Mr. Crozier testified that the operating characteristics of Passenger VFH have not materialized as the Corporation expected at the time it established the VFH framework. As a result, the initial, current and proposed pricing of VFH rates for Passenger Vehicles do not cover the costs of coverage.

Mr. Crozier noted that MPI's ratemaking methodology strongly favours the initial assumptions MPI had made over the observed experience to date. He believes, however, MPI's position, that the Passenger Vehicle VFH data pool has very low credibility given its size, does not reflect the potential loss costs and is not consistent with the actuarially indicated break-even rates.

Moreover, a sensitivity test of credibility weighting shows that modest increases in credibility weighting for observed experience above the assigned 10% minimum can move Passenger VFH rates toward actuarially indicated break-even rates in three to four years without exceeding the existing experience adjustment cap of 15%. He undertook a "goal seek" procedure to determine the credibility weighting necessary to result in a 15% increase in the indicated rate. He found that a credibility weighting of 40% for the observed experience to date would result in such an increase. This would allow these rates to achieve the actuarially indicated break-even rate in approximately five years, rather than the ten years suggested by MPI. Mr. Crozier stated that increasing the credibility weighting for Passenger VFH would not negatively affect the other insurance uses in the Private Passenger Major class.

Mr. Bowman gave evidence with respect to the regulatory principles for pricing the Passenger VFH insurance use. He considered the Corporation's proposals to represent a gross misapplication of traditional regulatory rate design principles. That is, the

Corporation mistakenly relied upon principles that under regular conditions would be relevant, but have applied these principles to a situation which is causing material market distortions and unfairness.

Mr. Bowman echoed Mr. Crozier's concerns that the small credibility given to the observed experience results in a more heavy weighting of the original rate-setting inputs. Those original inputs were of extremely limited value and based upon no data. The concept that original inputs are of more importance than actual observed data is erroneous. For example, although rate stability is a normal rate design objective, it should not be a high priority in situations such as the introduction of a VFH rate design in which the users are new and there has not been sufficient time to base the business model on current rates.

Mr. Bowman expressed the belief that the normal rate design principles regarding rate stability should be suspended to avoid the unfair and improper signal of temporary subsidized services at a time when individuals may be making decisions in participating in the TNC market, and to ensure that MPI is not distorting the commercial market. Accordingly, the requirement of a 56% increase in rates to achieve actuarially indicated break-even rates should not be rejected.

Alternatively, Mr. Bowman suggested that, if some measure of gradualism is preferred, an immediate move in the order of a 40% increase for the 2021 insurance year would permit MPI to reach full cost recovery in one additional insurance year, with a following increase in the order of the experience adjustment cap of approximately 15%.

Mr. Bowman acknowledged that avoidance of rate shock is one of the relevant criteria for the setting of just and reasonable rates and that, in Board Order 148/04, the Board established an overall cap of plus or minus 20% relative to current rates. However, this criterion should receive much less weight and the circumstances of the present case justify overriding the 20% cap.

The Taxi Coalition noted that there was an absence of evidence to contradict the regulatory principles raised by Mr. Bowman. Further, it argued that it is unrealistic to not include the potential for serious loss in the pricing for Passenger VFH. As well, it is unrealistic to believe that entrants to the underpriced Passenger VFH marketplace will not have an indirect impact on taxis.

Based on the foregoing, the Taxi Coalition recommended that the Board should:

- Increase the rates for Passenger VFH by 56%, together with corresponding reductions to rates in the Private Passenger Major Class.
- In the alternative, increase rates for Passenger VFH by 40% with the intention of considering an appropriate adjustment in the next GRA. Once again, the 40% increase would have corresponding reductions to rates in the Private Passenger Major Class.
- Direct MPI to investigate and in the next GRA report on whether it is appropriate to accelerate the reduction in premiums for Taxicab VFH in territories 2, 3 and 4.
- Direct that the following matters be included in the VFH framework review:
  - Whether MPI requires any regulatory or municipal by-law changes in order to collect relevant information for the VFH rate design(s);
  - Which DSR model(s) best reflect risk and incentives to reduce risk;
  - Whether the fleet program, or some variation of that program, which takes into account the claims experience of multiple vehicles and multiple drivers is appropriate for Corporately owned VFH fleets of two or more vehicles;
  - Whether any one or more of other metrics such as time on the road or kilometers driven or driver risk are appropriate for designing VFH premiums;

- Whether time bands should be adjusted to better reflect the business operations and risk of VFH;
- Collection of and analysis of relevant data in order to better understand the causes of high relativities of VFH, and in particular of Taxicabs, in their Major class;
- Analyze and report on whether it continues to be appropriate to have Passenger VFH and Private delivery services like Uber Eats and Skip the Dishes in a different major class than other VFH;
- Analyze and report on the relative probability as between the Passenger VFH and the other VFH that there will be a serious loss claims experience in the future;
- Collect and analyze, if available, relevant data and report at the next GRA on the composition of and characteristics of the Passenger VFH group, including (based on a metric such as per week or per month) time available for fares, number fares taken, time of day (e.g., 18 evenings, weekends.) on the road, and kilometers driven;
- Report on whether and which parts, if any, of the proposed VFH framework require regulatory changes or PUB approval;
- Direct MPI to make reasonable attempts to conduct its VFH framework review so it has a proposal for the next GRA with a view of being able to integrate the revised framework in Project Nova on or before April, 2022.
- Find that there is a gap in currently offered DSR incentives to corporately owned VFH (two or more owners), and direct MPI to implement a DSR registrant model for corporately owned VFH. This would include taxis, accessible and limo VFH.



#### **5.4 Board Findings**

In Order 146/20, the Board's Summary Order on rates, the Board ordered a rate increase of 20% from current rates for the Passenger Vehicle For Hire (VFH) category, along with consecutive rate increases of 20% for the Passenger VFH Major class in the 2022/2023 and 2023/2024 GRAs, subject to the Board's ability to vary such increases based upon the experience filed within those GRAs and as the Passenger VFH rates approach actuarially indicated break-even rates. The Board hereby provides its reasons for the rate increase.

The Board notes that Passenger VFH services with a presence in Manitoba were provided with notice of this hearing and chose not to participate.

The Board is satisfied that it is just and reasonable to increase Passenger VFH rates. The evidence in this Application demonstrated that most VFH customers purchase all four time bands which allow for 24 hours a day, seven days a week operation. Within the Passenger VFH Major Class, as of July 1, 2020, approximately 80% of policyholders purchased all four time bands, demonstrating that they are not simply operating on an occasional basis, but rather, are available full-time in a similar capacity to taxicabs. As such, it is clear that Passenger VFH competes with Taxi VFH.

On the other hand, the evidence showed that collision frequency within the Taxi VFH classification is far greater than that of the Passenger VFH, such that the Passenger VFH rates would not equate to the Taxi VFH rates.

The Board is satisfied that the likelihood of cross-subsidization of the Passenger VFH Major class is sufficiently high to warrant a significant increase in rates. After two years of significantly high Loss Ratios, the Board does not accept the Corporation's position that the deficiency in rates is the type of unexpected variance from forecasted results contemplated by the RSR.

The Corporation's plan to allow current Passenger VFH rates to approach actuarially indicated break-even rates within the approved rate making methodology over time will simply take too long. There is a patent unfairness relative to the Taxicab VFH classification, which must be remedied sooner rather than later and even a five year process is too long. The Board is further concerned that, due to the significant impact of COVID-19, the data for the current insurance year and perhaps the 2021/22 insurance year may not be of assistance in setting rates in the future, which will prolong this discrepancy.

The Board accepts the Taxi Coalition's position, supported to some extent by the CAC, that the undercharging of rates for the Passenger VFH class is sending the wrong message to persons who may wish to enter the business of providing Passenger VFH services. The probability is that they will make the necessary investment to enter the business at the current low rates only to see considerable increases in future years.

Finally, the Board is satisfied that MPI's starting point for setting Passenger VFH rates was not correct. The Board does not accept the Corporation's position that Loss Ratios as high as 400% to 500% would be necessary before a proactive correction should be made. This is inconsistent with ratemaking principles. While the Board notes that it would have been preferable to have parties representing the Passenger VFH class at this GRA, this does not prevent the Board from determining, in the public interest, just and reasonable rates for this classification.

Although the Board has determined that a significant increase in Passenger VFH rates is warranted, it is not persuaded that it should exceed the overall rate increase cap of plus or minus 20% established in Board Order 148/04. For this reason the Board has ordered that rates for the Passenger Vehicle VFH Major Class be increased by 20% for the 2021/2022 insurance year. There shall be corresponding rate increases in the next two GRAs, unless MPI can demonstrate that the Passenger VFH Major Class is no longer being subsidized.

The Board also recommends that if a policyholder uses a vehicle for a dual purpose (i.e., a driver who performs food delivery services with a Passenger VFH and All Purpose use), that should be classified as Passenger VFH in order to accurately reflect risk.

