Public Utilities Board

Régie des services publics

Order No. 134/21

MANITOBA PUBLIC INSURANCE (MPI OR THE CORPORATION):

COMPULSORY 2022/2023 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS AND 2022 SPECIAL REBATE APPLICATION

December 15, 2021

BEFORE: Irene A. Hamilton, Q.C., Panel Chair
Robert Gabor, Q.C., Chair
Michael Watson, Member

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1.0 Executive Summary

The Public Utilities Board (the Board) issues this Order in respect of the 2022 General Rate Application (GRA or Application) and the 2022 Special Rebate Application (2022 SRA). The Board has ordered an overall 1.57% rate decrease to Basic compulsory motor vehicle premiums (Basic or Basic Insurance) for the 2022/23 insurance year, effective April 1, 2022, for all major classes combined, and no changes in permit and certificate rates, service and transaction fees, or fleet rebates or surcharges. The Board has also ordered a rebate in the approximate amount of $312 million. The Board's reasons for these decisions, among others, are set out in detail below.

Under *The Crown Corporations Governance and Accountability Act*, the Board must set rates paid by customers of Manitoba Public Insurance (MPI or the Corporation). MPI has a monopoly on Basic Insurance in the Province of Manitoba. The rates approved by the Board and charged by MPI must be just and reasonable and in the public interest. As confirmed by the Manitoba Court of Appeal, in setting rates the Board balances the interests of ratepayers and the financial health of the monopoly. Together, and in the broadest interpretation, these interests represent the general public interest.

In order for the Board to achieve its mandate of setting just and reasonable rates in the public interest, the trust and confidence of ratepayers is required. In order to achieve that trust, there must be transparency in the information provided by MPI and the regulatory system of the Board.

The need for trust is especially important at this time, during a once-in-a-century pandemic, in which many aspects of society have changed significantly. COVID-19 has resulted in business closures, loss of jobs, dislocation, and more people working from home.

For MPI, this has resulted in fewer people driving vehicles and a reduction in costs as a result of fewer collisions and claims for vehicle damage and personal injuries. MPI has experienced an accumulation of excess capital because of the pandemic, to such an extent that Basic will have issued three rebates totalling approximately $439 million in the past 18 months. What is now required for MPI is a return to a stable operating environment so that its performance can be measured against milestones that were in place pre-pandemic.

At the outset, it is necessary to distinguish between insurance premiums (i.e. rates), a capital release, and a rebate.

Rates

A vehicle's base premium depends on where in Manitoba the ratepayer lives, the type of vehicle, and the vehicle's use. The Driver Safety Rating (DSR) may provide a discount on the vehicle's base premium. The vehicle base premium, adjusted for the DSR, is the annual rate that a customer pays for vehicle insurance. Each year, the Board orders an overall rate change that is applicable to the annual rate of vehicle insurance.

The Board's order for a rate decrease of 1.57% 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, 2021. This rate decrease combines the 1.16% rate decrease requested by MPI, along with the additional impact on the AAP rate indication of the change in *The Highway Traffic Act* (HTA) unit forecast (i.e., the forecasted number of insured vehicles) of -0.41%.

The Board's order for a decrease of 1.57% 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.

Capital Release

When MPI’s capital reserve fund has excess capital, the Board may order a capital release. Based on MPI's Capital Management Plan (CMP), the capital release in one year may be as high as 5%. The capital release is applied to the rate to be paid in the next (i.e., upcoming) insurance year, and is not applicable to any future years. The capital release will serve to reduce the amount of a vehicle's insurance premium in the upcoming insurance year.

The Board has dismissed MPI's request for a suspension of the capital release of 5% in the 2022/23 year, and finds that it is just and reasonable to continue to apply the capital release, because Basic will remain adequately capitalized with the release in place and the rebate issued to ratepayers. The Board finds that it is not appropriate to suspend the capital release during the uncertainty of the COVID-19 pandemic. The Board orders that the capital release provision be applied to the vehicle premiums after DSR discount, instead of the vehicle premiums before DSR discount.

Rebate

The Board may also order a rebate when MPI’s capital reserve fund has excess capital. A rebate is an amount refunded to a ratepayer from premiums that the ratepayer has already paid in the current or prior insurance year. The actual amount of the rebate paid to the ratepayer will depend on the amount of premium the ratepayer has paid in the current or prior year.

The Board has ordered MPI to issue to ratepayers a percentage of their Basic premiums earned from November 22, 2020 to December 9, 2021, for all vehicle classes, through a rebate of all capital that MPI projects it will accumulate from March 31, 2021 to March 31, 2022 in excess of that needed to maintain the Basic Rate Stabilization Reserve (RSR) at an amount equivalent to the 100% Minimum Capital Test (MCT) ratio, taking into consideration the 5% capital release provision applied to the 2022/23 rating year, as soon hereafter as is reasonably practicable. The total approximate amount of the rebate is $312 million.

The Board also notes that, despite MPI's previous statements that it does not favour rebates and would instead focus on making adjustments to the CMP to stay close to the MCT target, this is the third occasion in 18 months in which MPI has applied for a rebate. The Corporation's evidence in this GRA was that its IT systems cannot accommodate premium credits. MPI must ensure that the systems to be implemented through its major IT initiative, Project Nova, will permit ratepayers to receive credits in the future so that the Corporation has flexibility in the processes it may employ to refund excess capital to ratepayers.

Vehicles For Hire

In Order 146/20, 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 decision 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 orders a rate increase of 20% from current rates for the Passenger VFH category, along with a rate increase of 20% for the Passenger VFH Major class in the 2023 GRA, subject to the Board's decision to vary such increase based upon the experience filed within that GRA and as the Passenger VFH rates approach actuarially indicated break-even rates. The Board finds that since the balanced indicated adjustment for all territories for Passenger VFH is greater than 20%, there is sufficient evidence that a rate increase of 20% is still warranted.

The Corporation advised the Board that it is continuing its review of the VFH framework. In Order 1/21 following the 2021 GRA, the Board had directed MPI to take a number of steps in the review process, many of which MPI has not yet fulfilled. Therefore, the Board has directed MPI to file its VFH framework review in the 2023 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 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.

The Board's approval of the use of the Naïve interest rate forecast is consistent with its decisions in the 2020 and 2021 GRAs. 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 MPI's Asset Liability Management (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 Interveners argued that the Standard Interest Rate Forecast (SIRF), should be applied, notwithstanding eight years of flat interest rates. There was inconsistency from year to year in the interest rate forecasts advocated by the parties. It will be necessary to re-examine the interest rate forecast during the next GRA due to current and projected rates of inflation.

Extension Transfers to Driver and Vehicle Administration

On March 24, 2021, the MPI Board of Directors approved the transfer of $60 million from Extension retained earnings to Driver Vehicle Administration (DVA), instead of to Basic. MPI is forecasting a further transfer of $53.4 million to take place in fiscal year 2021/22. MPI acknowledged a transfer of Extension excess reserves to DVA instead of to Basic reduces the amount that would otherwise be available for a rebate to Basic policyholders. MPI advised that it is in discussion with the Government on funding to make the DVA line of business self-sufficient. The $63 million transferred to date will cover costs allocated to DVA for the implementation of MPI's major information technology initiative, Project Nova, and will pre-fund DVA until the end of fiscal year 2026/27.

MPI's President and CEO testified in the public hearings that, while the MPI executive was aware of the anticipated operational deficits in the DVA line of business, the solution to cover that deficit by transferring excess funds from Extension was not considered until after he joined the Corporation in January, 2021.

MPI's financial statements lacked transparency regarding the transfer. The notes to the financial statements did not contain adequate disclosure about the transfer of $63 million from Extension to DVA. MPI advised the Board about the transfer when it filed the Application; however, on a stand-alone basis the financial statements did not provide the necessary information in order for the general public to discern the nature or amount of this material financial transaction.

From 2004 to present, MPI has transferred approximately $194 million from Extension to DVA, with a further $53.4 million forecast to be transferred before the end of fiscal year 2021/22. After MPI implemented the CMP, transfers from Extension were built into MPI's forecast and therefore the Board began to examine Extension in detail. This GRA was the first occasion that the Board had sufficient information before it to analyze the impact of an Extension transfer to DVA instead of to Basic. MPI's transfer of funds from Extension to DVA reduced the amount available to rebate to Basic ratepayers by approximately $113.4 million.

Although the Board is able to review Extension financial results, it does not have the jurisdiction to direct MPI on the transfer of Extension excess capital. The foregoing is an example of why the Board requires jurisdiction over Extension.

The Board has dismissed the requests made by the Interveners in this GRA that the Board add the amount of the Extension transfers to DVA, $113.4 million, to the total rebate. In ordering the amount of the rebate, the Board is bound by the parameters of its jurisdiction. The Board derives its jurisdiction over MPI from *The Crown Corporations Governance and Accountability Act* (CCGA Act), *The Public Utilities Board Act* and the *Manitoba Public Insurance Corporation Act* (MPIC Act). Section 25 of the CCGA Act requires MPI to apply to the Board for approval of any change in "rates for services," which include Basic rates only. Therefore, the Board has jurisdiction over the Basic line of business, but not over Extension or Special Risk Extension (SRE). By requesting that the Board effectively reverse the transfers from Extension to DVA and credit those amounts to ratepayers through a rebate, the Interveners have asked the Board to exceed its jurisdiction. As a result, the Board is not in a position to order the relief sought by the Interveners, regardless of whether or not the method used to transfer the funds was valid.

The cost to MPI to administer DVA has increased since 2004 but the level of funding from the Government has not covered those costs. By using Extension surplus to cover the DVA shortfall, MPI ratepayers are effectively subsidizing what once was a Government responsibility. While all Basic ratepayers are also DVA customers, not all DVA customers are Basic ratepayers. Further, although MPI refers to DVA as a line of business, it is not a business in the true sense because it is an expense to MPI and all income generated must be paid to the Government.

In Orders issued shortly after MPI assumed its duties as administrator under the DVA, the Board expressed concern with how the DVA line of business was allocated in the

Corporation's financial operations. From the very inception of the arrangement between the Government and MPI in 2004, the Board noted its unease about the adequacy of funding from the Government for DVA operations. In this GRA the Board's concern, expressed over 15 years ago, that deficits from the DVA line of business would reduce the amount transferred from Extension to Basic, was clearly borne out. The limits of the Board's jurisdiction restrict it from taking any action to remedy this problem. However, the Board expresses its dismay at MPI's decision to yet again disregard its commitment to transferring Extension excess retained earnings to Basic and questions the prudence of MPI's decision to use Extension excess to essentially pre-fund DVA through to 2026/27.

Given what has transpired, the Board has concerns about the reliability of MPI's assurances about future transfers from Extension to Basic.

If the Government of Manitoba intends to use monies held by MPI for government purposes, the process that must be followed is set out in section 44 of the MPIC Act, which provides that where MPI’s assets exceed its liabilities at year-end, an order may be made, by the Lieutenant Governor in Council, directing MPI to pay a portion of that excess to the Government. This process ensures transparency when the Government appropriates MPI's profits for government purposes.

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 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 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.

The CMP approved by the Board in Order 176/19 did not contemplate the issuance of rebates. As a result of the COVID-19 pandemic, MPI accumulated significant excess capital and in 2020 applied for rebates on two occasions. In this GRA, MPI applied for a further rebate, which has been ordered by the Board, as set out above.

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 first rebate from Basic ordered by the Board in 2020.

One of the central features of the CMP as presented to and approved by the Board in the 2020 GRA was a commitment by MPI to transfer Extension surplus to Basic. MPI’s position is that it can transfer Extension surplus other than to Basic before the end of the fiscal year, and has relied on this interpretation to avoid making any transfers to Basic since the CMP was approved. MPI has clearly not followed through on its commitment, despite the Board's clear prior expression of concern. MPI has not complied with the spirit or intent of the CMP since it was approved.

With respect to the CMP and the Basic RSR, the Board is concerned about MPI's failure to conduct any meaningful analysis of a target versus a range as it was directed to in Order 1/21. On the basis of the record before it, the Board remains of the view that the 100% MCT ratio is just and reasonable, and the elements of the CMP as approved shall remain in place for one more year. The Board anticipates receiving MPI's proposed revised CMP in the 2023 GRA and will conduct a full examination of the issue in the next application. Accordingly, the Board grants MPI's request to continue with the CMP as approved in Order 176/19 for the 2022/23 insurance year, and expects to receive the proposed updated CMP in the 2023 GRA.

Driver Safety Rating

History

MPI introduced the Driver Safety Rating (DSR) system in 2010 to replace the Merit Discount Program. The DSR was made possible after MPI assumed the role of administrator of DVA in 2004.

In the 2018 GRA, one component of MPI's rate request was a 1.8% increase to the demerit side of the scale for driver premiums under the DSR, equivalent to an increase of driver premium revenue in the amount of $17.5 million.

In Order 130/17 following the 2018 GRA, the Board approved MPI's request, but commented that MPI needed to strengthen its analytical tools in the determination of driver premiums. 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 registered 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 the 2021 GRA, file proposed vehicle premium discounts that were actuarially indicated based on principal driver performance evaluation. MPI applied for a variance of certain aspects of the Board's DSR directives in Order 130/17, and has continued on occasion to seek variances of Board directives for DSR.

In Order 1/21, the Board found that in using the Registered Owner rather than Primary Driver model, good drivers who are registered owners of vehicles are subsidizing bad drivers who are not. MPI’s Chief Actuary testified in that GRA that the Primary Driver model is more actuarially sound, which was confirmed again in this hearing. The Board commented that the need for a rating system based on the primary driver was clear. The Board further held that more than sufficient time and examination had taken place in order for MPI to move towards more actuarially sound driver premiums and vehicle premium discounts by this Application.

The Board held that, given the evidence that the Primary Driver model would more accurately reflect risk, in this GRA the Corporation was to bring forward a plan, including timelines, major milestones and implementation date, for any changes to the DSR model, including a date by which MPI would file an application for any such changes with the Board. The Board noted that the timeline for MPI's major Information Technology initiative, Project Nova, required that MPI move forward on DSR changes without delay. The Board expressed concern that if MPI did not take proactive steps to move to the Primary Driver model now, such a change would be more difficult to implement after completion of Project Nova.

Rating Model

Despite the Board's comments in Order 1/21, MPI advised in this Application that it intends to continue to use the Registered Owner model and will not be considering any changes to its model for five years. MPI stated that the necessary IT changes to permit the introduction of Primary Driver could be introduced through the Duck Creek application, which is part of Project Nova.

MPI has demonstrated continued reluctance to move ahead with a new DSR rating model. Insurance is based on risk assessment and the evidence clearly establishes that premiums based on the primary driver more accurately price risk.

After the 2021 GRA the Board found that MPI should be in a position to take steps towards a more actuarially sound model, and the Board still finds this to be the case. The Board is perplexed as to why MPI is adamantly opposed to implementing a Primary Driver model. The Board finds that a change in the rating model is required and has directed the Corporation, in the 2023 GRA, to bring forward a five-year plan for the implementation of the Primary Driver rating model.