Further, the Board accepts the Taxi Coalition's recommendations with respect to the VFH framework review the Corporation is currently undertaking. In order to ensure a robust review, the Board directs the Corporation to include the following matters in its VFH framework review:

- Whether MPI requires any regulatory or municipal by-law changes in order to collect relevant information for the VFH rate design(s);
- Which DSR model(s) best reflect risk and incentives to reduce risk;
- Whether the fleet program, or some variation of that program, which takes into account the claims experience of multiple vehicles and multiple drivers is appropriate for corporately owned VFH fleets of two or more vehicles;
- Whether any one or more other metrics, such as time on the road or kilometers driven or driver risk, are appropriate for designing VFH premiums;
- Whether time bands should be adjusted to better reflect the business operations and risk of VFH;
- Collection of and analysis of relevant data in order to better understand the causes of high relativities of VFH, and in particular of Taxicabs, in their major class;
- Analyze and report on whether it continues to be appropriate to have Passenger VFH and Private Delivery services in a different major classes;

- Analyze and report on the relative probability, as between the Passenger VFH and the other VFH classifications, as to whether there will be a serious loss claims experience in the future;
- Collect and analyze, if available, relevant data on the composition of and characteristics of the Passenger VFH Class, including (based on a metric such as per week or per month) time available for fares, number fares taken, time of day (e.g. evenings, weekends, etc.) on the road, and kilometers driven; and
- Report on whether and which parts, if any, of the proposed VFH framework require regulatory changes or Board approval.

The Board further directs that the Corporation file its review with the next GRA.

The Board has also determined that a Technical Conference on the VFH framework would be appropriate and, therefore, directs that a Technical Conference take place and a report concerning the technical conference be filed before the filing of the 2022 GRA. That report shall include proposals on how to deal with significant difference in relativities in the Top 20 relativity listing and determine whether Taxi VFH in territories 2, 3 and 4 are being overcharged and whether a reduction in rates for those classifications should be accelerated. The Board expects that as a result of the VFH framework and the Technical Conference, it will undertake a more detailed analysis of the VFH class in the 2022 GRA.

## 6.0 DRIVER SAFETY RATING

### 6.1 *History*

In Order 130/17, following the 2018 GRA, the Board directed that a Technical Conference take place 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 register driver rating. The Board also directed the Corporation to file proposed driver premium rates more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale in the 2020 GRA, and, in this Application, file proposed vehicle premium discounts that were actuarially indicated based on principal driver performance evaluation.

The Corporation applied for a review and variance of those aspects of Order 130/17, and by Order 29/18, the Board varied Order 130/17 as follows:

- With respect to the requirement for a Technical Conference, the Board directed that it be undertaken in order to review 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 information shared in the Technical Conference was to be included in the 2019 GRA.
- The Board held in abeyance the requirements that: (1) in the 2019 GRA the Corporation file proposed driver premium rates more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale; and (2) in this Application, the Corporation file proposed vehicle premium discounts that are actuarially indicated based on principal driver performance evaluation. These directives were varied and held in abeyance until such time as the issues of driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale,

and vehicle premium discounts fully supported by actuarial indications based on principal driver performance evaluation, were reviewed and considered in the 2019 GRA.

In the 2019 GRA, the Corporation reported on certain models for driver premiums and vehicle premium discounts that might be considered in determining what changes should be made to the DSR system. The Corporation advised in that application that it was in the process of researching models and the next steps towards the implementation of more actuarially sound DSR premiums and vehicle premium discounts would involve public consultation efforts, along with further investigation and analysis of those rating models having limited or no additional IT costs.

In the 2020 GRA, the Corporation provided a report on the findings of its public consultation process on the DSR system. MPI advised that it would be providing a pricing examination of the Registered Owner (the current model used by MPI), Primary Driver, and Driver Premium models in this Application, at which time it would also provide its recommendation to the Board as to whether it intended to continue with the Registered Owner model, or move to one of the alternative models.

In Order 176/19 following the 2020 GRA, the Board commented that with two years having passed since Order 130/17, MPI should be in a position by this Application to advise the Board of the direction it intends to take with respect to DSR. Accordingly, the Board directed that in this Application the Corporation file information as to which rating model it intended to proceed with, a pricing examination of alternative models, and information as to whether it had collected data to recalibrate the amounts of driver premium and vehicle premium discounts to be charged under the DSR system to be more statistically sound, based on experience. The Board directed that the pricing examination be limited to the Registered Owner and Primary Driver models only, given that those two models had the greatest amount of public support and perceived fairness.

On December 31, 2019, MPI made an application to the Board for a review and variance of one directive in Order 176/19 related to the DSR system. In particular, MPI asked that the Board vary the directive requiring it to file information in this Application as which rating model it intends to proceed with. As part of the request for a variance, MPI advised the Board that changes to the DSR might have an impact on one or more of the *Automobile Insurance Plan Regulation*, *Driver Safety Rating System Regulation* under *The Manitoba Public Insurance Act*, and the charges for licences, registrations, permits and other services regulation under *The Highway Traffic Act*. MPI also stated that it must coordinate the impact of DSR changes on its major IT initiative, Project Nova. According to MPI, its Board of Directors would not be in a position to decide on a direction for the DSR any earlier than mid-2020, and following that decision, the process for any regulatory amendments would take approximately 12 months.

MPI therefore asked for a variance so that it would not be required to advise in this Application as which DSR rating model it intended to proceed with, but instead that it would file information in this GRA as to the timeline and major milestones for such a decision. The Board granted MPI's request in Order 6/20 dated January 21, 2020. The Board pointed out in Order 6/20, however, that the need for progress towards a new DSR model was raised by it following the 2018 GRA and that given the history of this matter, it expected that MPI would set its timeline and milestones with a view to progressing on a new DSR model in a timely manner.

## **6.2 Current Application**

In this Application, MPI filed a pricing examination of its current Registered Owner rating model, which applies vehicle premium discounts and surcharges based on the registered owner of the vehicle.

MPI reported that at the individual vehicle level, the Registered Owner model does not consider the relative risk of the vehicle based on the actual driver(s) of the vehicle. Instead, the model determines the relative risk (and the vehicle discount) simply based

on who owns the vehicle. However, at the overall vehicle level, the vehicle discounts provided (at each DSR level) are based on the collective loss experience of the drivers of vehicles registered to owners with the same DSR level. For example, the vehicle discount at DSR level +15 reflects the collective loss experience of the drivers of vehicles registered to owners with DSR level +15. The vehicle discount is an adjustment (to the base rate) to reflect the relative risk of all drivers of vehicles registered to owners with DSR level +15 versus all drivers of vehicles registered to owners with DSR level 0 (i.e. the base DSR level).

In terms of methodology for the pricing examination, MPI used the minimum bias procedure to determine DSR level relativities. This method isolates the effect of DSR level on loss costs by adjusting for exposure correlations with other rating variables (i.e. territory, use and rate group).

MPI found as a result of the pricing examination that its current vehicle premium discounts and surcharges do not reflect the relative risks of drivers at different DSR levels. For drivers at the highest level of merits on the DSR system, the actuarially-informed discount would be 56.7% compared to the base premium, whereas the current discount is 33%. If MPI were to incorporate changes to the DSR discounts and surcharges as a result of the pricing examination, DSR levels +11 through +15 would see decreases in rates, with level +15 seeing a decrease of 22.1%. DSR levels under +10 would all see increases. Implementation of changes to DSR discounts would also result in changes to other relativities, such as Major Use or vehicle categories.

MPI did not file any proposed changes to the existing DSR discount scheme in this Application, and the relativities generated by the pricing examination were not incorporated into MPI's rate request.

MPI advised that it is developing recommendations for the future of the DSR system but it does not plan to make any changes prior to the completion of Project Nova. The future state recommended by MPI to government may require regulatory changes. Although it



does not plan to implement any changes in the near term, the requirements of the future state of the DSR system must be developed within the next 12 months to ensure that it can be coordinated with any planned changes to legacy systems.

MPI anticipated that by mid to late 2021, an internal decision on changes to the DSR would be made. MPI will be the leader of the initiative, but any changes to the DSR would require approval by the Government of Manitoba before implementation. MPI advised that it does not currently know the capabilities of software that will be implemented in Project Nova to rate risk for individual drivers or owners. Based in part on the capabilities of the new system, and the willingness of the government to make changes to the DSR system, MPI advised it would soon make a decision on how to proceed.

MPI also stated that the findings from the DSR pricing examination cannot be understood in isolation from revised relativities, especially as they relate to territories and uses. When consideration of the DSR is included in the minimum bias procedure, the relative rates between different uses (such as All Purpose and Pleasure) become more similar.

Lastly, MPI's position was that, while in theory, the Primary Driver model enables it to provide more accurate pricing, it must take into account that it would cause a disruptive overhaul of the DSR system while still relying upon the honour system for customers to provide accurate information as to the primary operator of a vehicle within a household, if that person is someone other than the registered owner.

### **6.3 *Intervenors' Positions***

#### **CAC**

CAC argued that the pricing examination conducted by MPI demonstrated that there is a material cross subsidy, where the best drivers with registered vehicles (at DSR levels +11 to +15) are paying rates that appear to be unduly discriminatory. CAC's position was that MPI could begin to address that cross subsidy within the current DSR system, without undermining any recommendation to proceed to the Primary Driver model in the future.