Rating Changes

In this Application, MPI proposed changes to the DSR system that would take place within the current Registered Owner model. MPI filed proposed driver premium rates and vehicle premium discounts that were more statistically consistent with the estimated claims cost per driver for each level of the DSR scale, including incorporating the DSR into its minimum bias analysis used to set rating relativities.

The Board is satisfied with MPI's requested adjustments to the existing model, in order to move toward actuarial soundness. The Board finds it is just and reasonable to make the changes to the system as requested by MPI to expand the DSR scale from +15 to +16 in the 2022/23 insurance year, and to increase the vehicle premium discounts for vehicles registered to owners with DSR ratings from +10 to +15.

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 Order 1/21, the Board commented that its review of MPI's expenses was against the backdrop of the COVID-19 pandemic and fiscal year 2020/21 was unique. However, the effects of the pandemic have carried over to the 2021/22 fiscal year, as demonstrated by MPI's continued accumulation of excess capital and reduction in claims incurred.

The Board notes the challenges associated with forecasting in the context of these circumstances, which have no recent historical precedent. Therefore, the Board finds that MPI's forecast of the impact of COVID-19 on claims and expenses is reasonable.

The Corporation's main IT initiative is Project Nova. In this GRA, the Board examined the changes to Project Nova that have taken place as a result of a re-baseline exercise, which MPI undertook after the conclusion of the 2021 GRA. At that time, MPI had incurred an estimated increase of $22.6 million to the initial $106.8 million project budget, but the budget was subject to change as a result of the re-baseline.

The re-baselined business case for Project Nova was filed in this GRA. MPI advised that it is more refined than the original business case. The re-baselined budget is $128.5 million, comprised of $111.7 million in projected costs and $16.8 million of contingency. The original Project Nova budget of $106.8 million was comprised of $85.4 million project costs and a $21.4 million contingency.

The project plan for Nova is not certain at this point. MPI's President and CEO testified in the public hearings that MPI has a plan to move beyond Project Nova to a new initiative, which MPI calls Supernova. This is intended to move MPI towards MPI 2.0 resulting in an organization that is omnichannel enabled, producing flexible products for Manitobans, and providing increased business agility. He expressed the view that the original concept of Project Nova lacked certain foundational components. It is as yet unclear what the impact of Supernova will be on the current delivery and future direction. MPI is working to ascertain the timing and costs of MPI 2.0. Further details are not expected until the first quarter of 2022.

The Board acknowledges that MPI continues its efforts to contain costs, but finds that there is a significant risk that its IT initiatives will increase in scope and cost. The Board noted its concern in Order 1/21 with the budget overruns early in Project Nova. The re-baselined business case has increased the project budget, but the costs outlined in the re-baseline may not be a reliable indicator of future project costs, given MPI's now planned move towards MPI 2.0 through Supernova. The Board notes that for a second consecutive GRA, MPI has presented a Project Nova budget that will be subject to change in the months immediately following the public hearings. This presents a challenge for the Board in its review of the prudence of MPI's IT expenses.

Given the timing of MPI's planned changes to Project Nova and the Board's concerns noted above, the Board finds that it is necessary for MPI to engage with the Board prior to the 2023 GRA. The Board has therefore ordered that MPI meet with Board advisors no later than April 30, 2022 to review its IT initiatives. The meeting shall review all aspects of Project Nova and the planned Supernova/MPI 2.0, including but not limited to project deliverables, timeline, budget, discount rate, and any foundational elements not part of the original Project Nova plan that are being added to the initiative.

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 ALM Study, which took place in 2017.

MPI advised in this GRA that it is planning to complete a new ALM study by June 30, 2022 and is in the process of preparing a request for proposals (RFP) for the study. MPI indicated that it typically takes three to five years for a fully funded portfolio to experience a full market cycle, which is advisable before conducting the next ALM study. However, the Corporation needs to review its investment strategies prior to adoption of International Financial Reporting Standards (IFRS) 9 (Financial Instruments) and IFRS 17 (Insurance Contracts). The next ALM study will carefully consider impacts of inflation and IFRS 9 and 17.

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 Board notes, however, the incoming changes to IFRS 9 and 17 that necessitate a new ALM study take place earlier than might be otherwise warranted. The Board intends to review the results of the ALM study in the 2023 GRA and directs MPI to file its 2022 ALM study with the 2023 GRA

The continued economic uncertainty caused by COVID-19 requires that MPI take into account the impact of inflation in its investment strategy. A prudent examination of MPI's investment strategy must include an examination of inflation risks, and how to mitigate such risks. In addition, while the current composition of MPI's portfolio serves to mitigate interest rate risk, this risk has not been eliminated. Thus far MPI has, for the most part, experienced a favourable interest rate impact, but the potential remains that a change in interest rates will have significant negative impacts for MPI.

The Board has therefore found that the forthcoming ALM study should be broad in its review to ensure that MPI explores a wide range of options to mitigate against inflation and interest rate, hedge against claims liabilities, and maximize returns. The Board has therefore directed the following with respect to the ALM study:

- That MPI consider the use of a real liability benchmark, as opposed to a nominal liability benchmark;
- That MPI require the study to examine the reasons for higher investment returns in MPI's peers;
- That MPI refrain from imposing constraints on the type of investments included; and
- That MPI require the provision of an objective opinion regarding the prudence of including or excluding various assets in the Basic Claims portfolio, including:

- Whether the inclusion of growth assets is prudent while maintaining the surplus volatility (the relevant risk) at levels that are consistent with the risk appetite of the Corporation; and
- If so, what weighting of equities and other non-fixed income assets may be included to achieve the best possible expected risk-adjusted return.

Compliance with Board Orders

It is of concern to the Board that the Corporation failed to comply with a number of the directives in Order 1/21. When the Board issues directives the Corporation may choose to file a request for variance or seek leave to appeal from the Manitoba Court of Appeal. The Corporation may not simply refuse or fail to comply with the directive.

For the purposes of transparency and accountability, in this and in all future orders the Board will include a list of any directives with which the Corporation has not complied. The list is found at Appendix A to this Order and will be posted on the Board's website.

For the benefit of future GRAs, the Board would remind the Corporation that the Board retains the jurisdiction to impose financial penalties, and/or stay any future applications, in the event that the Corporation does not fully comply with a Board order.

2.0 THE RATE APPLICATION

2.1 Procedural History

On June 28, 2021, the Corporation filed with the Board the 2022 General Rate Application (GRA or Application) seeking approval of premiums for universal compulsory automobile insurance (Basic), commencing April 1, 2022 and ending March 31, 2023.

The Application as filed sought a rate decrease of 2.8% on a provisional basis, to be updated as at August 31, 2021. The 2.8% rate decrease was calculated in accordance with Accepted Actuarial Practice (AAP) and grounded in a Naïve interest rate forecast as at March 31, 2021.

Prior to the filing of the Application, the Board issued Interim Procedural Order 56/21, 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 2022 GRA; and issues deferred from the 2022 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 76/21, dated July 15, 2021, 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 76/21, the Board 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).

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. MPI filed the omnibus motion on September 17, 2021 and by Order 107/21, dated October 4, 2021, the Board found that the material claimed as confidential by MPI would be received in confidence.

Ten days of public hearings took place, during which the Board heard evidence from witnesses appearing on behalf of MPI, CAC 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 to fully vaccinated individuals only, and no more than ten people were permitted in the hearing room at any given time in order to adhere to public health guidelines.

2.2 Anticipated Rebate Request

In its GRA filing, MPI notified the Board that it intended to file a rebate application before the hearing of the GRA (2022 SRA), for an amount that would reduce the Basic Rate Stabilization Reserve (RSR) Minimum Capital Test (MCT) ratio to 100%, using actual savings of $155 million, and projected savings generated between March 31, 2021 and September 30, 2021.

As MPI had indicated its intention to file the 2022 SRA, in Order 76/21 the Board included the SRA as an issue that would require detailed consideration in the GRA.

MPI filed the 2022 SRA on July 19, 2021. On September 17, 2021, MPI filed the omnibus motion on CSI as set out above, which motion also requested an order consolidating and hearing together the GRA and the 2022 SRA. The Board approved MPI's request and, as a result, any evidence tendered by MPI or any Intervener in the GRA was received as evidence in the 2022 SRA to the extent it was relevant and necessary. Similarly, any relevant and necessary evidence tendered in the 2022 SRA was received as evidence in the GRA.

2.3 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).

The GRA and the 2022 SRA required the Board to deliberate on just and reasonable insurance premiums (i.e., rates), a capital release, and a rebate. It is important to distinguish between each of these concepts.

Rates

A vehicle’s base premium depends on where in Manitoba the ratepayer lives, the type of vehicle, and the vehicle's use. The Driver Safety Rating (DSR) may provide a discount on the vehicle’s base premium. The vehicle base premium, adjusted for the DSR, is the annual rate that a customer pays for vehicle insurance. Each year, the Board orders an overall rate change that is applicable to the annual rate of vehicle insurance.

Capital Release

When MPI’s capital reserve fund has excess capital, the Board may order a capital release. Based on MPI's CMP, the capital release in one year may be as high as 5%. The capital release is applied to the rate to be paid in the next (i.e., upcoming) insurance year, and is not applicable to any future years. The capital release will serve to reduce the amount of a vehicle's insurance premium in the upcoming insurance year.

Rebate

The Board may also order a rebate when MPI's capital reserve fund has excess capital. A rebate is an amount refunded to a ratepayer from premiums that the ratepayer has already paid in the current or prior insurance year. The actual amount of the rebate paid to the ratepayer will depend on the amount of premium the ratepayer has paid in the current or prior year.

In its provisional rate request filed on June 28, 2021, the Corporation requested an overall 2.8% 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, 2021.

MPI also applied to suspend the 5% capital release, which would be required under the CMP approved in Order 176/19, for the 2022/23 insurance year. MPI also applied for leave for continued use of the CMP for the 2022/23 insurance year, representing a one-year extension of the two-year trial. The Corporation's rationale for this request was that the CMP and its capital release provision would not be made use of in this GRA due to the 2022 Special Rebate Application.

MPI filed its update with the Board on October 5, 2021, in which the provisional rate request was updated to a final rate request for a decrease of 1.16% (rounded to -1.2%).

The vehicle premium rates applied for 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 2022.

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 DSR system, service and transaction fees or fleet rebates and surcharges. The Corporation did request a change to vehicle premium discounts applied to DSR levels +10 to +15. MPI did not seek any changes to driver premiums, but did seek approval of an increase to the maximum merit level under the DSR from +15 to +16.

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

Year	Applied For (%)	Ordered (%)
2022/23	-1.2	-1.57
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

2.4 2022 Special Rebate Application (2022 SRA)

On April 27, 2020, MPI filed a rebate application with the Board, seeking an order requiring it to issue to ratepayers a rebate in the approximate amount of $58 million (2021 SRA I). The Board granted the application in Order No. 67/20 dated May 1, 2020. On November 30, 2020, MPI filed another rebate application, seeking an Order requiring it to issue to ratepayers a rebate in the approximate amount of $69 million (2021 SRA II). MPI filed SRA II less than a month after the conclusion of the 2021 GRA, in which it took the position that a rebate was neither desirable nor warranted. The Board granted the application in Order No. 145/20 dated December 14, 2020.

In these previous rebate applications, MPI's position has been that a rebate is not the most desirable approach to distributing capital, and that a preferable approach is to constantly adjust the CMP rates to stay close to the MCT target; however, the unpredictability of the COVID-19 pandemic has led MPI to conclude that rebates are the most efficient way to get money back to ratepayers.

On July 19, 2021, the Corporation filed the 2022 SRA, for an order requiring it to refund to ratepayers a percentage of their Basic premiums earned from November 22, 2020 to December 9, 2021, for all vehicle classes, through a rebate in an amount needed to lower the MCT ratio of the RSR to 100%, using the excess capital MPI projects it will accumulate from March 31, 2021 to March 31, 2022, as soon thereafter as is reasonably practicable.

MPI reported at the time of filing the 2022 SRA that, based on year-end results at March 31, 2021, it had accumulated $155 million of excess capital in the RSR, and was forecasting that this excess would grow to $202 million by March 31, 2022.

MPI explained that the amount of the rebate request was inversely proportional to the amount that would no longer be released under the CMP, should the Board approve the suspension of the CMP requested in the GRA.

On October 5, 2021, MPI filed an update to the GRA based on actual financial results to August 31, 2021. MPI's updated financials and forecast resulted in an increase of $133 million in forecasted excess capital in the RSR. MPI therefore revised its rebate request to $335 million.

2.5 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 2022/23 and 2023/24 (the years affected by the Application) from an initial indicated rate of a 2.2% increase, based on October 5, 2021, update were as follows:

	2022/23 Projection Per October 5, 2021 Update ($ millions)	2023/24 Projection Per October 5, 2021 Update ($ millions)
Motor Vehicle Premiums	**$1,073.6**	**$1,143.6**
Drivers' License Premiums	**62.5**	**64.9**
Reinsurance ceded	**(15.9)**	**(16.3)**
Total Net Premiums Earned	**1,120.1**	**1,192.2**
Investment Income	**100.1**	**96.9**
Service Fees & Other Revenues	**29.1**	**29.3**
Total Earned Revenues	**$1,249.4**	**$1,318.5**
Claims Incurred	**922.8**	**$958.8**
Claims Expenses	**152.7**	**157.6**
Road Safety Expenses	**12.5**	**12.5**
Operating Expenses	**83.8**	**86.8**
Commissions	**48.1**	**52.6**
Premium Taxes	**34.1**	**36.3**
Regulatory/Appeal expenses	**4.6**	**4.3**
Total Claims and Expenses	**$1,258.6**	**$1,308.8**
Net income (loss) – Basic	**($9.2)**	**$9.7**

The above forecast was based on a Naïve interest rate forecast (assuming no changes in current interest rates) as at August 31, 2021, which MPI requested the Board use for rate-setting purposes.

The Application as initially filed was based on market interest rates as of March 31, 2021 with a new money yield of 2.46%, a breakeven rate indication, excluding the impact of coverage changes, of -2.8%, and combined with the removal of the 5% capital release provision was an overall 2.2% premium increase.

The Corporation updated the 2022 GRA rate indication with interest rates as of August 31, 2021, reflecting more recent yields, consistent with the approach followed in the 2021 GRA. The new money yield is based on a weighted average of estimated provincial and corporate bonds yield with a duration of 10 years. The October 5 update, based on the yield as of August 31, 2021, generated a new money yield of 2.34%, a reduction of 12 basis points. The determination of new money yield is discussed in Section 3 of this Order. The combined impact of the change in new money yield and changes in forecast expenses and claims was an increase in the breakeven rate indication of 1.6%, resulting in the revised breakeven rate indication of -1.16%. The combined effect of the -1.16% indicated rate and the removal of the capital release provision estimated to increase rates by 6.75% (based on how MPI implemented the capital release in 2021) results in a 5.59% premium increase for renewal customers.

MPI also updated its forecast for the 2021/22 fiscal year, the subject of last year’s GRA. Based on the October 5, 2021, update, which included updated interest rates, experience and savings related to the COVID-19 pandemic conditions, the forecast net income was revised from $67.3 million to $189.7 million, an increase of $122.4 million.

2.6 Vehicle Premiums

Total premiums earned were forecasted to be $1.12 billion in 2022/23, increasing to $1.19 billion in 2023/24. 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 DSR level of registered vehicle owners (DSR Upgrade Factor). MPI's combined Vehicle and DSR Upgrade factor (Total Upgrade Factor) is forecast to be

2.44% for 2021/22 and ranges from 2.59% in 2022/23 to 2.55% in 2025/26 reflected in the table below.

The Volume Factor is based upon the historical growth rate of HTA vehicles only (including the Private Passenger, Commercial, Public and Motorcycle Major classes, and excluding trailers and off-road vehicles), which account for 75% of the total earned units 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 1.25% in 2021/22. Volume forecast for 2022/23 was forecast at 1.13% and 1.06% for 2023/24 to 2025/26. 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 Upgrade & Volume Factor
2021/22	2.69%	-0.25%	2.44%	1.25%	3.69%
2022/23	2.45%	0.14%	2.59%	1.13%	3.72%
2023/24	2.45%	0.13%	2.58%	1.06%	3.64%
2024/25	2.45%	0.09%	2.54%	1.06%	3.60%
2025/26	2.45%	0.10%	2.55%	1.06%	3.61%

2.7 Driver Premiums

The level of Driver Premiums paid by licensed 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 demerit level 20. MPI proposes to expand the DSR scale in 2022/23 to include a level +16 but has not proposed any changes in the driver premiums.

Driver premiums were forecast to be \$61.2 million in 2021/22 and to increase to \$63.8 million in 2022/23 and \$65.9 million in 2023/24. 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.

2.8 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 full implementation in 2021 of the Corporation's 2017 Mercer 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 RSR and Employee Future Benefits, primarily the pension obligations of the Corporation (EFB). 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 unique asset allocations, 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) totalling $3.0 billion in 2020/21, which is forecast to grow to over $4.0 billion by 2025/26.

Investment income earned from the Corporation's investment portfolio reduces the revenue that it is required to collect through premiums. The Corporation's investment income was allocated to the Basic line of business based on a monthly averaging of the funds available within each division. MPI realized $89.5 million in investment income in 2020/21.

Based on August 31, 2021 updated Naïve interest rate forecast, MPI forecasted investment income allocated to Basic of $149.3 million in 2021/22, $100.1 million in 2022/23 and $96.9 million in 2023/24. Further discussion on MPI's investment portfolios and returns is found in Section 8 of this Order.

2.9 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. Service 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 $25.5 million in 2021/22, $29.1 million in 2022/23, and $29.3 million in 2023/24. MPI did not apply for any changes in service fees.

2.10 Extension Operations

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

	2022/23 Projection Per Oct 5, 2021 Update ($millions)	2023/24 Projection Per Oct 5, 2021 Update ($millions)
EXTENSION		
Motor Vehicles	**$180.7**	**$186.0**
Reinsurance ceded	**(2.0)**	**(2.0)**
Total Net Premiums Earned	**178.8**	**184.0**
Investment Income	**13.8**	**10.1**
Service Fees & Other Revenues	**12.5**	**12.9**
Total Earned Revenues	**$205.1**	**$207.0**
Claims Incurred	**$94.7**	**$94.9**
Claims Expenses	**12.6**	**13.9**
Road Safety Expenses	**1.0**	**1.1**
Operating Expenses	**8.9**	**9.4**
Commissions	**32.4**	**32.6**
Premium Taxes	**5.4**	**5.6**
Total Claims and Expenses	**$155.1**	**$157.6**
Net income – Extension	**$50.0**	**$49.4**

At the 2021 GRA, MPI committed to implementing Compulsory and Extension Revision Project (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 resulted in a transfer of collision and comprehensive claims costs from Basic to Extension of $12.7 million in 2021/22 and a forecast increase in costs of $25.6 million in 2022/23 and $25.8 million in 2023/24.

The target net income profit margin for Extension was forecast last year to drop from 28% to 24.8% in 2021/22 and 20.7% in 2022/23. MPI revised its forecast net income profit margin to 33.8% in 2021/22 and 26.5% in 2022/23. The increase in Extension’s profitability was attributed to changes in the broker commission structure flowing from a 2021 Broker Agreement negotiated with the Insurance Brokers Association of Manitoba (IBAM), which saw a reduction in commission rates for Extension policies from 21.6% to 17.5%. MPI has not yet adjusted the pricing of its Extension products to account for the lower commission rates on Extension. MPI advised that its Board reviews the profit margins annually, and the Extension commission changes will form part of that review.

3.0 RATE INDICATIONS

3.1 Accepted Actuarial Practice in Canada

Ratemaking in accordance with 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 this GRA process: the new money yield, revenue forecasts, claims costs forecasts, expense forecasts, and an alternative AAP rate indication based on the duration of cash flows by major class.

3.1.1 New Money Yield

The 2022 GRA forecast was initially based on a Naïve interest rate forecast as at March 31, 2021, using a weighted average of provincial and corporate yields of bonds with durations of about ten years. The initial new money yield assumption was 2.46%, based on provincial bonds with a yield of 2.14% and corporate bonds with a yield of 3.14%.

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 the Corporation on October 5, 2021, and was based on a Naïve interest rate forecast as at August 31, 2020, with a new money yield of 2.34%, a reduction of 12 basis points from the initial assumption. The revised assumption was based on a weighted average of provincial bonds with a yield of 2.09% and corporate bonds with a yield of 2.89%. The forecasted weighted average bond duration of 10.29 years included municipal, hospital, schools and universities (MUSH) bonds, which were assumed to have a duration of approximately five years, provincial bonds with a duration of 12.34 years, and corporate bonds with a duration of 10.29 years. This approach is a change from the initial filing, in which both provincial and corporate bonds had an assumed duration of about ten years, and reflects the new "moment matching" strategy implemented by MPI in June 2021. The Corporation did not include the MUSH bonds in the calculation of the weighted average yield, as it is expecting to purchase only $40 million per year. The use of more recent interest rates is in accordance with AAP. The impact of the lower interest rate forecast was to increase the initial breakeven AAP rate request by 0.3 percentage points.

3.1.2 Revenue Forecasts

The Corporation calculates forecasted motor vehicle written premiums based on the previous year's written premium, a volume factor, an upgrade factor, a rate change, and adjusted for net fleet rebates and anti-theft discounts. Any capital build or release provision also affects the written premium.

The volume factor represents the growth rate in Basic earned vehicle units over a given insurance year. In the initial 2022 GRA filing, the volume factor was 1.25% for 2021/22, 1.13% for 2022/23, and 1.06% thereafter. In the October 5 update, the volume factor for 2021/22 was estimated to be increased by 0.41%, to 1.66%. This change was not reflected in the projected insured units in the revenue forecast and the rate indication. Reflecting this change by increasing the projected insured units by 0.41% in the calculation of the AAP rate indication resulted in a decrease of the indicated AAP rate by 0.41% from that in the October update.

In Order 1/21, the Board approved a 5% capital release, in accordance with the Capital Management Plan proposed by MPI and approved by the Board in Order 176/19. The Corporation applied the capital release provision to the vehicle premiums before the DSR discount, resulting in an overall decrease in written premium in 2021/22 of $70.9 million.

3.1.3 Claims Costs Forecasts

The Corporation forecasts the accident year ultimate incurred losses. In general, it is assumed that the historical ultimate losses are the best predictor of future ultimate losses by accident year. There are instances in which this assumption may not be appropriate, due to significant changes in claims patterns (actual or expected). In such cases, the methodology differs in making the forecast.

For each coverage, and type of loss within each coverage, the Corporation forecasts claim counts and average claim severity based on a review of the historical experience, applying selected trends to historical claim levels to bring them to future accident year levels. The approach used by the Corporation for each coverage is consistent from one GRA to the next, unless a change is warranted. The Corporation then uses a pure premium trend model to allocate the overall indicated rate level indication to each major class.

In the 2022 GRA, the 2022/23 total Basic ultimate incurred forecast was $12.8 million lower than the forecast of the 2021 GRA, primarily due to reductions in collision and comprehensive hail claims forecasts. The October 5 update included changes in HTA units, collision total loss severity trend, comprehensive hail frequency and severity, and reflected the recently finalized Light Vehicle Accreditation Agreement (LVAA). The combined impact of all of these October updates was to increase the claims forecast and the AAP rate indication for 2022/23 by 0.1%.

The assumed HTA volume growth affects the projected claims for Collision, Comprehensive and Property Damage. The October update reflected an increase in the 2021/22 HTA volume factor from 1.25% to 1.66% in the projected Collision, Comprehensive, and Property Damage claims costs.

CERP, effective for policies renewing in 2021/22, reduced Basic claim costs for Collision and Comprehensive, and increased claims costs for Public Liability and Property Damage. CERP increased the Basic deductible, increased the Basic third party liability limit, and increased the Basic maximum insured value. The expected overall impact, consistent with the 2021 GRA, was a decrease in Basic claims costs of $14.5 million in 2021/22, $30.2 million in 2022/23, and $30.5 million in 2023/24.

The Corporation has experienced a significant reduction in claims since March 16, 2020 as a result of the COVID-19 pandemic.

On April 29, 2020, the Corporation filed 2021 SRA I, which outlined its estimation of the favourable impacts of the pandemic to be a $58 million reduction in claims costs from March 16 to May 15, 2020 ($14.5 million in 2019/20 and $43.6 million in 2020/21), and no assumed impacts on claims costs from May 16, 2020 onwards. At this time, MPI said that it did not plan on issuing further rebates, and would instead focus on making adjustments to the CMP to stay close to the MCT target.

On October 9, 2020, the Corporation filed an update to its 2021 GRA, with three scenarios on the duration of the pandemic. The first scenario (Scenario 1) assumed that the pandemic would end at August 31, 2020, with additional savings of $13 million from the April 29, 2020 estimate. The second scenario assumed that the pandemic would end at December 31, 2020, with a further $15 million of savings beyond Scenario 1. The third scenario assumed that the pandemic would end at March 31, 2021, with a further $12 million of savings beyond scenario two. Once again, MPI stated that it did not plan on issuing any further rebates, and that the previous SRA was an emergency situation as a result of the COVID-19 pandemic.

On November 30, 2020, the Corporation filed 2021 SRA II, in which it forecast a $69 million improvement in claims incurred before the impact of interest rates and Deferred Policy Acquisition Costs (DPAC) adjustments relative to Scenario 1 of October 9, 2020. MPI assumed that the pandemic would end at March 31, 2021. Combined with the original $58 million, the Scenario 1 estimate of $13 million, and the additional $69 million, this resulted in a total expected reduction in claims costs of $140 million.

In this Application, MPI indicated that the net claims incurred for 2020/21 had reduced by $200 million from its forecast in the 2021 GRA. The Corporation assumed a 20% reduction in collision and property damage frequency for April 1, 2021 through June 30, 2021 and a 10% reduction from July 1, 2021 through September 30, 2021, with a perfect correlation assumed between collision and Personal Injury Protection Plan (PIPP) claims. This assumption resulted in a forecasted Basic claims savings of $42.6 million in 2021/22.

In the October 5 update, the Corporation updated its forecast with a further reduction in expected claims in 2021/22 of $71.5 million, due to the pandemic. The updated assumption was that September and October 2021 would have a 20% lower than normal collision frequency, November and December 2021 would be 15% lower, January and

February 2022 would be 10% lower, March 2022 would be 5% lower, and a return to normal by April 1, 2022.

The Corporation expects there may be permanent changes in driving behaviours and traffic congestion in 2022/23 and forward, but at this time cannot know what the "new normal" will be or if there will be a "new normal", but factors such as Government return to work plans, fourth wave data, traffic/mobility reports and year-to-date experience will have an influence on future claims.

3.1.4 Expense Forecasts

In the 2022 GRA, the Corporation forecast Basic expenses in the rating years (2022/23 and 2023/24) to be about 1.2% lower versus the 2021 GRA forecast. Claims expenses were forecast to be 0.7% lower, Road safety/Loss prevention 3.9% lower, Operating Expenses 1.0% lower and Regulatory/Appeal 12.1% lower. The Corporation forecast broker commissions to increase by 14.4% compared to the 2021 GRA, due to the impact of the agreement it reached in 2021 with IBAM. Premium taxes continue to be forecast at 3.0% of earned premiums net of rebates paid.

The Corporation holds a policy of catastrophe reinsurance with a limit of $400 million, and casualty reinsurance covering losses from a single incident exceeding $10 million. The previous policy limit for catastrophe coverage was $300 million; MPI increased the limit by $100 million over the past year because its modelling indicated that it was not adequately insured at $300 million for a 1-in-100 year event.

The costs of reinsurance for the 2022/23 rating year are $14.6 million for the catastrophe policy and $1.5 million for casualty.

In the October 5 update, the Corporation increased its forecast Basic expenses in the rating years, due primarily to increases in data processing costs. A new accounting standard (IAS-38 Intangible Assets) does not allow capitalization of cloud-based integration costs Software-as-a-Service (SaaS). The overall impact of the increased expense forecast was an increase in the AAP rate indication of 1.2%.

3.1.5 Alternative AAP Indication

In Order 1/21, the Board directed that in this GRA, the Corporation 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.

The Corporation first determined the duration of the cash flows for rating year 2022/23 separately for claims costs for each coverage, for claims expenses, for non-claims cost, and for other income sources. An investment return was selected for each coverage based on the duration of cash flows in the rating year. The investment returns were then applied against the cash flows to determine the indicated rate changes by major class, using the weights by coverage for each major class.

For purposes of the AAP rate indication, the Corporation normally uses the outstanding claims duration, instead of the duration of the cash flows of the respective rating year. The duration of the cash flows for the rating year for each coverage is significantly lower than for the outstanding claims. Given the upward sloping yield curve, this causes the overall rate indication using the duration of the rating year cash flows to be higher than it would be if it had used the duration of the outstanding claims liabilities. The 2.1% higher overall required rate change is due to the significantly shorter duration of the cash flows for rating year 2022/23 compared to the duration of the unpaid claim liabilities as of October 1, 2022. The alternative rate indication for every major class was higher than that of the 2022 GRA AAP rate indication for that major class, ranging from an increase in the indication of 1.1% for trailers to 4.0% for motorcycles.

3.2 Interveners' Positions

CAC

CAC called Rajesh Sahasrabuddhe as an expert witness in the public hearings. Mr. Sahasrabuddhe is a Principal with the actuarial consulting practice of Oliver Wyman Limited. He is a Fellow of the Casualty Actuarial Society, an Associate of the Canadian Institute of Actuaries, and a Member of the American Academy of Actuaries. CAC asked that he be qualified as an expert in actuarial analysis with particular focus on pricing, ratemaking and risk related to automobile insurance generally. MPI did not object to his qualification to provide expert evidence in this field.