In any event, such a process should be coordinated with adjustment to the relativities for all variables with the same timing, to ensure correlations are accounted for. CAC argued that MPI should present options in the 2022 GRA, which consider addressing the existing subsidies in time periods of three and five years, and indicate its plan to mitigate against excessive dislocation. CAC pointed out that government approval would not be required for MPI to address the dislocation for customers at level +15 of the DSR.

CAC took the position that the Board should recommend that MPI ask for government consideration in replacing the existing Registered Owner approach with a Primary Driver model, or a blended model. In addition, location is a significant driver of a difference in risk in most jurisdictions. CAC noted that ICBC recently updated its territorial data to better reflect different regions within that province and that MPI has not conducted a territory review since the introduction of the DSR.

Lastly, CAC noted that MPI had not indicated a concern with moving towards a rate indication incorporating minimum bias based on DSR and other variables for the 2022 GRA.

### **CMMG**

CMMG argued that changes to the DSR system must coincide with the implementation of Project Nova, and the changes need to happen on a timely basis. The Primary Driver model is fair, better reflects risk, and would result in reductions in collision frequency. CMMG noted that MPI saw improved experience when the DSR model was implemented.

In addition to a change to the model, CMMG supported improvement of the current DSR model to better align discounting methodologies to risks posed by insurance, until such time as the Primary Driver model is implemented. Similar to CAC, CMMG commented that the current discount for DSR level +15 results in overcharging of those ratepayers and in turn, those ratepayers are subsidizing others at lower merit levels.

CMMG also recommended that the Board direct MPI to collect data for Primary Driver model and provide a pricing analysis of the Primary Driver model, including a comparison with the Registered Owner model, in the 2022 GRA.

#### **6.4 Board Findings**

The Board outlined the recent history of the DSR in past GRAs above. Since the 2018 GRA, the Board has expressed concern with the evidence that the current DSR scale does not accurately reflect risk. In Order 130/17, the Board approved an increase to rates on the demerit side of the DSR scale, but made clear that MPI should strengthen its analytical tools in the determination of driver premiums.

The pricing examination in this Application confirms that further refinement is required in order for rates to accurately reflect risk. In addition, using the Registered Owner rather than Primary Driver model means that good drivers who are registered owners of vehicles are subsidizing bad drivers who are not. By way of example, there are approximately 70,000 motorcycle licences for 17,000 registered motorcycles, which makes clear the need for a rating system based on the primary driver.

Given the history outlined above, the Board finds that more than sufficient time and examination has taken place in order for MPI to move towards more actuarially sound driver premiums and vehicle premium discounts by the 2022 GRA.

Further, given the evidence that the Primary Driver model would more accurately reflect risk, in the 2022 GRA the Corporation must bring forward a plan, including timelines, major milestones and implementation date, for any changes to the DSR model, including a date by which MPI file an application for any such changes with the Board. The timeline for MPI's major Information Technology initiative, Project Nova, requires that MPI move forward on DSR changes without delay.

The need for government approval for changes to the DSR rating model should not be a deterrent to initiating any such change. Further, Project Nova provides MPI with an

opportunity to coordinate changes to the rating model with new IT systems. The Board is concerned that if MPI does not take proactive steps to move to the Primary Driver model now, such a change will be more difficult to implement after completion of Project Nova.

Lastly, the Board directs that in the 2022 GRA, the Corporation shall incorporate DSR into its minimum bias analysis used to set rating relativities.

## 7.0 PROGRAM COSTS

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

	Total Estimated Expense 2021/22 (\$ millions)	Percentage of Total Program Costs
Net Claims Incurred	\$915.0	74.5%
Claims Expenses	144.0	11.7
Road Safety/Loss Prevention	13.7	1.1
Operating Expenses	72.4	5.9
Commissions	43.7	3.6
Premium Taxes	33.6	2.7
Regulatory/Appeal expenses	5.2	0.4
<hr/>		
Total Program Costs	\$1,227.6	100.0%

### 7.1 *Basic Claims Incurred*

Claims Incurred represents 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 \$761.5 million in 2019/20, which was \$95.1 million or 11.10% over the budget presented at last year's GRA.

Net Claims Incurred for 2020/21 in this year's Application were originally forecast to be \$846.9 million. MPI revised its Net Claims incurred forecast for 2020/21 on October 9,

2020, based on the first five months' experience. Interest rates had declined from 2.58% on March 31, 2020 to 1.94% on August 31, 2020, a decrease of 64 basis points, increasing the costs of longer duration liability claims. The Net Claims Incurred forecast increased to \$950.7 million. The increase in claims incurred was due primarily to an interest rate impact of \$157.9 million (a \$122.6 million variance from the Application), an increase in forecasted write down of Deferred Policy Acquisition Costs of \$6.4 million, and increased forecast Internal Loss Adjustment Expenses of \$2.7 million. These cost increases were offset by further reductions in forecast physical damage claims of \$27.8 million, reflecting lower claims counts attributed to COVID-19.

The 2021/22 Net Claims Incurred forecast was revised from \$979.7 million forecast at last year's GRA to \$908.7 million; a decrease of \$71.0 million, primarily as a result of the following:

- A decrease of \$36.2 million due to a lower Collision and Comprehensive claims;
- A decrease of \$15.1 million due to CERP impact;
- A decrease in the forecasted Unallocated Loss Adjustment Expense of \$12.2 million;
- Lower forecast interest rate impact of \$5.4 million;
- Lower forecast property damage claims of \$4.8 million;
- A decrease of \$1.3 million from a lower forecasted Write Down DPAC;
- An offsetting increase of \$3.7 million from forecasted PIPP and Bodily Injury; and
- An offsetting increase of \$0.4 million from a forecasted increase in claims discount rate.

MPI updated its Net Claims Incurred forecast for 2021/22 to \$915.0 million based on the October 9<sup>th</sup> update.

Claims Incurred for the fiscal years 2016- 2020 for the major coverages were as follows:

For years ending February 28/29 (\$ millions)	2016	2017	2018	2019	2020*	5-year change	
Physical Damage - All Perils							
Collision	354	409	426	406	444	90	25%
Comprehensive	123	118	67	100	91	(32)	(26%)
Property damage	41	43	49	42	45	4	10%
<b>Sub-total</b>	<b>518</b>	<b>570</b>	<b>542</b>	<b>548</b>	<b>580</b>	<b>62</b>	<b>12%</b>
PIPP Accident Benefits & Other	142	284	220	340	210	68	48%
Public Liability	6	5	5	5	6	-	-
<b>Total Claims Incurred</b>	<b>746</b>	<b>860</b>	<b>767</b>	<b>892</b>	<b>796</b>	<b>50</b>	<b>7%</b>

\*MPI changed its fiscal year end to March 31<sup>st</sup>. The 2020 fiscal year reflects a 13-month period ending March 31, 2020.

Based on the October 9<sup>th</sup> update, total claims incurred were \$761.5 million and were forecast to be \$950.7 million in 2020/21, \$915.0 million in 2021/22, and \$937.3 million in 2022/23, for an overall increase of \$175.8 million or 23% from 2019/20

A major component of Total Claims Incurred is collision claims costs, which were \$444.3 million in 2019/20 (over 13 months). Relative to the long-term average, the last six accident years have had below-average collision frequency. Some of the reduction in frequency over the last six years was attributed to mild winters; however, there has also been a reduction in summer collision frequency over the past seven years.

The collision forecast for 2020/21 had been reduced in the Application as filed from the 2020 GRA by \$60.6 million, as a result of the impact of the pandemic (estimated to be \$26.5 million for 2020/21) and lower frequency and severity of claims. The collision claims forecast was further reduced by \$13.0 million based on the October 9<sup>th</sup> update, reflecting lower claims experience during the first five months of 2020/21. In the COVID-19 Q3 scenario, in which the pandemic impacts were assumed to extend to the end of December 2020, additional claims savings of \$16.7 million were assumed. In the COVID-19 Q4

scenario, in which the pandemic impacts were assumed to extend to the end of March 2020, further claims savings of \$15.3 million were assumed.

MPI reported that it performed an operational review of the Claims Incurred expenses and concluded that certain costs were more closely categorized as operational expenses. MPI reallocated certain expenses totalling \$8.0 million in 2020/21 and \$8.4 million in both 2021/22 and 2022/23. These expenses were previously classified as Claims Incurred expenses, and 100% of these costs were previously assigned to Basic. The re-classified costs are now considered operating costs assigned to the line of business under the cost allocation methodology. Based on this reclassification, the costs assigned to Basic have been reduced by over \$1.1 million annually.

## **7.2 Impact of COVID-19 on Claims Incurred**

On March 20, 2020, the Government of Manitoba declared a province-wide emergency related to the COVID-19 pandemic. Public health restrictions resulted in a marked drop in driving activity and a material un-forecasted reduction of Claims Incurred. MPI forecast a decline in claims incurred from March 15 to May 15 of \$58.1 million. At that time, MPI based its estimate on an observed/estimated \$29.1 million reduction in Claims Incurred from March 15 to April 15. MPI estimated the Property Damage and Bodily Injury claims due to a lag in these claims being reported. It assumed a perfect correlation among Collision, Property Damage and Bodily Injury claims in terms of frequency.

MPI estimated its claims cost reduction based on an observed decrease in Collision claims counts and an estimate for Property Damage and Bodily Injury claims based on an extrapolation of Collision claims cost reductions. MPI observed that Collision claims count in the March 16 to April 15, 2020 period had fallen from a budget of 7,928 claims to 2,890 actual claims, a reduction of 5,038 claims (63.5%). MPI assumed that Property Damage and Bodily Injury claims would follow the same trend. At that time, MPI forecast that it would have a similar level of claims savings for the April 15 to May 15 period for a

total claims reduction of \$58.1 million. MPI forecast no further claims cost savings related to COVID-19 beyond May 15, 2020.

MPI incorporated the above mentioned \$58.1 million in claims incurred reductions in the Application. The distribution of COVID-19 Claims cost reductions was as follows:

### Forecast Basic Claims Incurred Savings

For years ending March 31 (\$ millions)	2020	2021	Total
PIPP - Accident Benefits	\$6.9	14.0	20.9
Basic Collision	8.9	26.5	35.4
Basic Property Damage	1.0	3.1	4.1
<b>Basic Total</b>	<b>\$14.5</b>	<b>43.6</b>	<b>58.1</b>

MPI's October 9th update, which reflected claims experience until August 31, 2020, incorporated an additional \$27.8 million reduction in Physical Damage claims in 2020/21. Combined with the \$43.6 million reductions in Claims Incurred in the Application as filed, overall, MPI's forecast for 2020/21 was reduced by \$71.4 million.

MPI also reflected a reduction of Basic claims and operating expenses, totalling \$9.3 million, attributable to COVID-19. MPI forecast net income for 2020/21 of \$105.4 million, reflecting these claims and operating cost savings.



### 7.3 Basic Expenses Overview

MPI's global corporate costs are allocated among the insurance and non-insurance categories of business and by automobile insurance lines of business in a way that does not give rise to cross-subsidization. Costs are allocated to Basic through an integrated cost allocation methodology which was 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. There were no material changes to the integrated cost allocation methodology in the Application.

Total Corporate expenses were \$288.8 million in 2019/20 and are forecast to grow to \$306.1 million in 2020/21. MPI forecasted total Corporate expenditures to be \$310.1 million in 2021/22, \$319.6 million in 2022/23, and \$340.5 million in 2023/24.

The details of Basic Operating expenses included in the Application and the relative percentage of total Corporate expenses are as follows:

	For the Fiscal Year-End				
	2020A	2021FB	2022F	2023F	2024F
<b>Total Corporate Expenses</b>	<b>\$288.8</b>	<b>\$306.1</b>	<b>\$310.1</b>	<b>\$319.6</b>	<b>\$340.5</b>
<b>Basic Allocated Corporate Expenses</b>					
Claims Expense	132.0	143.5	143.2	146.8	154.2
Road Safety/Loss Prevention	12.0	11.2	13.6	13.5	13.6
Operating	69.9	71.9	72.1	75.9	79.9
Regulatory/Appeal	4.6	5.1	5.2	5.2	5.3
<b>Total Basic Allocated Corporate Expenses</b>	<b>\$218.6</b>	<b>\$231.7</b>	<b>\$234.1</b>	<b>\$241.4</b>	<b>\$252.9</b>
Percentage of Corporate Operating Expenses	75.7%	75.7%	75.5%	75.5%	74.3%

\*\* A = Actual FB = Forecast Budget F = Forecast

### 7.4 Claims Expenses

Claims expenses represent the administrative costs associated with processing and settling claims. Claims expenses were \$132.0 million in 2019/20. In its October 9, 2020 update, the Corporation reflected both updated interest rates as at August 31, 2020 and

favourable claims experience. The Corporation revised its forecast of Claims Incurred and the related claims expense, lowering the forecast of claims expense from \$143.5 million to \$139.3 million in 2020/21, and revised its projections for 2021/22 from \$143.2 million to \$144.0 million, and 2022/23 from \$146.8 million to \$147.6 million.

## 7.5 Operating Expenses

The composition of MPI's staffing Full-Time Equivalents (FTEs) dedicated to Operations and Improvement Initiatives is as follows:

Fiscal Year	Normal Operations FTE	Special Initiatives FTE	Total Corporate FTE
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	1,898.9	21.2	1,920.1
2017/18	1,860.9	17.3	1,878.1
2018/19	1,772.7	16.6	1,789.3
2019/20	1,808.6	17.7	1,826.3
2020/21 Budget	1,911.0	42.5	1,953.5

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

Fiscal Year	Actual	Budget	Over/(Under) Variance
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	1,863.5	1,910.0	(46.5)
2018/19	1,772.7	1,884.0	(111.3)
2019/20	1,808.6	1,911.1	(102.5)
2020/21 Budget		1,953.5	

## **7.6 Broker Commissions**

The Service Delivery Model and broker commissions paid by MPI were reviewed in detail in the 2020 GRA. During the course of the 2020 GRA, MPI and Insurance Brokers Association of Manitoba (IBAM) were in the process of renegotiating the Broker Accord, which was to expire on February 28, 2021. MPI reported in the 2020 GRA that Basic commission and fees paid represent 3.6% of Basic's total costs of operation.

At the time of the public hearings in this Application, MPI and IBAM had not finalized the renegotiation of the Broker Accord. For 2020/21 and forward, the Basic variable commission rates were calculated based on an effective rate of 3.27% of premiums written, including driver variable commissions. Flat fees are subject to Consumer Price Index increases and are forecasted based on transaction volumes, ranging from approximately \$4 to \$23 per transaction.

Actual Basic-allocated commissions paid (including premium taxes) for fiscal year 2019/20 were \$75.4 million, budgeted to be \$76.1 million for 2020/21, and forecast to be \$76.7 million in 2021/22. MPI had not included any changes to commission rates in this GRA given the status of the Broker Accord at that time. As discussed above, following the conclusion of the public hearings, MPI advised the Board that a new agreement with IBAM had been concluded; however, given the timing of the agreement it was not entered as evidence in this Application.

## **7.7 Information Technology (IT) Expenses**

MPI forecasted \$93.4 million in capital expenditures in the next five years in ongoing and future IT projects.

MPI's major technology initiative is Project Nova, which relates to replacing legacy systems. MPI reported in the 2020 GRA that the Project Nova budget is \$106.8 million, which includes an estimate of \$85.4 million and a 25% contingency of \$21.4 million.

In this Application, MPI reported additional costs not anticipated in the original Project Nova budget totalling \$22.6 million. This included \$12 million for software licensing, and \$9.3 million in leadership and incremental resources to manage the project. Of this, MPI elected to allocate \$1.3 million in respect of the program governance vendor to the project contingency.

MPI reported that the completion of Project Nova has been delayed by approximately a year. It is now scheduled to be completed by early 2024. The Driver and Vehicle Administration solution is expected to go live by April 2023, Property & Casualty by November 2023, and Self-Service by February 2024. MPI advised that it has high confidence that it will be able to deliver on these timelines. To date, MPI has finalized the governance model for Project Nova, and has filled Project Manager and Product Owner positions. According to MPI, it now has a comprehensive governance scheme in place, and will be using a hybrid approach (using aspects of Agile and Waterfall IT methodology) in the management of the project.

At the time of the hearing, MPI was in the process of conducting a re-baseline of the Project Nova business case. Given this timing, MPI was unable to share the results of this exercise, or provide an updated Net Present Value (NPV). MPI expected that the re-baseline exercise would adjust the current 25% contingency rate used in costing the project downwards.

According to MPI, Project Nova is no longer strictly a technology project; it will transform MPI's business and give customers more choice and a better experience. While the completion of Project Nova has been delayed and the project has incurred additional costs, MPI stressed that this project would not have the same result as the Physical Damage Re-Engineering project, which had a negative NPV of \$55 million. For one, MPI stated, the external governance oversight of Nova is more in-depth and detailed than was the oversight of the PDR project by Gartner.

MPI also advised that its leadership team is taking action to mitigate delivery risks, including:

- Applying the Value Management process at critical points in the project;
- Establishing a formal Project Nova Risk Management Plan with monthly reviews/assessments of existing and new risks and ensuring traceability of risk mitigation actions to project plan tasks;
- A formalized Solution Governance and Vendor Management Strategy to document governance and management of System Integrator partners;
- Executing a Discovery Phase, to solidify System Integrator and MPI project plans and project interdependencies;
- The Application of "Hybrid Agile" delivery methodology to orchestrate the overall Project Nova program and utilizing Agile delivery sprints to effectively manage program performance, completeness, quality and delivery risks; and
- Setting up the Nova Project Management Office to ensure appropriate processes, controls and reporting are in place.

MPI also reported that it has engaged PwC as its governance vendor, to perform ongoing reviews of Project Nova performance and to identify current or future risks or issues that could be experienced if MPI management does not take appropriate actions.

MPI also reported that it had completed Phase 1 of its External Labour Strategy, by converting 27 external FTEs or replacing them with MPI employees. Phase 2 of the External Labour strategy aims to convert an additional nine FTEs over a two-year period. MPI continues to assess conversion opportunities on a case by case basis, and confirm them as required, at the completion of Project Nova.