CAC filed a report prepared by Mr. Sahasrabuddhe and Paula Elliott. Ms. Elliott is a Fellow of the Canadian Institute of Actuaries and a Fellow of the Casualty Actuarial Society. She is a Principal with Oliver Wyman and her responsibilities include reviewing automobile insurance rate applications, providing expert witness testimony on rate applications, analyzing automobile insurance reform measures, conducting automobile insurance benchmark rate studies and performing special studies. Although CAC did not call Ms. Elliott as a witness or ask that she be qualified as an expert in the field of actuarial analysis, Mr. Sahasrabuddhe confirmed that the report was prepared jointly with Ms. Elliott under his care and control. The Oliver Wyman report provided actuarial commentary with respect to aspects of the DSR system, loss trends and the CMP.

The Oliver Wyman report provided evidence of an alternative trend indication, based on the historical pure premium data at a coverage level, and concluded that lower pure premium trends were warranted. Substituting the Oliver Wyman pure premium trends for the combined frequency and severity trends used by the Corporation to the future trends resulted in a full credibility required change of -2.6%.

Mr. Sahasrabuddhe disagreed with MPI's selected trends for coverages other than accident benefits other (indexed). His disagreement related to two concerns:

- Selection of trends by MPI relating to property damage, comprehensive, income replacement, and accident benefits other (non-indexed) that are not statistically significant; and

- Use of trend models by MPI relating to collision and bodily injury that result in inappropriate conclusions.

Mr. Sahasrabuddhe also expressed concern that MPI consistently rounds up between indicated and selected values in its trends analysis.

CAC made the following recommendations for this GRA:

- That in order to determine the appropriate overall rate indication, the Board should direct the Corporation to file a revised Undertaking 28 applying the Oliver Wyman pure premium trends (both past and future) to the combined frequency and severity trends to calculate the overall rate indication; and

- That the Board make a finding that the impacts of COVID-19 are likely to continue for an undetermined period of time. Given the lack of reliable forecasting of the impacts of COVID-19, CAC recommended that the Board find that MPI’s approach for the test year is reasonable. In the short-term until the next GRA, given the possibility that claims costs will be significantly lower than forecast if impacts of COVID-19 continue, CAC recommended that the Corporation should be directed to file monthly reports with the Board identifying the variance in actual claims costs to budget, as well as the impact on capital accumulated.

CAC had the following recommendations with respect to the 2023 GRA:

- In the longer term, CAC recommended that the Board direct the Corporation to review what other insurers are doing in terms of potential long-term impacts of COVID-19 and file an analysis in the 2023 GRA, as well as incorporate best practice in its forecasts for claims costs so that prospective rates better reflect the post-COVID-19 reality;

- For future GRAs, CAC recommended that the Board direct the Corporation to revise its methodology for pure premium trends and frequency and severity trends for claims incurred to better reflect statistical significance and residual analysis;

- Given its acknowledgement in the last three GRAs that exploring the use of Generalized Linear Modelling (GLM) would be worthwhile and GLM appears to be standard practice amongst automobile insurers, CAC recommended that the Board direct the Corporation to immediately explore this option, following the implementation plan proposed by Dion Strategic, and report back with its analysis and findings in the 2023 GRA.

- CAC recommended that, aside from a redesign, the fleet rebate program should be transitioned from cost recovery from the general population of Private Passenger, Commercial and Public classes, toward a model that recovers more of the costs from fleet program participants. Increasing surcharges or decreasing the rebates under the fleet program would generate more revenue and reduce the net rebates that are payable by the general population. The Board should direct the Corporation to file an analysis and proposal for modifications to the fleet program to better reflect cost causation; and

- CAC recommended that the Board direct the Corporation to investigate, support and report in the 2023 GRA the need for the additional $100 million in reinsurance coverage. The Board should direct the Corporation to provide a detailed analysis of the overlap of coverage among the MCT, RSR and reinsurance programs in protecting the Corporation's financial risk exposures.

CMMG

CMMG recommended that the Board direct the Corporation, in the 2023 GRA, to provide an alternative rate indication on an Overall basis and by Major Class using the yield that corresponds to each Major Class's average duration. The average duration by Major Class is to be calculated using only the claims for a particular Class.

Taxi Coalition

The Taxi Coalition recommended that the Board direct the Corporation, in advance of the 2023 GRA, to:

- Examine appropriate serious loss loadings for insurance uses that have no serious losses in the past 10 years;
- Examine the issue of credibility weighting and propose adjustments to the credibility weighting methodology for the 2023 GRA, to make small insurance use rates more responsive, and paying particular attention to the interplay between credibility methodology and the results of the VFH framework review;
- Re-examine the way it chooses the size of subsets of customers sharing the risk of serious losses and report back to the Board in the 2023 GRA; and
- Immediately begin development of GLMs for pricing, and to present a plan with the 2023 GRA to implement GLM-based rate making and prioritize this work, with a goal of a filing for the Board of a preliminary set of GLMs using existing rating factors and a plan to study additional rating factors and interactions in order to address the question of territorial subsidies among others.

3.3 Board Findings

The Board hereby approves an overall rate decrease of 1.57%, based on the Naïve interest rate forecast updated to August 31, 2021. This rate decrease is a combination of the 1.16% rate decrease as requested by MPI, along with the additional impact on the AAP rate indication of the change in the HTA unit forecast of -0.41%.

The Capital Release provision of 5% in place for the 2021/22 year shall be continued for the 2022/23 year, but with the provision being applied to the vehicle premiums after DSR discount, instead of the vehicle premiums before DSR discount. The Board finds that it is not appropriate to suspend the capital release during the uncertainty of the COVID-19 pandemic.

The Board's approval of the use of the Naïve interest rate forecast is consistent with its decisions in Order 1/21, Order 176/19, and 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 Interveners argued that the SIRF should be applied, notwithstanding eight years of flat interest rates. There was inconsistency from year to year in the interest rate forecasts advocated by the parties. It will be necessary to re-examine the interest rate forecast during the next GRA due to current and projected rates of inflation.

The Board accepts the Corporation's position that it is unable to determine the likely impact of COVID-19 on the 2022/23 rating year, and that it is prudent to assume that there will be no favourable impact.

The Board accepts the qualifications of Mr. Sahasrabuddhe as presented by CAC. However, with respect to the Oliver Wyman evidence presented by Mr. Sahasrabuddhe, the Board finds that the Oliver Wyman pure premium trends do not fully consider the underlying frequency and severity trends for each of the respected coverages, nor do they consider the underlying trends of the kinds of loss within the collision and comprehensive coverages. As a result, the Board will not direct the Corporation to file a revised undertaking reflecting the Oliver Wyman pure premium trends applied to both past and future trend periods. The Board does not find the use of a 0% trend whenever the P-value (the statistical probability of obtaining an indicated trend in the trend analysis at least as large as observed, under the assumption that there is actually no trend) of the trend is greater than 5% to be a best estimate.

With respect to data processing expenses, the Board will not direct the Corporation to require the deferral of cloud-based integration costs for rate-setting purposes; however, the Board directs the Corporation to study the appropriateness of not amortizing cloud-based computing costs, with the benefit of the investment expected to be received over multiple years, for purposes of ratemaking.

With respect to serious loss loadings used by the Corporation in its ratemaking, the Board directs the Corporation to provide an alternative rate indication in the 2023 GRA by use and territory. For this alternative rate indication, the Corporation is to remove actual serious losses (consistent with the current approach), and is to allocate serious losses based on the frequency of collision claims for each vehicle type. Vehicle types are passenger vehicle, light truck, heavy truck, bus, motorcycle, trailer, and off-road vehicle. The Corporation must consider whether this approach is expected to result in less volatility for smaller uses or territories, and whether an adjustment to its credibility standard or minimum credibility may be warranted.

The Board supports the Corporation moving towards an approach that incorporates the use of GLMs and directs MPI, in the 2023 GRA, to provide an alternative indication using a preliminary set of GLMs using existing rating factors, and a plan to study additional rating factors and interactions in order to address the question of territorial subsidies, among others.

The Board accepts CAC's position with respect to the need for a review of the fleet rebate program, in order to assess whether the program would benefit from a transition from cost recovery from the general population to a model that recovers more of the costs from fleet program participants. The Board therefore directs that in the 2023 GRA, MPI shall file an analysis and proposal for modifications to the fleet program to better reflect cost causation.

The Board is not prepared to direct MPI to investigate and report on the need for the $100 million policy limit increase for catastrophe reinsurance. The Board finds that MPI has acted prudently securing an additional $100 million in coverage for a cost of $1.7 million, particularly considering the results of MPI's modelling and the unpredictability of the impact of climate change on the frequency and severity of catastrophic losses in the future.

Lastly, the Board directs that, in the 2023 GRA, the Corporation provide an alternative rate indication on an Overall basis and by Major Class using the yield that corresponds to each Major Class's average duration of its projected unpaid claim liabilities as at October 1, 2023. The average duration by Major Class shall be calculated using only the claims for a particular Major Class. The Overall indication should be consistent with the Corporation's filed rate indication.

4.0 EXTENSION TRANSFERS TO DRIVER AND VEHICLE ADMINISTRATION

On March 24, 2021, the MPI Board of Directors approved the transfer of $60 million from Extension retained earnings to Driver Vehicle Administration (DVA), instead of to Basic, without notice to the Board. MPI is forecasting a further transfer of $53.4 million to take place in fiscal year 2021/22.

MPI administers DVA on behalf of the Government of Manitoba in an arrangement first established in 2004. Pursuant to an agreement between the Government and MPI dated October 1, 2004 (Master Agreement), MPI collects various fees and 100% of the revenue is transferred to the Government.

The services provided through MPI's DVA operations were historically provided by a government department, the Department of Driver and Vehicle Licensing (DDVL). In 2004, the Government entered into an agreement with MPI to delegate responsibility for delivering these services. Their arrangement was then formalized into law by 2005 amendments to the *The Manitoba Public Insurance Corporation Act* (MPIC Act) and the introduction of *The Drivers and Vehicles Act* (DVA Act).

The Master Agreement complemented an April 20, 2004 Interim Agreement and confirmed that the services previously provided by DDVL were delegated to MPI. The preamble to the Master Agreement stated that the Registrar of Motor Vehicles and the Minister of Transportation and Government Services first delegated those statutory authorities, duties and powers which could by law be delegated to officers and staff of MPI in a series of delegation letters. The Master Agreement provided that MPI was to administer the delivery of services but did not have control or decision-making authority over those services.

In 2020/21, MPI collected DVA fees on behalf of Government of $240.3 million. The Government provided $30.2 million in funding for DVA operations in 2020/21, and DVA earned $2.5 million in service fees and investment income. The cost to MPI of operations was $35.4 million, for a deficit of $2.7 million.

MPI reported that it and the Government are in agreement that MPI's insurance lines should not subsidize DVA operations, but the Government experienced significant financial losses as a result of the pandemic. MPI therefore concluded that, in these exceptional circumstances, transferring excess capital from its Extension reserves to the DVA line of business instead of Basic was an appropriate use of its discretion.

On March 24, 2021, the MPI Board of Directors approved the transfer of $60 million in excess capital from Extension reserves to DVA for the 2020/21. Since 2004, to date, MPI has transferred the total amount of $194 million from Extension to DVA, with a further transfer of $53.4 million approved by MPI's Board on June 24, 2021 and forecasted to take place before the end of the current fiscal year.

The amounts transferred from Extension to DVA since 2004/05 are:

Year	Extension Retained Earnings Transferred from Extension to DVA ($M)
2004/05	-
2005/06	0.1
2006/07	6.1
2007/08	10.9
2008/09	18.0
2009/10	27.6
2010/11	27.7
2011/12	27.8
2012/13	4.5
2013/14	12.1
2014/15	-
2015/16	(0.6)
2016/17	-
2017/18	-

2018/19	-
2019/20	-
2020/21	60
Total to date	194.2
2021/22 forecast	53.4
Total, including forecast	247.6

MPI acknowledged a transfer of Extension excess reserves to DVA as opposed to Basic reduces the amount that would otherwise be available for a rebate to Basic policyholders. MPI advised that it is in discussion with the Government on funding to make the DVA line of business self-sufficient. The $63 million transferred to date will cover costs allocated to DVA for the implementation of MPI's major information technology initiative, Project Nova, and will cover five years' future operating deficits. Approximately half of the costs of Project Nova will be allocated to DVA ($54 million of the budget of $111.7 million will be allocated to DVA; including the 15% project contingency, the total DVA allocated costs are approximately $62.1 million).

MPI's President and CEO testified in the public hearings that, while the MPI executive was aware of the anticipated operational deficits in the DVA line of business, the solution to cover that deficit by transferring excess funds from Extension was not considered until after he joined the Corporation in January, 2021.

MPI submitted that it has the statutory authority to transfer excess Extension retained excess earnings to DVA. In support of this position, it argued that:

- The MPIC Act provides that MPI can lawfully use any moneys generated by Extension to carry out a function under the MPIC Act;
- Subsection 6(1)(c.1) of the MPIC Act states that administering the DVA Act is one of MPI's functions;
- At no time did the Government of Manitoba have any possession, power or control of Extension funds;

- Using Extension funds for DVA line of business serves a purpose of MPI; and
- Section 16 of the MPI Act allows MPI to use Extension funds to carry out MPI's powers.

MPI further argued that there is nothing in the MPIC Act that prevents it from using Extension excess retained earnings in the manner it has. According to MPI, the discretionary use of Extension funds is always for the benefit of Basic customers, whether directly or indirectly. In this instance, the Extension excess retained earnings were never transferred to the Basic RSR and MPI had discretion to do something other than transfer them to the RSR before fiscal year end. The Basic RSR was fully capitalized when the transfer was made.

MPI also argued that all Basic customers are also DVA customers, and by transferring funds to DVA, Basic customers derived an indirect benefit by avoiding increased DVA fees. MPI also argued that if it had not transferred the amounts to DVA, DVA fees would need to be increased.

4.1 Interveners' Positions

CAC

CAC took the position that Board should find that the Extension transfers to DVA are illegal, in that they contravene subsection 14(2) of the MPIC Act, which provides:

> **Restriction on use of moneys by government**
>
> <u>14(2)</u> No moneys, funds, reserves, investments and property, whether real or personal, acquired, administered, possessed or held by the corporation, nor any profits earned by the corporation in the activity of automobile insurance, may be taken, used or appropriated by the Government of Manitoba for any purpose whatever, <u>except as provided under section 12 or in repayment of advances by or moneys borrowed from, the Government of Manitoba and interest thereon</u>. [emphasis added]

Section 12 of the MPIC Act states:

> 12(1) The corporation shall pay to the minister charged with the administration of *The Financial Administration Act*, for investment for the corporation, moneys in any reserve established under section 18 and such additional moneys as are not immediately required for the purposes of the corporation and are available for investment.
>
> 12(2) Moneys paid under subsection (1) for investment shall form part of the Consolidated Fund and may be invested in accordance with *The Financial Administration Act*, and the interest earnings thereon shall be credited to the account of the corporation in the Consolidated Fund.
>
> 12(3) Any earnings, whether alone or with the principal sum invested for the corporation under this section, or any part thereof, shall be paid over to the corporation by the minister charged with the administration of *The Financial Administration Act* on the request of the corporation.

CAC argued that all funds required for DVA, including capital requirements relating to IT upgrades, must come from government revenues rather than insurance premiums charged by MPI. CAC also argued that the Extension transfers to DVA contravene the CMP.

With respect to the statutory framework, CAC argued that the DVA line of business serves a "government purpose" within the meaning of subsection 14(2) of the MPIC Act. Subsection 14(2) restricts the manner in which the Government can use funds held by MPI or profits earned by MPI through automobile insurance. The legislative history shows intent by Government to protect the funds held by MPI for use by Government or for government purposes. MPI is an administrator of DVA and acts as a mere agent for the Government and is essentially performing a government service, as evidenced by the relative roles and responsibilities and funding arrangement in the agreement entered into between MPI and the Government in 2004.

CAC further argued that the Board has the opportunity and authority to make ratepayers whole by returning all of the excess capital that was transferred to DVA. Accordingly, CAC requested that the Board order that the amount in the SRA to be rebated to ratepayers include the total amount that was transferred and is forecast to be transferred from Extension to DVA ($113.4 million). CAC noted that the Board may rely on its findings from

Order 176/19, in which it held that the *Reserves Regulation* was invalid, to order a rebate that would leave the Basic RSR below 100% MCT.

CAC also recommended that the Board direct MPI to approach the Government to finalize a new agreement for the funding of DVA, and file DVA funding agreement in the 2023 GRA.

CMMG

CMMG was supportive of CAC's position that the Board should find that the transfers from Extension are unlawful and increase the rebate amount accordingly.

Taxi Coalition

The Taxi Coalition was critical of MPI's decision to transfer excess retained earnings from Extension to DVA. It argued that the Board and the parties always understood that the CMP included a commitment by MPI to transfer surplus from Extension to Basic. Transfers were built into the forecasts produced for the Board, and when the Board approved the CMP it did so based on a finding that it was just and reasonable.

The Basic and Extension lines of business are inextricably linked. MPI’s transfer of Extension surplus to DVA unfairly benefitted some customers over others, and created unjust and unreasonable rates. MPI's failure to transfer Extension surplus to Basic resulted in an unjust and unreasonable allocation of costs to the Taxi VFH. This, in turn, resulted in unfair and unreasonable rates for the Taxi VFH class.

The Taxi Coalition argued that a pure transfer is not necessary; for example, there could be inter-division loan between Extension and DVA.

Like CAC, the Taxi Coalition asked the Board to find that MPI improperly and unlawfully transferred Extension surplus capital to DVA in 2020/21, and that further planned transfers in 2021/22 are also improper and contrary to the CMP.

The Taxi Coalition requested that the Board order that the $60 million already transferred to DVA be reversed, the proposed transfer of $53.4 million to DVA not be implemented, and the total amount of $113.4 million be transferred to Basic and added to the amounts to be rebated to MPI customers.

In support of its position, the Taxi Coalition echoed the argument advanced by CAC with respect to subsection 14(2) of the MPIC Act. The Taxi Coalition also argued that the Board has the incidental power, pursuant to section 25 of *The Crown Corporations Governance and Accountability Act* (CCGA Act) and sections 28, 44(1), 77 and 84 of *The Public Utilities Board Act* (PUB Act) to order that MPI's commitment in the CMP to transfer Extension surplus to Basic be complied with.

4.2 Board Findings

The Board derives its jurisdiction over MPI from the CCGA Act, the PUB Act and the MPIC Act. Section 25 of the CCGA Act requires MPI to apply to the Board for approval of any change in rates for services. "Rates for services" means:

> <u>25(2)</u> For the purposes of this Part, "rates for services" means
>
> […]
>
> (b) in the case of The Manitoba Public Insurance Corporation, rate bases and premiums charged with respect to <u>compulsory driver and vehicle insurance provided by that corporation</u>. [emphasis added]

Therefore, and as acknowledged earlier in this Order, the Board has jurisdiction over the Basic line of business, but not over Extension or SRE. By requesting that the Board effectively reverse the transfers from Extension to DVA and credit those amounts to ratepayers through a rebate, the Interveners have asked the Board to exceed its jurisdiction. The adoption of the CMP and the presumptive transfers from Extension to Basic have necessarily brought Extension's operations within the review of the Board, but ultimately the Board cannot direct MPI what to do with Extension funds. Further, the provisions of the PUB Act upon which the Taxi Coalition relied in support of its argument that the Board can direct the reversal of the Extension transfers are of no assistance, as those provisions apply only to a "public utility" defined in that Act, which does not include MPI.

As a result, the Board is not in a position to order the relief sought by the Interveners, regardless of the validity of the transfers.

Regarding the specific challenge brought by CAC to the legality of the transfers, any finding that the Board might make in that regard will be irrelevant to the outcome of these proceedings, due to the Board's lack of jurisdiction over Extension. The transfers from Extension to DVA, without oversight, demonstrate why the Board should have jurisdiction over Extension.

MPI's financial statements lacked transparency regarding the transfer. The notes to the financial statements did not contain adequate disclosure about the transfer of $63 million from Extension to DVA. MPI advised the Board about the transfer when it filed the Application; however, on a stand-alone basis the financial statements did not provide the necessary information in order for the general public to discern the nature or amount of this material financial transaction.

From 2004 to 2021/22, MPI has transferred $194 million from Extension to DVA. After MPI implemented the CMP, transfers from Extension were built into MPI's forecast and therefore the Board began to examine Extension in detail. This GRA was the first occasion that the Board had sufficient information before it to analyze the impact of an Extension transfer to DVA instead of to Basic. MPI's transfer of funds from Extension to DVA reduced the amount available to rebate to Basic ratepayers by approximately $113.4 million.

If the Government of Manitoba intends to use monies held by MPI for government purposes, the process that must be followed is set out in section 44 of the MPIC Act, which provides that where MPI’s assets exceed its liabilities at year-end, an order may be made by the Lieutenant Governor in Council, directing MPI to pay a portion of that excess to the Government. This process ensures transparency when the Government appropriates MPI's profits for government purposes:

> Excess of assets
>
> 44(1) If the financial statement which, but for this section, the minister would be required to lay before the Legislative Assembly under section 43 shows that the assets of the corporation at the end of the year for which the statement is made exceed its liabilities at the end of that year, the Lieutenant Governor in Council may, by order, direct that the corporation pay to Her Majesty in right of Manitoba forthwith after the statement, amended as provided in subsection (2), has been laid before the Legislative Assembly such portion of the remaining excess as the Lieutenant Governor in Council may determine; but not so as to reduce the remaining balance of the excess of assets over liabilities below 125% of the total of the unearned premiums upon all its outstanding unmatured policies, calculated pro rata for the time expired, together with the amount of outstanding claims and all its other liabilities of every kind.
>
> Adjustment of financial statement
>
> 44(2) Any payment which the Lieutenant Governor in Council directs to be made under subsection (1) shall be shown in the statement of liabilities included in the financial statement to be laid before the Legislative Assembly under section 43 as an amount owing by the corporation at the end of the year for which the statement is made, and the excess of assets over liabilities shown by that financial statement shall reflect that increase in the liabilities.

The cost to MPI to administer DVA has increased since 2004 but the level of funding from the Government has not covered those costs. By using Extension surplus to cover the DVA shortfall, MPI ratepayers are effectively subsidizing what once was a Government responsibility. While all Basic ratepayers are also DVA customers, not all DVA customers are Basic ratepayers. Further, although MPI refers to DVA as a line of business, it is not a business in the true sense because it is an expense to MPI and all income generated must be paid to the Government.

In Orders issued shortly after MPI assumed its duties as administrator under the DVA, the Board expressed concern with how the DVA line of business was allocated in the Corporation's financial operations. In Order 148/04, the Board commented as follows:

[…] the explanation given by MPI for its decision to place the DDVL operation within Extension, means that its functions and responsibilities would be outside of the regulatory process and, therefore, not within the purview of the Board. This is not acceptable to the Board.

This is not a decision that the Board can accept without comment and criticism. The decision on the placement of DDVL is a public policy decision taken without consultation with the Board and its process. If left as it is, the Board and future GRA processes will have no jurisdiction to question, discuss or direct major areas of concern and importance relative to Basic Insurance.

In Order 150/05, the Board specifically expressed a concern that with the DVA line outside the purview of the Board, deficits associated with DVL operations would shrink the transfer of retained earnings from Extension to the Basic RSR. The Board stated:

Accordingly, the Board can have little assurance as to the reliability of MPI's forecasts of future annual transfers from Extension to Basic Insurance and its RSR. As matters now stand, the costs of operating the DVL division, including potential and long overdue computer upgrades, is expected to reduce the transfer of funds from Extension to Basic Insurance and the RSR by $40 million over the next five years. Absent this flow of income into the RSR, future rates will likely be higher than they would otherwise be.

And, in Order 150/07, the Board expressed concern with the flat annual payment to be made from the Government to MPI towards the cost of DVA operations, which would result in MPI carrying the full risk of inflation and/or other operating cost pressures. In the 2011 GRA, the Board was advised that the accumulated losses on MPI's operations for DVA for the previous five years totalled just under $84 million, which were borne by Extension, and by the 2012 GRA, those losses totalled $110 million.[1]

The Board noted its unease about the lack of funding from the Government for DVA operations, from the very inception of the arrangement between the Government and MPI. In this GRA, the Board's concern, that deficits from the DVA line of business would reduce the amount transferred from Extension to Basic, was clearly borne out. The limits of the Board's jurisdiction restrict it from taking any action to remedy this problem.

1 Order 162/11

However, the Board expresses its dismay at MPI's decision to yet again disregard its commitment to transfer Extension excess retained earnings to Basic and questions the prudence of MPI's decision to use Extension excess to essentially pre-fund DVA through to 2026/27.

The Board has concerns about the reliability of MPI's assurances about future transfers from Extension to Basic, given what has transpired.

5.0 CAPITAL MANAGEMENT PLAN AND BASIC TARGET CAPITAL LEVEL(S)

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

The CMP proposed by MPI and approved by the Board 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. The forecasted capital transfers from Extension to Basic have an impact on the Basic rate request, and therefore this draws elements of the Extension forecast within the review of the Board.

MPI did not transfer any funds from Extension to Basic in 2019/20, as required under the CMP. 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 SRA I.

Following the conclusion of the public hearings in the 2021 GRA, MPI filed 2021 SRA II. MPI 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. The Board approved the rebate in Order 145/20, issued on December 14, 2020. At the time, the Board noted that 2021 SRA I and II required a variance of prior Board orders in order for MPI to proceed with rebates, and that it was the exceptional circumstances of the COVID-19 pandemic that justified deviation from the CMP, but the Board did not anticipate that this would be an ongoing feature of the CMP.

In the 2021 GRA, MPI forecasted transfers from Extension to Basic 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. In the

2021 GRA, MPI advised that it had 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 had 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.

In Orders 146/20 and 1/21, the Board accepted the Corporation's proposed 5% capital release provision, in line with the provisions of the CMP. In Order 1/21, the Board stated that it would continue to assess the performance of the CMP and the Basic target capital level over the two-year trial period approved by it in Order 176/19, after which it intended to undertake a detailed review of the CMP. The Board directed that in this GRA, MPI file material to assist in its review of the CMP, including 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.

In this GRA, MPI requested suspension of the 5% capital release provision approved by the Board in Orders 146/20 and 1/21 for the 2022/23 insurance year, and asked the Board to approve its request to immediately release to ratepayers the forecasted $335 million in excess capital in Basic, through the capital rebate sought in the 2022 SRA. Removing the 5% capital release provision, combined with the proposed 1.2% rate decrease, would increase overall rates of service by 3.8%, but MPI's position was that such action was required in these exceptional circumstances to ensure the equitable and timely return of excess capital to ratepayers. MPI submitted that any increase in future rates would be greatly offset by the funds ratepayers could expect to receive through the 2022 SRA.

During the course of the public hearings, MPI provided an analysis of the amount of rebate that could be provided to ratepayers in the 2022 SRA while still retaining the 5% capital release provision, such that the MCT ratio for the Basic RSR would be equal to 100% at the end of fiscal year 2023/24. MPI's analysis concluded that the total rebate amount while maintaining the 5% capital release would be approximately $312 million; therefore, the rebate amount would be reduced by approximately $23 million. MPI maintained its request to suspend the 5% capital release.

MPI also applied for leave for continued use of the CMP for the 2022/23 insurance year (representing a one year extension of the two-year trial); largely because the CMP and its release provisions would not be made use of in this GRA, owing to the 2022 SRA.

MPI acknowledged that the CMP, as initially designed and presented to the Board, did not adequately address the exceptional circumstances caused by the pandemic. The lower claims due to the pandemic have allowed MPI to accumulate significant excess capital in the Basic RSR, which cannot be released back to ratepayers on a timely basis without a variance of the CMP.

In the 2023 GRA, MPI intends to present a revised CMP for approval by the Board. It largely anticipates the foundational elements of the existing CMP will stay in place, but that the new CMP will contain components that address the situation caused by the pandemic.

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

Basic Statement of Changes in Equity

BASIC ($ Millions)	**2021A**	**2022P**	**2023F**	**2024F**	**2025F**	**2026F**
Basic RSR						
Beginning Balance	440.5	448.7	458.4	494.1	547.9	614.4
Basic Net Income (Loss)	290.8	190.0	-9.2	9.7	14.8	32.2
Premium Rebate	-282.6	-180.0				
Transfer from Extension Retained Earnings			44.9	44.1	51.7	53.8
Total Basic RSR	448.7	458.4	494.1	547.9	614.4	700.4
Accumulated Other Comprehensive Income	-14.7	8.4	8.3	12.2	16.7	21.9
Total Equity Balance	**434.0**	**466.9**	**502.4**	**560.1**	**631.1**	**722.3**
Minimum Capital Test						
Basic Total Equity	433.8	466.9	502.4	560.1	631.1	722.3
Less: Assets Requiring 100% Capital	32.0	46.5	56.9	59.6	45.9	33.9
Capital available	401.8	420.4	445.5	500.5	585.2	688.4
Minimum Capital Required (100% MCT)	401.8	420.4	446.1	471.6	496.2	521.7
MCT Ratio %	**100.0**	**100.0**	**99.9**	**106.1**	**118.0**	**132.0**

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)	**2021A**	**2022P**	**2023F**	**2024F**	**2025F**	**2026F**
Retained Earnings						
Beginning Balance	142.9	86.2	88.8	93.9	99.1	101.7
Net Income	55.7	55.9	50.0	49.4	54.3	60.2
Premium Rebate	(52.3)	-	-	-	-	-
Transfer to DVA Retained Earnings	(60.0)	(53.4)	-	-	-	-
Transfer to Basic Retained Earnings	-	-	(44.9)	(44.1)	(51.7)	(53.8)
Total Retained Earnings	86.2	88.8	93.9	99.1	101.7	108.1
Accumulated Other Comprehensive Income	10.7	11.7	6.3	4.3	2.7	1.8
Total Equity Balance	**96.9**	**100.6**	**100.2**	**103.4**	**104.5**	**109.9**
Minimum Capital Test						
Extension Total Equity	96.6	100.2	99.8	103.0	104.0	109.5
Less: Assets Requiring 200% Capital	2.7	3.9	4.8	5.0	3.8	2.8
Capital available	94.2	96.3	95.0	98.0	100.2	106.7
Minimum Capital Required (200% MCT)	48.0	48.1	47.5	49.0	50.1	53.3
MCT Ratio %	**196.2**	**200.0**	**200.0**	**200.0**	**200.0**	**200.0**

Upon filing the Application, MPI advised the Board that the transfers from Extension excess retained earnings that were forecasted in the 2021 GRA did not actually take place. This was owing to MPI's decision to transfer a total of $113.4 million from Extension to DVA operations.