## **7.8 Information Technology Strategy**

MPI presented its IT Strategy for 2020-2021, which remained consistent from the prior year in terms of characteristics, components, and context. The IT Strategy aligns with the business and operating models of the Corporation, as it responds to evolving business environment events.

The IT Strategy continues to be focused on:

- Growth and refinement of enterprise architecture;
- Reliance of commercial off-the-shelf (COTS) solutions;
- Reliance on external workforce to implement solutions, with transitioning to internal workforce for maintenance and operations; and
- The use of modern technology practices including Lean, DevOps, and Agile practices.

The most dramatic influence on the IT strategy continues to be Project Nova. While the core elements of the IT Strategy remain consistent, Project Nova will continue to significantly affect how IT functions in years to come.

## **7.9 Benchmarking**

MPI uses benchmarking results to identify opportunities to reduce costs, measure effective management approaches, and measure efficient resource allocation. Historically, MPI engaged a third-party vendor, the Ward Group, which would compare MPI to various private insurers on insurance industry metrics. In this Application, MPI reported that operational efficiency benchmarks were not available as it had terminated its contract with Ward Group. MPI is in the process of undertaking a Crown benchmarking analysis, whereby it will assess its services against ICBC and SGI. Although it does not intend to use the results of the Crown benchmarking exercise to manage its operations,

MPI's intent is to compare its operations to other Crown insurers to the extent possible, considering that they are different business models. While the Crown benchmarking exercise was forecast to be completed for this Application, MPI reported delays in the process due in part to the impacts of COVID-19. Accordingly, benchmarking results were not available in this GRA.

MPI also conducts benchmarking in IT. Historically, Gartner has provided benchmarking services to MPI. In the 2020 GRA, MPI reported that it had terminated its engagement with Gartner and was in the process of a request for proposals (RFP) in order to engage a new IT benchmarking service provider. It reported in this GRA that the result of the RFP process was a re-engagement with Gartner, for a period of three years.

The Gartner Information Technology Benchmark report was filed in this Application and indicated that MPI's IT spending, service, and maturity levels remain on par or ahead of its peers. Like other areas of the organization, in Gartner's view, IT service and delivery will be greatly influenced by Project Nova. Legacy modernization will increase MPI's need for highly effective vendor management and vendor management capacity. Gartner found that MPI benefits from mature vendor management and sourcing and procurement, which are significantly more mature than its peers. Overall, Gartner found that MPI has demonstrated a trend of reducing IT spending as a proportion of total expenses, while improving IT service management maturity levels. While MPI's IT spending and staffing levels are higher than its peers, they are within a typical range of spending.

## **7.10 *Intervenors' Positions***

### **CAC**

CAC recommended that the Board find that Project Nova remains a high-risk project. Projects of this scale and scope are significantly risky, and MPI is relying to a significant degree on technological experts to understand MPI's business as well as the business being flexible enough to incorporate technology without undue customization. CAC

expressed that it has concerns about MPI's internal capacity, bearing in mind its performance on major projects over the last decade, such as Physical Damage Re-Engineering and BI<sup>3</sup>, which demonstrated major challenges in delivering cost-effective projects as well as promised benefits. While there is no doubt that some of MPI's legacy systems are nearing their cost-effective end of life, MPI must address these technology challenges in a way that mitigates risk.

CAC commented further that the governance of Project Nova is of concern bearing in mind the additional \$9.3 million in project governance costs, with an indication that more such costs are likely coming.

With that in mind, CAC argued that there may be value in having PwC undertake an independent evaluation of the Project Nova business plan. CAC asked that the Board direct MPI to provide an update to Project Nova in the next GRA based upon the re-baselined business case, including updates on the status of projected savings related to electronic fund transfers and brokers. It also argued that the Board should reserve the right to direct MPI to retain an independent party to conduct an evaluation of the Project Nova business case.

### **CMMG**

CMMG commented that implementing the Project Nova systems only to make changes to them immediately after in order to accommodate a change to the DSR would not make business sense. Accordingly, a change in the DSR must coincide with the implementation of Project Nova.

### **Taxi Coalition**

The Taxi Coalition took the position that the Board should direct MPI to make reasonable attempts to conduct its VFH framework review in order that it is able to integrate a revised framework into Project Nova by April of 2022.



### **7.11 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, section 25 thereof. The Board continues to hold a keen interest in the Corporation's efforts to reduce and contain costs.

In this GRA the Board's review of MPI's expenses was against the backdrop of the COVID-19 pandemic. It appears that the Corporation has been prudent in its efforts to contain costs. However, the significant savings experienced in fiscal year 2020/21 to date have been due in large part to the impact of the pandemic, evidenced not only by the financial results reported in this Application but also by SRA I filed in April 2020, and SRA II filed shortly after the conclusion of the public hearings in this Application.

Therefore, fiscal year 2020/21 can be seen as unique and there may be little benefit to comparing its expenses to any other year. The Board will again review MPI's financial results in the 2022 GRA, by which time there may be return to relative normalcy.

With respect to IT, the Board intends to engage in a detailed review of Project Nova in the 2022 GRA. The timing of MPI's intended re-baseline of the project deprived the Board of the ability to assess crucial factors such as the updated project budget and contingency. Further, without the new agreement with IBAM in evidence the Board did not have information on the impact of a new broker commission arrangement on Project Nova. The increased project costs of \$22.6 million to date are of concern to the Board.

Unfortunately, due to the timing of the re-baseline exercise, understanding how MPI will respond and manage risks of Project Nova going forward is unknown. Project Nova is a significant undertaking, with many moving parts and the Board is concerned about MPI's progress to date. While reliance on PwC to monitor and advise on project execution will

assist with responding and continual planning, it is clear that Project Nova remains the most significant, costly, ambitious, and risky initiative that MPI has undertaken.

MPI reported that the re-baseline exercise would be conducted in November, 2020. The Board therefore directs MPI to file the results of the Project Nova re-baseline as soon as practicable after its completion, which shall include the following:

- A timeline for the initiation and implementation of changes to the DSR; and
- A revised NPV calculation, taking into account a high-risk classification for the project.

The Board will consider whether it would be appropriate to direct a Technical Conference on Project Nova following receipt of the re-baseline information.

Given the foregoing, the Board accepts CAC's submission that Project Nova should be classified as a high-risk, reflected by the contingency of 25% in the project budget. With respect to the contingency, MPI should be able to identify the factors to be considered in determining when it will be applied and to what level, and directs MPI to file this information in the 2022 GRA. The Board also directs that in the 2022 GRA, MPI file:

- An update on Hybrid Agile benchmarks and metrics, with an explanation as to how they will be used for Project Nova; and
- A report on the number, duration and cost of Agile sprints undertaken or yet to be undertaken for Project Nova to the initiative delivery.

With respect to benchmarking, the Board accepts that COVID-19 has had an impact on MPI's efforts to complete the Crown benchmarking report. The Board views benchmarking as an essential exercise, undertaken as a matter of course in well-run corporations, and expects MPI to continue to assess its performance against its peers insofar as is possible. Accordingly, while the reason for the delay is understood, the Board directs MPI to file the Crown benchmarking report in the 2022 GRA.

The Board recognizes the impact that COVID-19 has had on many, if not all, aspects of MPI's operations. The Board is supportive of the efforts undertaken by MPI on Enterprise Risk Management and notes that it was able to respond in a nimble fashion to the challenges caused by the pandemic.

## **8.0 INVESTMENTS**

As set out above, the Corporation's funds available for Investment are primarily the assets supporting the unearned premium reserves and unpaid claims reserves. MPI previously had a single, commingled investment portfolio that backed all liabilities and surplus. As a result of the ALM Study implementation completed in January 2018, these funds are now segregated into five investment portfolios. The funds within the investment portfolios support Basic claims, the Basic RSR, and Employee Future Benefits, primarily the Corporation's pension obligations. As well, the Corporation now has separate investment portfolios to support its extension lines of business.

The Corporation's overall investment portfolios totalled over \$3.4 billion in assets as of March 31, 2020. The size of the Basic line of a business investment portfolio including Basic Claims Portfolio, RSR Portfolio and Basic's Employee Future Benefits portfolio is in total \$2.9 billion for 2019/20 and is forecast to be \$3.0 billion in 2020/21 and projected to grow to \$3.1 billion for 2021/22 and \$3.2 billion for 2022/23.

### **8.1 *Investment Management***

Basic premiums are not set to fully recover claims costs; rather, MPI typically depends on investment income to break even. MPI's investment portfolios are managed jointly by the Corporation and the Province of Manitoba through a committee known as the Investment Committee Working Group (ICWG). The ICWG is co-chaired by MPI's Vice President of Finance and Chief Financial Officer, and the Assistant Deputy Minister (ADM), Treasury Division, Manitoba Department of Finance.

In 2019, MPI retained four external investment advisors to invest in the following asset classes: corporate bonds, global equities, low volatility global equities, and private debt. MPI's assets must be managed by the Investment Policy Statement, dated May 20, 2020. MPI's Investment Department monitors the outside investment counsel for compliance with the Investment Policy Statement and their respective mandates.