5.1 Financial Condition Testing (FCT)

MPI's adoption of a single Basic RSR target of a 100% MCT ratio severed the tie between the Basic Financial Condition Testing (FCT) and the setting of Basic target capital levels. Nevertheless, MPI has continued to annually undertake the FCT as a part of its prudent risk management and good governance processes. The FCT investigation entails development of a Basic financial forecast and stressing of that forecast under a number of plausible adverse scenarios covering a variety of risk categories. The report on the FCT investigation includes an opinion from the signing actuary on the financial condition of Basic.

In GRAs prior to the adoption of the CMP, the Corporation worked with the Board and interveners towards the development of a consensus approach to adapting the Basic FCT investigation, in order to estimate an appropriate Basic target capital range that directly reflected Basic experience and risk characteristics.

In Order 176/19, the Board made clear that its approval of the CMP was for a two-year trial period, stating:

> *The Board has therefore approved the Capital Management Plan as presented by MPI for a two-year trial period. Over this period, the Board will assess the impact of the Capital Management Plan on Basic ratepayers. The Board is of the view that the Capital Management Plan is consistent with the stated purpose of the Basic RSR, noting that the phase-in periods and capping levels effectively work to change the single target capital level into a target capital range, promoting rate stability… This will allow the Board to fully assess the performance of the Capital Management Plan, and the Basic target capital level over the trial period, after which the Board will reassess its position. Should the Board ultimately revert to a scenario-driven Basic target capital range or level (which the latest evidence from the prior 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.*

In Order 1/21 following the 2021 GRA, the Board directed MPI to file an analysis in this GRA 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. MPI did not file the analysis, maintaining that the use of a single target capital level promotes rate stability, and that MPI is required to comply with the *Reserves Regulation*, which requires the Basic

RSR to be maintained at a 100% MCT ratio.[2] MPI also maintained that the FCT would demonstrate support for MPI's financial position.

MPI filed the FCT with the Board in October, just prior to the public hearing. During the course of the hearing, the FCT analysis results were queried, and it was estimated that the capital corresponding to a MCT ratio of 50% would be sufficient for Basic to remain solvent under the most significant modeled 1-in-100 year event. Similarly, the capital corresponding to a MCT ratio of about 25% would be sufficient for Basic to remain solvent under the most significant modeled 1-in-10 year event. Based on these two estimates, it was estimated that a MCT ratio of about 35-40% would be sufficient for Basic to remain solvent under the most significant modeled 1-in-40 year event. MPI argued, however, that the FCT going concern criteria would not be met under any of these MCT levels.

5.2 Interveners' Positions

CAC

Mr. Sahasrabuddhe agreed that a rebate allows for a more expedient return of capital to policyholders; however, he noted that the current source of the excess capital is the COVID-19 pandemic, which is a non-recurring event. In his view changes in approach should not be the result of such events.

He therefore recommended that:

- MPI maintain the CMP, which requires a regular review of capital adequacy. That is, ratemaking is an exercise in estimation and actual results will vary from those estimates, and those variances will affect MPI’s capital level;
- MPI include the 5% capital release in 2022/23 rate program; and

2 In Order 176/19, the Board found that the *Reserves Regulation* was *ultra vires* and therefore invalid.

- MPI should use a rebate to return additional excess capital resulting from the extraordinary circumstances of the pandemic.

Although CAC noted that MPI would not be adhering to the CMP by issuing a rebate, by filing the SRA, MPI was demonstrating flexibility during a time of hardship for Manitobans. CAC was supportive of the issuance of a rebate but took issue with the amount to be rebated.

CAC was not in agreement with MPI's request for an additional trial year of the CMP, because MPI was not seeking any capital release or build provisions. CAC was of the view that the 100% MCT is appropriate provisional capital target, to serve as an anchor point against which any additional capital accumulation during the next year can be measured.

CAC recommended that the Board direct MPI to bring a new CMP for review in the 2023 GRA, which should include a regular review of capital and recognize the benefits that Extension receives from Basic. Should MPI fail to comply with these orders, CAC argued that the target capital range should revert to the scenario-based methodology approved by the Board in Order 159/18, which amounted to a Basic Total Equity target range based on MCT ratios of 34% to 85% (equivalent to $140 million to $315 million).

CAC also recommended that the Board issue a directive requiring MPI to automatically apply for a rebate when the amount of the RSR exceeds the 100% MCT ratio by $67 million (for an average rebate of approximately $100); and direct MPI to implement alternatives to issuing rebate cheques as soon as possible, including offering customers a choice to receive the rebate in the way they choose, such as a cheque, a credit on their account, a refund on a credit card, an e-transfer or direct deposit.

CMMG

CMMG was not opposed in principle to MPI’s proposal to extend the trial period of the CMP for one year, commenting that it would be beneficial to the Board to have the CMP operational over a more "normal" year (i.e., one less affected by the pandemic). CMMG stated that it is looking forward to MPI's new proposal for the CMP and in particular, how the new model addresses excess retained earnings.

5.3 Board Findings

The Board commented as follows in Order 1/21:

> *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.*

While MPI argued in this GRA that there is "no credible assertion" that MPI was not transparent with the Board about the possibility that Extension surplus could be used for something other than Basic, one of the central features of the CMP as presented to and approved by the Board in the 2020 GRA was a commitment by MPI to transfer Extension surplus to Basic. MPI’s position is that it can transfer Extension surplus other than to Basic before the end of the fiscal year, and has relied on this interpretation to avoid making any transfers to Basic since the CMP was approved. MPI has clearly not followed through on its commitment, despite the Board's clear prior expression of concern. MPI has not complied with the spirit or intent of the CMP since it was approved.

The Board recognizes that the effects of the pandemic have resulted in an accumulation of excess capital in the Basic RSR, and the design of the CMP does not adequately allow for the return of capital to ratepayers.

With respect to the CMP and the Basic RSR, the Board is concerned about MPI's failure to conduct any meaningful analysis of a target versus a range as was directed in Order 1/21. On the basis of the record before it, the Board remains of the view that the 100% MCT ratio is just and reasonable, and the elements of the CMP as approved shall remain in place for one more year. The Board anticipates receiving MPI's proposed revised CMP in the 2023 GRA and will conduct a full examination of the issue in the next application. Accordingly, the Board grants MPI's request to continue with the CMP as approved in Order 176/19 for the 2022/23 insurance year, and expects to receive the proposed updated CMP in the 2023 GRA.

MPI also requested a suspension of the capital release for the 2022/23 insurance year; however, the evidence in this hearing demonstrated that the capital release could remain in place, and a rebate of $312 million could be provided to ratepayers, without compromising the Basic RSR target. Therefore, the Board dismisses MPI's request to suspend the capital release provision for the 2022/23 insurance year. The Board finds that it is not an appropriate time to suspend capital release, given the uncertainty of the COVID-19 pandemic.

The Board accepts the recommendation made by Oliver Wyman and finds that it is just and reasonable to continue to apply the 5% capital release provision in 2022/23, and then calculate maximum rebate in 2021/22 taking the capital release provision into consideration. Based on the evidence before the Board in this hearing, the Board therefore varies MPI's request in the 2022 SRA for a rebate of approximately $335 million to the extent that amount includes the suspension of the 5% capital release in the 2022/23 insurance year. Accordingly, the Board hereby orders that Orders 176/19, 146/20, and 1/21 be varied to the extent that they do not allow for rebates and directs MPI to issue to ratepayers, through a rebate, a uniform percentage of the Basic premiums earned from November 22, 2020 to December 9, 2021, for all vehicle classes, through a rebate in an amount needed to lower the MCT ratio of the RSR to 100%, using the excess capital MPI projects it will accumulate from March 31, 2021 to March 31, 2022, as soon as hereafter is reasonably practicable. The amount of the rebate to be paid will take into account the inclusion of the 5% capital release in the 2022/23 insurance year.

The Board also notes that, despite MPI's previous statements that it does not favour rebates and would instead focus on making adjustments to the CMP to stay close to the MCT target, this is the third occasion in 18 months in which MPI has applied for a rebate. The Corporation's evidence in this GRA was that its IT systems cannot accommodate premium credits. MPI must ensure that the systems to be implemented through its major IT initiative, Project Nova, will permit ratepayers to receive credits in the future, so that the Corporation has flexibility in the processes it may employ to refund excess capital to ratepayers.

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.

6.0 VEHICLES FOR HIRE

6.1 History

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 there was 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.

In Order 146/20, the Board ordered a rate increase of 20% from current rates for the Passenger 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 decision to vary such increases based upon the experience filed within those GRAs and as the Passenger VFH rates approach actuarially indicated break-even rates.

Further, the Board accepted the Taxi Coalition's recommendations with respect to the VFH framework review the Corporation was undertaking. In order to ensure a robust review, the Board directed 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 of 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 directed that the Corporation file its review in this GRA.

The Board also determined that a Technical Conference on the VFH framework would be appropriate and, therefore, directed that a Technical Conference take place and a report concerning the technical conference be filed in this GRA. That report was to 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.

6.2 Current Application

The Corporation now has three full insurance years of claims experience for the VFH Class and has 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 March 31, 2021.

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 vehicle uses revealed that the loss ratios for Passenger Vehicle VFH were 122.5%, 132.6%, and

67.4% for the insurance years 2018 to 2020, respectively. By comparison, the loss ratio for the Taxicab VFH was 84.2% for 2018, 78.7% for 2019, and 44.6% for 2020.

The Corporation acknowledged that, based on actual claims experience as of March 31, 2021, 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. A loss ratio in the range of 70-80% would be necessary to break even, net of all costs.

In the Application, the Corporation adjusted the rates for all VFH classifications based upon the current ratemaking methodology but did include a special adjustment to the Passenger Vehicle VFH rates. The Corporation considered the loss ratio for Passenger Vehicle VFH to be fully credible for purposes of determining the balanced indicated adjustment, with the resulting balanced indicated adjustment of +24.57%, +24.70%, +37.41%, +37.03%, and +25.81% for Territories 1 to 5 respectively. After following the Corporation's normal ratemaking methodology, the capped indicated adjustments were +17.74%, +15.84%, +17.91%, +18.48%, and +16.95% for Territories 1 to 5 respectively. Given the capped indicated adjustments were under 20%, the Corporation indicated that it did not believe the full 20% rate increase was warranted, and hence proposed rate adjustments of between +14 and +20% for each territory and considered that the proposed rate is sufficient for the insurance use.

With respect to serious losses, the Corporation removes actual serious losses in the last five years' experience for each use and territory and adds back in the average serious losses over the last ten years for each use and territory. As such, for any use or territory with no serious losses in its last ten years experience, there are no serious losses included in the expected claims in the rating year. The Corporation expressed the view that it is not improper to do so, noting that the Passenger VFH class has not had any serious losses in the three years that it has been in existence. The Corporation submitted that, if the Board were to direct the Corporation to use serious loss loading for one use, fairness dictates that the exercise be used for each use and territory without a serious loss in its most recent ten-year history.

The Corporation did not comply with Order 1/21 in which the Corporation was to 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. The Corporation considered the occurrence of serious losses to be random. Without specific direction from the Board, the Corporation advised it was unable to judgmentally select the serious loss loading figure that should be added to these other uses and territories.

With respect to credibility, the Corporation was concerned that a reduction in the current credibility standard would result in greater volatility for small uses and territories.

Regarding the VFH framework, MPI learned as a result of the VFH Technical Conferences that many parties see time bands, blanket policies and fairness as the issues that any changes to the model should address. Not all VFH groups agree on what changes should be made, or how they should be made. MPI committed to engaging further with all stakeholders, with the goal of implementing a new model on April 1, 2023. MPI has yet to complete its VFH framework analysis and was therefore unable to identify the required regulatory changes. MPI anticipated that it will complete the analysis and propose a revised VFH framework within the next few months.

MPI anticipated that it would file its new VFH framework with the 2023 GRA. Subject to approval by the Government of the required legislative changes, MPI expects the new VFH framework to be effective as of April 1, 2023.

6.3 Interveners' Positions

CAC

CAC recommended that given the limited experience of the Private Passenger VFH class, there should be ongoing monitoring of the adequacy of rates for this class by the Board. To the extent that a rate increase is imposed for 2022/23, CAC recommended that it should be capped at 20% to avoid rate shock to this class of customers.

Taxi Coalition

The Taxi Coalition called two expert witnesses who had been pre-qualified in Order 76/21 to provide expert evidence in the area of actuarial science focusing on ratemaking methodology, including serious losses for the Passenger VFH claims experience and forecasts, credibility weighting methods and the impact on small insurance uses, and the minimum bias procedure and its impact on territorial relativities.

Sylvain Dion, is the founder of Dion Strategic Consulting Group Inc. (Dion Strategic) and has over 40 years of experience as a strategic advisor and consulting actuary. He is a Fellow of the Canadian Institute of Actuaries, the Society of Actuaries, and a Member of the American Academy of Actuaries.

Jason Wong is a Senior Actuarial Consultant at Dion Strategic and leads the Property & Casualty (P&C) Actuarial Practice at Dion Strategic. He has over 15 years of experience in the P&C industry and has practiced in traditional actuarial areas including pricing, reserving, and loss modelling.

Mr. Dion and Mr. Wong jointly filed pre-hearing testimony in respect of the issues of Passenger VFH Pricing, Taxi VFH Pricing and Ratemaking, and with respect to the Minimum Bias Procedure used by the Corporation in the determination of the indicated use and territory relativities.

Mr. Dion and Mr. Wong provided testimony regarding serious loss loadings, passenger VFH rate increases and capping, credibility, territory differentials, and the use of GLMs as an alternative to the minimum bias procedure.

Dion Strategic raised an issue as to whether or not a serious loss loading should be applied to the Passenger VFH class. MPI uses the average of ten years of serious losses to smooth the serious losses for each use and territory. In the first three years of Passenger VFH, there have been no serious losses for this use in any territory. Dion Strategic was of the view that a serious loss loading should be applied to the Passenger

VFH class, to reflect the inherent exposure, which would also help to avoid inadequate pricing. Dion Strategic also recommended that serious loss loadings should be considered for all uses and territories to reflect the potential exposure for serious losses, whether or not historical serious losses have occurred.

In Dion's view, applying a serious loss loading to Passenger VFH does not mean subsidizing Taxicab VFH. The other classes are currently subsidizing Passenger VFH. When observing Loss Ratios, Passenger VFH have higher loss ratios than other VFH/Classes. One serious loss will significantly affect Passenger VFH in the future, and by applying an appropriate loading now, this will provide a more accurate picture of the rate adjustment required so that Passenger VFH pay just and reasonable rates.

Dion Strategic raised an issue that the credibility standard of 60,000 vehicles used by MPI results in very low credibility for many uses and territories. It considered that this high credibility standard, combined with the minimum 10% credibility, results in limited responsiveness to experience for smaller classes and territories. They recommended considering other approaches, such as a Classical Credibility approach, or reducing the credibility standard, and/or increasing the 10% minimum credibility to at least 20%.

Dion Strategic made the following recommendations:

- The Passenger VFH should have a serious loss loading applied to its historical experience when calculating the relativities. In its view, Passenger VFH and Public Vehicles are most similar in its driving risk. Selecting a serious loss measure applicable to Passenger VFH would not be not difficult and could be done in one of two ways:
    - MPI confirms that the average serious loss per Taxi VFH unit is $428 over the last 10 years. Given that Passenger VFH are most similar to Taxi VFH (both carry passengers for a fee) – while Taxis may transport more passengers daily, this may be offset by Passenger VFH drivers being less

familiar with the routes, therefore a serious loss loading of $428 per Passenger VFH unit could be appropriate.

- MPI calculates that the average serious loss per VFH unit is $258 over the last ten years. Given that Passenger VFH are similar to other VFH in their use, a serious loss loading of $258 per Passenger VFH unit is fair, appropriate, and the minimum that should be considered.

- The rate increases applicable to Passenger VFH should not be capped at 20%. The rate increases should either be capped at a higher percentage or not capped at all. While the cap prevents rates from excessive fluctuation, when applied to Passenger VFH the drawbacks include:
  - Extending the underpricing of the class to more years down the road;
  - The low current rates could attract Taxi drivers with poor loss experience resulting in adverse selection and market distortion. This could already be happening with the growth of the Passenger VFH class; and
  - Taxi VFH and other classes subsidizing the Passenger VFH.
- The current approach to credibility weighting on relativities requires fine tuning. Too little credibility is applied to smaller classes like Taxis, which would be much more credible under alternative approaches. This also means rates for smaller classes are extremely slow to react to deteriorating/improving loss experience. Dion made the following suggestions to make rates more reactive:
  - MPI could switch to a Classical Credibility Approach using claim counts as the measure. This is industry standard, simple to calculate, and widely used for automobile insurance;
  - The credibility standard = 60,000 could be changed to a lower number; or

- The minimum credibility could be increased from 10% to a higher number. 10% appears to be a judgmental selection and raising the minimum credibility to 20%, 30%, or 40% are all valid options.

- MPI should investigate improvements to the rating algorithm, increase the complexity, and minimize the cross-subsidization among risks. The relativities and loss ratios indicate that rural taxis are overcharged, while urban taxis are undercharged.

- MPI should immediately switch to the use of GLMs, as they are superior to the minimum bias procedure and would provide a systematic method to determine rating variables, significance, and confidence measures. If modelled properly, this would reduce the cross subsidization amongst subsets of risk.

Based on Dion Strategic's evidence, the Taxi Coalition made the following recommendations:

- The Board should find that MPI’s approach to increasing Passenger VFH rates in 2022/23 is inconsistent with its direction in Order 1/21;

- The Board should direct MPI to increase Passenger VFH rates for 2022/23 by the full 20%, as a full rate adjustment of 20% for Passenger VFH is warranted in the present circumstances;

- The Board should find that a serious loss loading for Passenger VFH is appropriate;

- The Board should direct MPI to study and report on the appropriate serious loss loading that should be applied to Passenger VFH in the 2023 GRA;

- The Board should direct MPI to include a $428 serious loss loading for Passenger VFH, until such time as MPI has a developed a comprehensive approach to serious loss loading. A serious loss loading for insurance uses with no history of serious losses is actuarially appropriate. MPI's methodology for serious losses requires study and revision;

- The Board should direct MPI to make a one-time adjustment to Taxi VFH to fully recognize the credibility of Collision, and Property Damage in 2022/23 rates; and
- The Board should direct MPI to begin collecting additional data relevant to the VFH framework review, and any further such data that may inform GLM modelling, forthwith.

The Taxi Coalition also requested that the Board reinforce to MPI that it is to comply with all of Directive 8 of Order 1/21 by the time it files the 2023 GRA, and prior to finalizing its VFH framework review.

The Taxi Coalition argued that notwithstanding the ongoing redevelopment of the VFH Framework, MPI has not adequately responded to directives contained in Order 1/21 related to the VFH insurance uses, and asked that the Board find accordingly. Consequently, the Taxi Coalition recommended that the Board:

- Re-issue each of its sub-directives in Directive 8 in Order 1/21, thereby confirming the continued relevance of the directives and the Board's expectation of compliance; and
- Direct MPI to file its proposed VFH framework in the 2023 GRA.

6.4 Board Findings

The Board hereby orders a rate increase of 20% from current rates for the Passenger VFH category, along with a rate increase of 20% for the Passenger VFH Major class in the 2023 GRA, subject to the Board's decision to vary such increase based upon the experience filed within that GRAs and as the Passenger VFH rates approach actuarially indicated break-even rates.

The Board considers that since the balanced indicated adjustment for all territories for Passenger VFH is greater than +20%, that there is sufficient evidence that a rate increase of 20% is still warranted. The Board sees no reason to deviate from Order 1/21.

With respect to serious loss loading, the Board has considered the potential impact of no serious loss loading for multiple uses and territories, and therefore in Section 3 of this Order has directed the Corporation to file an alternative rate indication taking that into account. The Board has also directed the Corporation, under the above alternative rate indication, to consider the potential reduced volatility on the required credibility standard.

The Board accepts the Taxi Coalition's recommendations with respect to MPI's VFH framework review. The Board notes that MPI has not complied with Directive 8 of Order 1/21. In order to ensure a robust review of the VFH framework, the Board reiterates its directive to 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 the Corporation to file its review in the 2023 GRA.

7.0 DRIVER SAFETY RATING

7.1 History

MPI introduced the DSR system in 2010 to replace the Merit Discount Program. The DSR was made possible after MPI assumed the role of administrator of DVA in 2004.

In the 2018 GRA, one component of MPI's rate request was a 1.8% increase to the demerit side of the scale for driver premiums under the DSR, equivalent to an increase of driver premium revenue in the amount of $17.5 million.

In Order 130/17 following the 2018 GRA, the Board approved MPI's request, but commented that MPI needed to strengthen its analytical tools in the determination of driver premiums. 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 registered 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 the 2021 GRA, 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 that 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 model currently used by MPI), Primary Driver, and Driver Premium models in the 2021 GRA, 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 the 2021 GRA to advise the Board of the direction it intended to take with respect to DSR. The Board directed that in the 2021 GRA, 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.

MPI then applied for a review and variance of one directive in Order 176/19 related to the DSR system. It asked that the Board vary the directive requiring it to file information as to which rating model it intended 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 *t*he MPIC Act; and the charges for licences, registrations, permits and other services regulation under the HTA. 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 that Application as to which DSR rating model it intended to proceed with, but instead that it would file information in the 2021 GRA as to the timeline and major milestones for such a decision. The Board granted MPI's request in Order 6/20 but stated 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.

The Board also commented in Order 1/21 that the pricing examination prepared by MPI confirmed that further refinement is required in order for rates to accurately reflect risk and that by using the Registered Owner rather than Primary Driver model, good drivers who are registered owners of vehicles are subsidizing bad drivers who are not. The Board commented that the need for a rating system based on the primary driver was clear. The

Board further held that more than sufficient time and examination had taken place in order for MPI to move towards more actuarially sound driver premiums and vehicle premium discounts by this Application.

The Board held that, given the evidence of MPI's Chief Actuary, that the Primary Driver model would more accurately reflect risk, in this GRA the Corporation was to 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 Board noted that the timeline for MPI's major Information Technology initiative, Project Nova, required that MPI move forward on DSR changes without delay. The Board expressed concern that if MPI did not take proactive steps to move to the Primary Driver model now, such a change would be more difficult to implement after completion of Project Nova.

The Board also directed that in this GRA, the Corporation incorporate DSR into its minimum bias analysis used to set rating relativities.

7.2 Current Application

In response to Board Order 1/21, MPI filed proposed driver premium rates and vehicle premium discounts that were more statistically consistent with the estimated claims cost per driver for each level of the DSR scale, including incorporating the DSR into its minimum bias analysis used to set rating relativities.

Despite the Board's comments in Order 1/21, however, MPI advised in this GRA that it intends to continue to use the Registered Owner model and will not be considering any changes to its model for five years.

Rating Model

Under the current Registered Owner model, MPI noted that some have voiced a concern that “people are gaming the system;" specifically, that people are intentionally selecting an individual (typically within a household) with the best DSR rating to be the registered owner of the vehicle, in order to obtain the maximum premium discounts. MPI acknowledged that, where driver information was available, 33% of overall reported collisions and 41% of collisions involving vehicles registered to owners with a +15 DSR rating involved drivers other than the registered owner. There is also evidence that 24% of registered owners have more than one vehicle registered to them. These numbers may be indicators of how widespread the practice is, but there are too many assumptions at play to use these statistics to accurately measure the prevalence of individuals "gaming the system."

MPI's position was that it expects the same inaccuracies that exist with the Registered Owner model due to customer misreporting would also be present with the Primary Driver model. The Primary Driver model relies on customer self-reporting at the time of purchasing insurance, and requires the customer to inform MPI of any changes to the Primary Driver of the vehicle. MPI recognizes that the Primary Driver model is more actuarially sound than the Registered Owner model, provided that there is accurate reporting by customers of the primary driver for each vehicle they insure.

MPI advised that implementing the Primary Driver model during Project Nova would be resource-intensive, and not feasible. From a technology and regulatory perspective, MPI's position was that implementing DSR model changes in a post-Nova environment would pose less risk to the Corporation and for its customers. According to MPI, the Duck Creek IT system used under Project Nova has the ability to collect primary driver information, and will be available when Project Nova is operational.

Rating Changes

MPI sought changes to the DSR within the existing rating model, by proposing the following for 2022/23 policy year:

- The Basic rate decrease being applied for in the 2022 GRA would be allocated to the DSR vehicle discount levels with the most significant need for rate decreases based on actuarial indications;
- No changes would be made to the DSR driver premiums;
- The top of the DSR scale would increase from DSR +15 to DSR +16 in the 2022/23 policy year;
- Premium discounts for DSR Levels +15 and +16, would increase by 4% (from 33% to 37%);
- Premium discounts for DSR Levels +11 to +14 would increase by 2%; and
- Premium discounts for DSR Level +10 would increase by 1%.

MPI's plan is to request an increase to the top of the DSR rating scale by one step per year, to at least DSR +20 in future years.

Drivers at DSR level +15 currently receive a 33% discount on their insurance premiums, while the actuarially indicated discount is 56%. While MPI intends to maintain the current Registered Owner model, it advised that it will seek to move the discount/premiums closer to their actuarial targets over the next five years.

The expansion of the DSR merit levels would be applied prospectively instead of recalculating placement on an extended DSR scale. MPI expressed the view that the proposed changes would provide incentives for continued safe driving for customers at or near the top of the DSR scale, make the current model more accurately reflect risk, reduce cross-subsidization, and minimize rate dislocation for customers.

7.3 Interveners' Positions

CAC

Mr. Sahasrabuddhe noted that MPI did not fully adopt actuarially indicated DSR credits citing public acceptability concerns and, as a result, the MPI proposal results in the majority of policyholders with better experience subsidizing the minority of policyholders with poorer experience. Although ratemaking is a prospective exercise, perpetuating the subsidy increases the cumulative detriment to Manitoba policyholders with better experience.

Given the stated goals of the DSR program and fairness issues with the subsidization, Mr. Sahasrabuddhe recommended that the Board adopt actuarially indicated DSR credits with due consideration to the acceptability of year-over-year rates changes and the use of capping to address acceptability.

CAC recommended that the Board direct MPI to implement actuarially indicated DSR discounts over three years, instead of the five years proposed by MPI.

CAC also recommended that:

- The Board direct MPI to do follow-up engagement with customers and stakeholders on potential alternative DSR models, including providing information on the models' ability to price based on the risk that the drivers are bringing to the system; and

- That the Board direct MPI to immediately begin collecting data on primary drivers in order to produce a pricing study for the primary driver model as soon as possible.

CMMG

CMMG recommended that the Board order that:

- MPI immediately commence collection of primary driver data from insureds;
- In the 2023 GRA MPI provide an analysis of the partial primary driver data collected to date, including but not limited to:
    - The percentage of drivers who have a different declared primary driver from registered owner;
    - DSR differentials between registered owner and declared primary driver of vehicles; and
    - An examination of the impact on insurance premiums a change to the primary driver model would have on those registered owners who have declared different primary drivers for their vehicles.

CMMG also recommended the Board order that in the 2023 GRA filing, MPI provide a pricing analysis of the primary driver model using the partial data collected, extrapolated for all MPI customers and provide a discussion of business rules the Corporation would recommend for a primary driver model.

7.4 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 which amounted to an additional $17.5 million in premium revenue to MPI, but made clear that MPI should strengthen its analytical tools in the determination of driver premiums.

MPI has demonstrated continued reluctance to move ahead with a new DSR rating model, which is apparent from the recent history of Board's orders on DSR. While MPI is moving in the right direction with respect to the actuarial soundness of vehicle premium discounts, insurance pricing is based on risk assessment and the evidence clearly establishes that premiums based on the primary driver more accurately price risk.

In this hearing, MPI argued that it complied with Order 1/21 because it advised the Board that it will remain with the Registered Owner model for five years. Yet, the Board commented specifically in Order 1/21 that:

> […] *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.*

By simply stating it will not make any changes to the rating model, MPI has completely disregarded the Board's directive.

The Board does not accept that drivers are "gaming the system" by registering vehicles within a household to the driver with the best DSR rating. The Registered Owner model allows drivers to do so. This may be characterized as a flaw or weakness of the model, but drivers are using that model in an advantageous way because it permits them to do so.

In the 2021 GRA, MPI's Chief Actuary testified that the Primary Driver model is more actuarially sound, and that evidence was confirmed in this year's GRA.

MPI argued that the public is not demanding a change to the DSR rating model; however, the Board does not accept that this is a legitimate basis upon which MPI can found its resistance to change. For instance, ratepayers did not demand CERP, but it was implemented nonetheless. In the 2020 GRA, MPI reported on the findings of its public consultation process on the rating model. While the majority of the respondents expressed a preference for the Registered Owner model, 83% of the respondents perceived the Primary Driver model as fair, and 82% perceived the Registered Owner as fair.[3] In presenting its evidence this year, MPI made mention of the public consultation results about customer preference, but did not refer to the results that showed that the Primary Driver model was perceived as the fairest rating model.