## **8.2 Implementation of ALM Study Recommendations**

The background and details of the ALM Study, conducted by Mercer (Canada) Limited (Mercer), are set out in Board Order 159/18.

MPI's adoption of recommendations flowing from the ALM Study resulted in the separation of the single commingled investment portfolio into the five unique portfolios as set out above. Each of these portfolios has had unique asset allocations since the beginning of the fiscal year 2019/20, which has allowed MPI to set appropriate investment goals for each portfolio.

Changes based on the implementation of the ALM Study resulted in the portfolio backing Basic Claims consisting of 100% fixed income assets, the portfolios backing Extension, SRE, and Basic RSR being balanced with 50% growth assets and 50% fixed income assets, and the portfolio backing Pension having a slightly higher allocation to growth assets at 60%. Because the portfolios no longer share assets, each portfolio's asset allocations can be changed or adjusted in the future as necessary.

The target asset mixes for the Basic Claims, Basic RSR, and Pension portfolios as of the commencement of the 2020/21 fiscal year was as follows:

Targeted Weights	Basic Claims	RSR	Employee Future Benefits
<b>Fixed Income</b>			
Provincial Bonds	60.0%	20.0%	0.0%
Corporate Bonds	20.0%	10.0%	20.0%
MUSH Bonds*	20.0%	0.0%	0.0%
Private Debt	0.0%	20.0%	20.0%
<b>Total Fixed Income</b>	<b>100.0%</b>	<b>50.0%</b>	<b>40.0%</b>
<b>Public Equities</b>			
Canadian Equities	0.0%	12.0%	10.0%
Global Equities	0.0%	13.0%	18.0%
Global Low Volatility	0.0%	10.0%	7.0%
<b>Total Equities</b>	<b>0.0%</b>	<b>35.0%</b>	<b>35.0%</b>

**Alternatives**

Canadian Real Estate	0.0%	10.0%	15.0%
Infrastructure	0.0%	5.0%	10.0%
<b>Total Alternatives</b>	<b>0.0%</b>	<b>15.0%</b>	<b>25.0%</b>

The new segregated portfolio structure has enabled MPI to develop investment portfolios that better reflect the associated liabilities (where there are liabilities) and each portfolio's investment goals. The benefit of this approach includes de-risking the Basic claims portfolio by matching only fixed-income assets to the liabilities and eliminating exposure to growth assets. The interest rate risk associated with the Basic line of business is expected to be significantly reduced.

The ALM strategy has minimized the risk of interest rate changes. Still, it has not eliminated the impact due to the Investment in MUSH bonds, which are not revalued when interest rates change and lag in rebalancing the duration of the marketable bond portfolio to match the claims' duration reserves.

Based on the October 9 update, the change in interest rates had an overall \$33.4 million negative impact on the financial forecast for 2020/21.

Order 176/19, Directive 13.11 required MPI to file the post-implementation review of the Corporation's Asset Liability Management strategy. MPI reported the transition to the new investment strategy was largely complete by the end of the second quarter of 2019/20. The remaining transition includes liquidating a portion of infrastructure investments to target weights and additional private debt investment. Private debt is an illiquid asset class with fund commitments invested as the manager identifies suitable investment opportunities. MPI has committed a total of \$228 million to be invested in private debt funds. MPI has indicated as of December 31, 2019 there remains \$140 million, or 61.4%

of the commitment, to be invested. MPI has developed a plan to reduce the allocation to infrastructure, which involves selling two co-investments.

MPI previously noted that the ALM Strategy, including the de-risking of the Basic Claims portfolio, reduced the Corporation's capital requirements by almost \$100 million.

MPI stated that the primary purpose of the Basic Claims portfolio is not to obtain greater returns, but rather to eliminate the interest rate forecasting risk. Substantial financial losses that MPI accumulated in the period from 2015 to 2018 caused by interest rates is now effectively hedged by the matching strategy. Any returns that might be realized under the Basic Claims portfolio are secondary. MPI does not have an appetite for equity exposure in this portfolio. It has a medium appetite for equity exposure in RSR, Extension, SRE and EFB portfolios. MPI reported that the ALM Strategy is approaching full implementation, almost all of the asset classes are now in place with the exception of private debt, which is not yet fully funded. The Basic Claims portfolio has been fully operational for a period of 14 months. All of MPI's portfolios matched or outperformed their benchmark returns over the 12 month period from April 1, 2019, to March 31, 2020. With respect to interest rates, MPI maintained that the use of Naïve forecasting methodology is the best estimate to make and to avoid using other predictors until such time as low interest rates start to increase again.

### **8.3 Investment Returns**

Historically, the Corporation's investment income has been a major component of its income and has offset its annual underwriting losses. Basic net income was \$59.6 million in 2019/20, primarily due to the realization of gains on the sale of investment assets in preparation for the transition from the consolidated investment portfolio into the five dedicated portfolios.

The financial markets were negatively affected by COVID-19, which has resulted in significant economic uncertainty. Equity markets declined sharply in March 2020. The

Corporation took a \$67.7 million impairment write-down, including a \$54.4 million reduction in its equity investments. Basics' share of the impairment charge totalled \$42.7 million. The Basic investment income was reduced to \$59.6 million in 2019/20. Due to uncertainty caused by COVID-19, Corporate and Provincial bond spreads widened substantially from December 31, 2019, to March 31, 2020.

MPI's forecast of investment income is sensitive to changes in interest rates. MPI initially forecasts its investment income utilizing a Naïve Interest Rate forecast. The original filing was based on the March 31, 2020 Government of Canada 10 Year Bond interest rate of 0.70% and a new money yield of 2.58%. Basic investment income was projected to be \$84.4 in 2020/21, \$89.4 million for 2021/22, and \$91.4 million for 2022/23.

Based on the October 9<sup>th</sup> update, the forecast Basic investment income for 2020/21 increased from \$84.4 million to \$205.7 million. The Corporation's update projected Basic investment income of \$87.9 million for 2021/22 and \$86.7 million for 2022/23.

#### **8.4 Shadow Portfolio**

Order 176/19, Directive 13.13, required MPI to file a report comparing the returns of the shadow portfolios for the Basic and Pension portfolios with those selected by MPI.

Following the Order, and with the assistance of Mercer, MPI developed Shadow Portfolios. Shadow Portfolio returns were calculated based upon passive benchmark returns for all asset classes. The Shadow Portfolios were modified to allow for the 'J-Curve' for private debt and private equity by assuming zero returns for the first 12 months of Investment in these asset classes. The 'J Curve' reflects the reality that there is usually an initial period where expenses are incurred with little return to offset private investment expenses. In addition to the actual return on MPI portfolios, a hypothetical return was calculated assuming passive management of all asset classes (the "policy benchmark"). MPI believes the policy benchmark is more directly comparable to the Shadow Portfolios as both are based upon passive benchmark returns.



Based on a hypothetical passive MPI return, the Basic portfolio had a return of 7.78% compare to the Shadow Portfolio 1 return of 7.19%, a positive variance of 59 basis points against the benchmark. When comparing the actual returns for the Basic Claims portfolio rather than on a hypothetical policy benchmark basis, the actual return was 3.87% compared to the 7.19% return for Shadow Portfolio 1, a negative variance of 332 basis points against the benchmark.

## **8.5 *Intervener Positions***

### **CAC**

CAC acknowledged that the Board cannot dictate to MPI how to invest, but questions of the prudence and reasonableness of MPI's management of its investment portfolio are relevant to the determination of the revenue requirement. To the extent that MPI has not reasonably managed its investment portfolio, incurred undue risk or unreasonably prejudiced certain ratepayers, the Board can reflect that in its ultimate rate approval decision. CAC commented further that the interests of those whose risk is driven by long-term claims with result and adverse consequences on rates at a time of low-interest rates as real purchasing power of bonds diminish (such as PIPP claims and motorcyclists) are particularly affected by MPI's investment strategy.

CAC also argued that there is a lack of inflation protection in the Basic portfolio given the focus on managing nominal interest rate risk rather than real interest rate risk. Further, inflation risk is of concern at a time when the Bank of Canada is reviewing its current inflation targeting practice. CAC recommended that the Board direct MPI to monitor and report back on the Bank of Canada deliberations in terms of long-term inflation risk.

Lastly, while CAC noted that it has serious concerns with the short-term fixation of MPI's investment decisions, it recognized that MPI has only recently established its new segregated portfolios. Accordingly, a portfolio review or redesign is premature at this time. It would not be prudent to move to another investment portfolio vision at this early stage.

With respect to investment income forecasting, CAC commented that MPI's expectations of its investment returns for the purposes of forecasting net income for the current year based on investment return forecast methodologies which have not changed for many years and have not been tested for their predictive power. A high level of valuations of MPI forecasting demonstrates that a number of asset classes have proven to have forecasts that understate actuals or are highly variable. CAC recommended that the Board direct MPI to undertake a review of the predictive power of its investment income forecasts, and to propose amendments to that forecast in the next GRA.

### **CMMG**

CMMG directed its comments to the investment strategy for PIPP claims and the Motorcycle class. It noted that MPI acknowledged the significant differences between the makeup of the different Major vehicle classes for Motorcycles, which includes a 91% designation towards PIPP. The Private Passenger class includes only a 23% designation towards PIPP. PIPP claims are generally long-tailed, and more sensitive to changes in long-term interest rates. The implications of the differences between the makeup of various vehicle classes are significant when examining MPI's investment strategy.

CMMG argued that MPI's conservative risk appetite, which excludes equities from the Basic portfolio entirely may have reduced the impacts of changes in interest rates on the Basic portfolio, but the conservative investment strategies have a deleterious impact on the Motorcycle class in particular. CMMG argued that MPI had the opportunity to invest in a way that would mitigate interest rate risk for all classes of vehicles but chose not to do so. It pursued an investment strategy that is detrimental to the mitigation of long-term interest rate risk, which in turn is detrimental to the Motorcycle class.

### **8.6 Board Findings**

The Board recognizes that its role is one of oversight and does not extend to directing the Corporation on the particulars of its portfolio management.

The Board found, in Order 159/18, that MPI had selected from a range of reasonable options for its portfolios resulting from the ALM Study and continues to find this to be the case. The composition of the Basic Claims portfolio has served to mitigate interest rate risk. The Board recognizes the particular sensitivity of the Motorcycle class to changes in long-term interest rates. The Board is not prepared to reduce the rate indication for the Motorcycle class on this basis, but as set out above, it is the Board's understanding that MPI intends to consider the use of interest rates at points on the yield curve corresponding to the duration of the liabilities in the determination of the rate indication for each Major Use Class in the 2022 GRA. This is a change that MPI expects will benefit the Motorcycle class.

MPI's investment portfolio experienced the impacts of COVID-19 over the past year, as seen in the significant write-down of \$67.7 at the Corporate level, which included a \$54.4 million reduction in equities. The Board notes that this write-down was taken in accordance with the Corporation's Investment Policy, and that by the time of the public hearings MPI reported that its portfolio had substantially recovered from the initial investment losses due to the pandemic. Similarly to MPI's expenses, the Board views this past year as unique due to the pandemic, and expects that it will assess MPI's investments in future GRAs against more normal conditions, with fiscal 2020/21 (and perhaps 2021/22) being outliers.

## **9.0 PRESENTERS**

The Board received submissions from a series of presenters in the public hearings. The presenters appeared via teleconference as a result of the COVID-19 pandemic. The presenters are not sworn witnesses and were not cross-examined. The Board bases its decisions on the sworn evidence received in the GRA. Although the content of the presentation is not evidence, the Board, MPI and the Interveners received the information presented for consideration. 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.

### **Manitoba Motor Dealers Association (MMDA)**

The Board heard from Craig Dunn of the Manitoba Motor Dealers Association (MMDA), along with Scott Wideman, Collision Program Manager for Volkswagen Group Canada.

The MMDA represents new vehicle dealerships in Manitoba, and deals with provincial issues that affect the well-being of franchise dealers. It represents 125 dealerships, and 47 of those operate collision repair facilities. These facilities repair approximately 50% of MPI claims annually. Accordingly, the agreement entered into between MPI and the Automotive Trades Association (ATA) is of importance to MMDA. MMDA's position was that due to advances in vehicle technology and changes in repair processes to accommodate new materials, any agreement with the trades must reflect fair compensation. According to the MMDA, many manufacturers require that in order to maintain warranty coverage, collision repairs must be completed by a certified collision centre with the use of original equipment manufacturer (OEM) parts. The cost to obtain and maintain this certification is borne by the trades. MMDA stated that as an industry, the labour rate increases have been inconsistent, including no increase in the last agreement. From 2016 to 2019, the CPI has risen and beginning in 2016, the trades have fallen behind, with no increase in the last year. This reduces the trades' ability to keep pace with operating costs. The increasing costs of repairs cannot be borne by the trades and its employees or a loss of integrity of the vehicle. Further, MPI's requirement of the use of after-market parts is not providing the repair trade consumers what was promised as part of their agreement with MPI or with the customer, which is to return the vehicle to pre-accident condition. According to MMDA, the onus is also on repair facilities to warranty any after-market parts for a minimum of one year at their own expense. According to MMDA, MPI is offloading significant costs onto the repair facilities and not keeping up with CPI in order to maintain the lower rates paid to those trades.

MMDA also took issue with MPI's previous evidence before the Board that Manitoba's repair trades are one of the highest paid in the industry for labour rates. What is missing from this, according to MMDA, is that severity or cost per claim is a factor in these rates. The average insurance repair in Manitoba is \$3,328.00, which is significantly lower than all other western provinces.

MMDA also stated that there has been a lack of material growth in repair trade compensation since 2009 even though paint material costs and body material costs have risen by 25% since then. In order for MMDA's members to stay healthy, they require a revision of rates paid to the repair trades with measurable increases each year in line with CPI.

Mr. Wideman advises that as an OEM, it is important to point out that MPI's policies requiring after-market parts to be used in repairs could be putting consumers at risk should they be in an accident subsequent to repair. According to Mr. Wideman, after-market parts tend to have significant differences in characteristics when compared to OEM parts. Mr. Wideman commented that there may be an issue in MPI pursuing cost containment at the expense of consumer safety.

### **Automotive Trades Association of Manitoba (ATA)**

Ms. Teresa Jachnycky, Ryan Kehl and Ferd Klassen presented on behalf of the Automotive Trades Association of Manitoba (ATA). ATA is a volunteer organization formed to promote and further the interests of its 150 members regularly engaged in the automotive repair industry in Manitoba. ATA advised the Board that additional costs incurred by repair shops without new offsetting revenue or equivalent decreases in repair shop operating costs will create financial hardship on many of these businesses and perhaps cause insolvency for some. With respect to MPI's requested rate, ATA's comment was that the 3% rate reduction resulting from the changes to deductible, third party liability and maximum insured value will directly affect the operating expenses of

collision repair shops because the deductible, unless paid in cash, is subject to merchant fees.

MPI rates have been relatively stable for many years. However, the realities of individual circumstances mean that there are different considerations among households and communities as to the appropriate deductible level. Those shops located or serving communities where larger deductibles are favoured could be disproportionately affected by the deductible changes when compared to shops situated in more affluent areas. ATA suggested that MPI consider a deductible payment program such as that offered by SGI. With respect to the increase in the maximum insured value, ATA commented that this was welcome news. Still, some of the loaded features that are available in 2020 vehicles that would have been included in 2009 may not be covered under maximum insured value and the ratepayer will need to purchase Extension insurance.

ATA also provided information that Manitoba is paid the lowest labour rate in western Canada. They commented that there is a loophole in the current estimating technology platform that allows MPI to establish compliant trade rates to reduce hours such as labour, time and/or materials to reduce claim severity. There has been an erosion of the bottom line for repair trade industries. In Manitoba, one in five collision repair shops are not profitable. For there to be a future for service, collision repair shops need to be able to make a reasonable profit.

Lastly, ATA commented that its members need open communications and transparency in their relations with MPI. In proceeding with the review of the Light Vehicle Accreditation Agreement this year, ATA has requested assistance from a third party in the event of a dispute.

### **Doug Houghton**

Mr. Houghton is a motorcyclist and currently a director of CMMG. He has previously served as Vice-President and President of CMMG, however, he made clear that he

appeared before the Board in his personal capacity, and not as a representative of CMMG.

Mr. Houghton noted that attitudes towards motorcycles and motorcyclists have changed substantially for the positive, and CMMG now enjoys a more collaborative relationship with MPI and Manitoba Infrastructure, which mostly involves safety issues.

Mr. Houghton expressed disappointment upon learning that MPI's request in this GRA for the motorcycle class was for a 4.7% increase when other classes would see decreases. He also expressed the difficulty CMMG members have to understand and accept how an overall rate decrease could result in an increase for motorcyclists, considering MPI's favourable financial results.

Mr. Houghton further expressed that MPI's investment strategy, and its proposals for addressing the impact on the Motorcycle class are not satisfactory. Mr. Houghton asked that the Board direct that MPI make appropriate changes to its methodology, or order a special hearing to address the impact of MPI's methodology on the Motorcycle class.

Mr. Houghton also expressed concern with the current DSR design, which encourages high-risk drivers to transfer ownership to other, lower-risk family members. He suggested that vehicle premiums should be based on the average DSR rating of all persons who drive the vehicle, or that a penalty fee be applied to a driver's licence.

Mr. Houghton noted that 27% of all PIPP claims in the past year were made by individuals who did not register a vehicle. He questioned why motorcyclists must pay substantially more for PIPP coverage when others pay nothing. He proposed other methods for charging PIPP premiums that would, in his view, be more equitable, such as a flat fee across all classes, with increases based on experience and driving records.

### **Taxi Coalition**

In addition to being granted Intervener status in this GRA, Ram Valluruv, General Manager for Duffy's Taxi gave remarks to the Board.

Both Duffy's and Unicity have been in the business for over 60 years, serving Winnipeg and surrounding areas. Currently Duffy's Taxi has a fleet of 215 taxis and Unicity has a fleet of 293 taxis. In 2018, provincial legislation changes resulted in the City of Winnipeg passing a VFH by-law permitting ridesharing companies to operate in Winnipeg.

According to Mr. Valluruv, some of the ride-sharing vehicles are operating under multiple ride-sharing banners or companies at the same time, and are using vehicles for delivery purposes as well. One can therefore assume that for some of these individuals, this is full-time employment, with more and more hours on the road similar to taxis. However, the premiums paid by taxis are significantly higher than those paid by operators of ride-sharing vehicles. During the height of the COVID-19 pandemic, taxis lost revenues and ridership. The Taxi Coalition would like to see a level playing field in premiums between it and the other VFH categories.

### **James Nash**

Mr. Nash provided the Board with a written presentation, which he gave on his own behalf. Mr. Nash expressed concern with the amount of and process for accident claims and automobile injury compensation.

## **10.0 IT IS THEREFORE ORDERED THAT:**

1. There shall be an overall 8.8% rate decrease in compulsory vehicle insurance premiums for the 2021/22 insurance year, effective April 1, 2021, for all major classes combined, which rate decrease BE AND IS HEREBY APPROVED. This rate decrease is as derived in accordance with Accepted Actuarial Practice in Canada, based on a Naïve interest rate forecast taking into account interest rates as at August 31, 2020.
2. There shall be a rate increase of 20% from current rates for the Passenger Vehicle For Hire (VFH) category, with appropriate off-balance applied to the remainder of the Private Passenger Major Class, which rate increase BE AND IS HEREBY APPROVED.



3. There shall be consecutive rate increases of 20% for the Passenger VFH Major Class in the 2022/2023 and 2023/2024 General Rate Applications (GRAs), unless MPI can demonstrate that the Passenger VFH Major Class is no longer being subsidized.
4. MPI shall remove the use of separate loss development factors for Serious and Non-Serious Losses f, and shall remove the change in weights applied to the historical years per Part IV - RM Appendix 8, lines 12 to 23, from the calculation of rate indications for the 2021/22 insurance year
5. The Corporation's request that there be no changes to miscellaneous permits and certificates, the Driver Safety Rating system, vehicle premium discounts, service and transaction fees, or fleet rebates and surcharges BE AND IS HEREBY APPROVED.
6. In the 2022 GRA, the Corporation shall provide a rate indication by Major Use Class including the use of interest rates at points on the yield curve corresponding to the duration of liabilities in the determination of the rate indication for each Major Use Class, as well as an alternative rate indication by Major Use Class excluding this change.
7. In the 2022 GRA, the Corporation shall file an analysis supporting the level of the Basic target capital level (100% MCT) or the use of a single target capital level (vs. a range) to promote rate stability.
8. The Corporation shall include the following matters in its Vehicle For Hire framework review:
  - a. Whether the Corporation requires any regulatory or municipal by-law changes in order to collect relevant information for the VFH rate design(s);
  - b. Which DSR model(s) best reflect risk and incentives to reduce risk;
  - c. Whether the fleet program, or some variation of that program, which takes into account the claims experience of multiple vehicles and multiple drivers is appropriate for corporately owned VFH fleets of two or more vehicles;

- d. Whether any one or more other metrics, such as time on the road or kilometers driven or driver risk, are appropriate for designing VFH premiums;
  - e. Whether time bands should be adjusted to better reflect the business operations and risk of VFH;
  - f. Collection of and analysis of relevant data in order to better understand the causes of high relativities of VFH, and in particular of Taxicabs, in their major class;
  - g. Analyze and report on whether it continues to be appropriate to have Passenger VFH and Private Delivery services in a different major classes;
  - h. Analyze and report on the relative probability, as between the Passenger VFH and the other VFH classifications, as to whether there will be a serious loss claims experience in the future;
  - i. Collect and analyze, if available, relevant data on the composition of and characteristics of the Passenger VFH Class, including (based on a metric such as per week or per month) time available for fares, number fares taken, time of day (e.g. evenings, weekends, etc.) on the road, and kilometers driven; and
  - j. Report on whether and which parts, if any, of the proposed VFH framework require regulatory changes or Board approval.
9. The Corporation shall file its Vehicle For Hire framework review in the 2022 GRA.
10. A Technical Conference shall be held on the Vehicle For Hire framework, which shall be initiated by the Board but on such dates as are mutually agreed as between the Board and MPI, with the results of the Technical Conference to be reported on in the 2022 GRA. The report arising out of the Technical Conference shall include proposals on how

to deal with significant difference in relativities in the Top 20 relativity listing and determine whether Taxi Vehicle For Hire in Territories 2, 3 and 4 are being overcharged and whether a reduction in rates for those classifications should be accelerated.

11. In the 2022 GRA, the Corporation shall file proposed driver premium rates and vehicle premium discounts that are more statistically consistent with the estimated claims cost per driver for each level of the Driver Safety Rating scale, including incorporating the Driver Safety Rating into its minimum bias analysis used to set rating relativities.

12. In the 2022 GRA the Corporation shall bring forward a plan, including timelines, major milestones and implementation date, for any changes to the Driver Safety Rating model, including a date by which the Corporation will file an application for any such changes with the Board.

13. The Corporation shall file the results of the Project Nova re-baseline as soon as practicable after its completion, and include the following information in its report to the Board:

- a. A timeline for the initiation and implementation of changes to the Driver Safety Rating system; and
- b. A revised Net Present Value calculation, taking into account a high-risk classification for the project.

14. In the 2022 GRA, the Corporation shall outline the factors to be considered in determining when the Project Nova budget contingency will be applied and to what level, and directs MPI to file this information in the 2022 GRA.

15. In the 2022 GRA, in respect of Project Nova, the Corporation shall file:

- a. An update on Hybrid Agile benchmarks and metrics, with an explanation as to how they will be used for the project; and

- b. A report on the number, duration and cost of Agile sprints undertaken or yet to be undertaken for Project Nova to the initiative delivery.

16. In the 2022 GRA, MPI shall file the Crown benchmarking report.

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](http://www.pubmanitoba.ca).

THE PUBLIC UTILITIES BOARD

"Irene Hamilton, Q.C."

Panel Chair

"Darren Christle, PhD, CCLP, P.Log., MCIT"

Secretary

Certified a true copy of Order 1/21  
issued by the Public Utilities Board



Secretary

**APPENDIX A**  
**GLOSSARY OF ACRONYMS AND TERMS**

AAP	Accepted Actuarial Practice in Canada
Application	2021 General Rate Application
AOCI	Accumulated Other Comprehensive Income
Basic	Universal compulsory automobile insurance
Board	Public Utilities Board
CERP	Compulsory and Extension Revision Project
CLEAR	Canadian Loss Experience Automobile Rating
CMP	Capital Management Plan
Corporation	Manitoba Public Insurance Corporation
DR	Direct Repair
DSR	Driver Safety Rating
Extension	MPI's non-compulsory automobile insurance
FCT	Financial Condition Testing
FTE	Full-Time Equivalent

GRA	General Rate Application
HRMS	Human Resource Management System
HTA	Highway Traffic Act
ICWG	Investment Committee Working Group (MPI)
IT	Information Technology
LVA	Light Vehicle Accreditation Agreement
MCT	Minimum Capital Test
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
NPV	Net Present Value
OSFI	Office of the Superintendent of Financial Institutions
PDR	Physical Damage Re-engineering
PIPP	Personal Injury Protection Plan

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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	Standard Interest Rate Forecast
SRE	Optional Special Risk Extension motor vehicle insurance
TNC	Transportation Network Company
VFH	Vehicles for Hire
VMP	Value Management Process

**APPENDIX B**

**APPEARANCES**

K. McCandless / R. Watchman	Counsel for the Public Utilities Board (the Board)
S. Scarfone / A. Guerra	Counsel for Manitoba Public Insurance Corporation (MPI / the Corporation)
B. Williams	Counsel for the Consumers' Association of Canada (Manitoba) Inc. (CAC)
C. Meek	Counsel for the Coalition of Manitoba Motorcycle Groups (CMMG)
A. Hacault	Taxi Coalition (TC)



## APPENDIX C

### WITNESSES

#### Witnesses for the Corporation

M. Giesbrecht	VP, Finance
L. Johnston	Chief Actuary and VP, Product and Risk Management
C. Wennberg	VP Customer Service and COO
B. Bunko	VP, Information Technology
L. Lazarko	Director, Information Technology
J. Remillard	Corporate Business Architect
G. Dessler	Corporate Systems Architect
S. Mitra	Chief Transformation Officer, Project Nova
G. Bunston	Manager, Investments

#### Witnesses for Taxi Coalition

P. Bowman	Principal, InterGroup Consultants
J. Crozier	Consultant, InterGroup Consultants

## APPENDIX D

### Intervenors

Consumers' Association of Canada (Manitoba) Inc.	(CAC)
Coalition of Manitoba Motorcycle Groups	(CMMG)
Unicity Taxi Ltd. and Duffy's Taxi Ltd.	(Taxi Coalition)

### Presenters

Craig Dunn / Scott Wideman	Manitoba Motor Dealers Assn.
Theresa Jachnycky / Paul Lapointe / Joel McPhail	Automotive Trades Assn.
Doug Houghton	Private Citizen
James Nash	Private Citizen