In addition, MPI advised that Saskatchewan Government Insurance (SGI) also uses the Registered Owner model in its public vehicle insurance program (Saskatchewan Auto Fund (SAF)), and that both SAF and MPI have low insurance rates. The Board notes, however, that both Saskatchewan and Manitoba are no-fault jurisdictions with not-for-profit insurers, which cannot be underestimated as factors in rates.

MPI also argued that customers may provide inaccurate information when self-reporting the primary driver of a vehicle under the Primary Driver system. The Board finds this argument to be unpersuasive, as there is no reliable evidence before this Board that a material proportion of ratepayers will make misrepresentations, and MPI could build disincentives for such conduct into the policy (e.g., voiding a policy for a material misrepresentation).

The Board notes that MPI's IT systems will need to be able to accommodate any changes to the DSR rating system, following the implementation of Project Nova. MPI provided evidence in the public hearings that the Duck Creek system will be able to adapt to a change in rating model. The Board therefore expects that when MPI proceeds with a change to the rating model, the IT system will not be a barrier to such change.

The Board stated in Order 159/18 that it was not prepared to direct MPI as to how to conduct its public consultation on DSR, and it continues to hold that view. Therefore, the Board will not direct MPI to conduct any follow-up engagement on the DSR rating models. Over the last three GRAs, the Board has thoroughly canvassed the DSR, including

3 Order 176/19

alternative models, the actuarial soundness of the DSR system, and public opinion of the rating models. After the 2021 GRA the Board found that MPI should be in a position to take steps towards a more actuarially sound model, and the Board still finds this to be the case. The Board is perplexed as to why MPI is adamantly opposed to implementing a Primary Driver model. The Board finds that a change in the rating model is required and directs the Corporation, in the 2023 GRA, to bring forward a five-year plan for the implementation of the Primary Driver rating model. The five-year plan shall address such issues as:

- Required regulatory changes and a timeline for the initiation of the regulatory changes;
- Required IT changes and a timeline for the implementation of the IT changes;
- The process the Corporation will employ to obtain the necessary primary driver information from ratepayers; and
- The Corporation's communications plans in order to educate ratepayers about the rating model change.

While the Board is concerned with MPI's lack of progress towards the Primary Driver model, the Board is nonetheless satisfied with MPI's requested adjustments to the existing model, in order to move to actuarial soundness. The Board finds it is just and reasonable to make the changes to the system as requested by MPI, and therefore approves:

- Expansion of the DSR scale from DSR +15 to DSR +16 in the 2022/23 policy year forward. Drivers will still require an incident-free year before moving to the new top merit level; and
- The following increases to the vehicle insurance premium discounts:

DSR Level	Current Discount	Increase	2022/23 Discount
15	33%	4.0%	37%
14	30%	2.0%	32%
13	29%	2.0%	31%
12	28%	2.0%	30%
11	27%	2.0%	29%
10	26%	1.0%	27%

The Board finds that MPI's plan to introduce actuarially sound DSR discounts over a period of five years is just and reasonable. The Board directs that in the 2023 GRA, MPI bring forward a DSR transition plan to manage the required increase in the base rate and year-to-year rate dislocation, while moving the DSR vehicle discounts and driver premiums to actuarial targets in a timely manner. The transition plan shall include:

- The methodology for moving rates from current to target and whether this approach should be purely actuarial (e.g. equal steps to move between current and target rates by DSR level) or include other policy considerations (e.g. change DSR discounts more/less depending on the size of the overall rate indication applied for each year);
- Whether capping rules should be applied to limit rate increases caused by DSR changes in a given year (e.g. a 5% cap on single year movements from DSR);
- Whether DSR vehicle discounts and driver premiums should be rounded to amounts that can be effectively communicated (e.g. if the indicated discount is 21.2% is this amount rounded down to 21% or up to 22%); and
- How to recognize that indicated DSR vehicle discounts will always be changing, specifically for (i) the new DSR levels +16 and (ii) potential changes in driver behavior as a result of more accurate pricing.

8.0 PROGRAM COSTS

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

	Total Estimated Expense 2022/23 ($millions)	Percentage of Total Program Costs
Net Claims Incurred	$922.8	73.3%
Claims Expenses	152.7	12.1
Road Safety/Loss Prevention	12.5	1.0
Operating Expenses	83.8	6.7
Commissions	48.1	3.8
Premium Taxes	34.1	2.7
Regulatory/Appeal expenses	4.6	0.4
Total Program Costs	$1,258.6	100.0%

8.1 Basic Claims Incurred

Claims incurred represent the costs that are paid or forecast to be paid to claimants for the various benefits provided under the Basic insurance program.

Claims Incurred for the fiscal years 2017- 2021 for the major coverages were as follows:

For years ending March 31 ($ millions)	2017*	2018*	2019*	2020*	2021	5-year change	
Physical Damage - All Perils							
Collision	409	426	406	444	323	(86)	(21%)
Comprehensive	118	67	100	91	85	(33)	(28%)
Property damage	43	49	42	45	31	(12)	(28%)
Sub-total	**570**	**542**	**548**	**580**	**439**	**(131)**	**(23%)**
PIPP Accident Benefits & Other	284	220	340	210	165	(119)	(42%)
Public Liability	5	5	5	6	4	(1)	(20%)
Total Claims Incurred	**860**	**767**	**892**	**796**	**608**	**(252)**	**(29%)**

**MPI changed its fiscal year end to March 31st in 2020. The 2017 to 2019 fiscal years are based on February 28th year end. The 2020 fiscal year reflects a 13-month period ending March 31, 2020.*

The projected claims costs by coverage for the 2022/23 and 2023/24 accident years reflect a decrease of $12.8 million in 2022/23 and $9.0 million from last year's forecast. The main driver of the decrease for 2022/23 was a $10.6 million decrease for collision.

MPI's update filed October 5 reflected actual claims experience to July 31, 2021, and an updated forecast for the remainder of the 2021/22 year. MPI revised its forecast of total claims costs to $945.0 million from $1,018.6 million in the Application. MPI made a number of changes to the forecast, resulting in a $1.7 million increase in forecast claims costs for 2022/23, excluding the $4.5 million forecasted interest rate impact. The main changes to the forecast included the 2021 LVAA, changes in projected collision costs due to a lower assumed severity trend for total losses, and a decrease in projected Comprehensive Hail claims. The 2021 LVAA impact, relative to the assumed $7 million impact per year in the 2022 GRA, was an increase of $7.9 million in 2021/22, $11.5 million in 2022/23, and $15.9 million in 2023/24. Collision claims were reduced by $4.9 million in 2022/23 and $8.5 million in 2023/24. Comprehensive hail claims were reduced by $4.2 million in 2022/23 and $5.0 million in 2023/24.

8.2 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.

In this GRA, MPI assumed collision frequency levels would return to normal by October 1, 2021. As noted earlier in this Order, MPI's update filed on October 5 reflected changes in assumptions about the impact of the pandemic on collision frequency levels. The updated assumptions were that:

- Collision frequency levels will be 20% below normal in September/October 2021;
- Collision frequency levels will be 15% below normal in November/December 2021;

- Collision frequency levels will be 10% below normal in January/February 2022;
- Collision frequency levels will be 5% below normal in March 2022;
- Collision frequency levels will return to normal (0% below normal) by April 1, 2022.

MPI has assumed that the PIPP claims are perfectly correlated to the Collision claims, and therefore assumed the same reduction for PIPP. Property Damage reduction is comparable. The overall impact of these updated assumptions was a decrease of $71.5 million from the 2022 GRA filing.

8.3 Basic Expenses Overview

MPI's global corporate costs are allocated among Basic, Extension, SRE and DVA. Costs are allocated to Basic through an Integrated Cost Allocation Methodology (ICAM) approved by the Board in Order 157/12. The ICAM distributes Corporate expenses 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 ICAM in the Application.

Total Corporate operating expenses, including the costs of administering claims and road safety, were $293.9 million in 2020/21 and are forecast to grow to $341.4 million in 2021/22. MPI forecast total Corporate expenditures to be $336.9 million in 2022/23 and $350.4 million in 2023/24.

In the Application, as filed, total Basic expenditures were $223.9 million in 2020/21 (or 75.7% of Corporate costs) and were forecast to be $243.7 million in 2021/22. After that, Basic expenses were forecasted to increase to $241.5 million in 2022/23 and $246.8 million in 2023/24. As a result of the October 5 update, MPI forecasted Basic operating expenses to be $233.6 million in 2021/22, a decrease of $10.1 million from its initial filing. Basic expenses are currently forecast to increase to $253.6 million in 2022/23 and $261.2

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				
	2021A	**2022FB**	**2023F**	**2024F**	**2025F**
Total Corporate Expenses	**$293.9**	**$341.4**	**$336.9**	**$350.4**	**$347.5**
Basic Allocated Corporate Expenses					
Claims Expense	141.7	149.5	147.7	151.2	152.8
Road Safety/Loss Prevention	7.7	13.2	13.1	12.9	12.6
Operating	70.1	76.1	76.1	78.1	79.1
Regulatory/Appeal	4.4	4.8	4.6	4.6	4.6
Total Basic Allocated Corporate Expenses	**$223.9**	**$243.7**	**$241.5**	**$246.8**	**$249.1**
Percentage of Corporate Operating Expenses	76.2%	71.4%	71.7%	70.4%	71.7%
** A = Actual FB = Forecast Budget F = Forecast					

8.4 Claims Expenses

Claims expenses represent the administrative costs associated with processing and settling claims. Forecast claims expenses increased from $121.78 per vehicle in the 2021 GRA to $123.60 per vehicle in the 2022 GRA. Other expenses increased from $89.25 to $99.26.

MPI updated its forecast claims expenses on October 5, increasing them from $123.60 to $127.48 per vehicle, due primarily to data processing cost increases. Other expenses increased from $99.26 to $107.20, due again primarily to data processing cost increases.

8.5 Operating Expenses

Salaries and benefits are a significant component of Basic's operating expenses, representing over 60% of the total operating expenses in the year of the Application. Since 2017/18, the Corporation has experienced compound annual growth of salaries and benefits of 0.6%, with compensation that has grown from $121.9 million in 2016/17 to

$130.1 million in 2020/21. Salaries and benefits are budgeted to be $132.4 million in 2021/22, and are forecast to grow to $135.0 million in 2022/23 and $135.8 million in 2023/24. Forecasted annual growth for the years 2021/22 to 2023/24 is 1.7%.

MPI forecasts an increase in compensation expenses (net of vacancy allowance) of 7.21% in 2021/22 and an increase of 2.85% in 2022/23. MPI attributed the growth in compensation in the current year to the COVID-19 impact. Actual staffing for 2020/21 was 1,766.7 Full Time Equivalents (FTEs) overall, compared to the staffing level forecast last year of 1,907.0 FTEs.

MPI has forecasted an increase in staffing levels in 2021/22 to address the higher than expected vacancies, to 1,939.0 FTEs for 2021/22. MPI attributed the forecasted increase in staffing to address the impacts of the pandemic throughout that year, which caused many vacancies overall.

The composition of MPI's staffing FTEs dedicated to Operations and Improvement Initiatives is as follows:

Fiscal Year	Normal Operations	Special Initiatives	Total Corporate
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	1,762.4	38.9	1,801.3
2021/22 Budget	1,930.0	87.4	2,017.4

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

Fiscal Year	Actual	Budget	Over/(Under) Variance
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	1,801.3	1,911.1	(109.8)
2021/22 Budget		2017.4	

8.6 Broker Commissions

MPI's Service Delivery Model and broker commission structure was thoroughly examined in the 2020 GRA. At that time, MPI and 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.

MPI and IBAM had not finalized the renegotiation of the Broker Accord by the public hearings in the 2021 GRA. MPI did not include any changes to commission rates in the 2021 GRA as a result. Following the conclusion of the 2021 GRA hearings, MPI advised the Board that a new agreement with IBAM had been concluded. The new Broker Agreement entered into between MPI and IBAM is effective for the period from April 1, 2021, to March 31, 2026. Generally, the agreement resulted in an increase in commission expenses for Basic and a reduction in commission expenses for Extension. MPI is now forecasting Basic's commission expense as $4.6 million higher in 2022/23, and $7.6 million higher in 2023/24, than the 2021 GRA forecast. Actual Basic commissions paid in 2020/21 totalled $43.4 million.

The Broker Agreement has increased the commission rate on Basic in-person transactions from 3.0% to 3.49% in 2021/22 and 2022/23, 4.01% in 2023/24, and 4.19% in 2024/25 and 2025/26. The agreement also requires that a commission be paid for Basic online transactions, where brokers provide no service in the transaction, at the same rate as in-person transactions for 2021/22 and 2022/23. The Basic online transaction rate then decreases to 2.25% for the period from 2023/24 through to 2025/26. Under the Broker Agreement, once Project Nova is completed, any person renewing online will be required to select an agent before the transaction can be completed, and even though the broker has played no role in the transaction, that broker will receive a commission.

The Corporation is forecasting Basic commissions payable of $40.7 million in 2021/22, $43.2 million in 2022/23, and $49.1 million in 2023/24.

8.7 Information Technology (IT)

The Corporation's main IT initiative is Project Nova. In this GRA, the Board examined the changes to Project Nova that have taken place as a result of a re-baseline exercise, which MPI undertook after the conclusion of the 2021 GRA. In Order 1/21, the Board noted that MPI had advised of the anticipated re-baseline during the course of the public hearings. At that time, MPI had incurred an estimated increase of $22.6 million to the initial $106.8 million project budget, but the budget was subject to change as a result of the re-baseline.

The re-baselined business case for Project Nova was filed in this GRA. MPI advised that it is more refined than the original business case. The re-baselined budget is $128.5 million, comprised of $111.7 million in projected costs and $16.8 million of contingency. The original Project Nova budget of $106.8 million was comprised of $85.4 million project costs and a $21.4 million contingency.

The re-baselined business case was approved by the Board of Directors for $131.5 million, but $3.0 million was reallocated for the evolution and development of data warehousing deliverables. While this reallocation essentially reduced the project costs for Project Nova, the $3.0 million is still required and will not be dependent for Project Nova completion.

MPI provided an update to the net present value (NPV) of Project Nova for a 15-year period from project initiation, March 1, 2019. MPI revised the project NPV to $18.4 million, an increase of $5.7 million after the re-baseline. MPI has assessed Project Nova as a medium-high risk project, and has applied a 7.5% discount rate.

MPI advised that its IT department must change in how it delivers value, and noted this change is required in order to ensure that its forthcoming IT strategy is compatible with the evolution of Project Nova. MPI has approved the IT Transformation business case, and has allocated funding of $6.0 million for this initiative.

The evidence in this GRA was that Project Nova has incurred technical debt during the first of thirteen program increments, surpassing the risk threshold level of 10%.

The project plan for Nova is not certain at this point. MPI's President and CEO, Mr. Eric Herbelin, testified in the public hearings that MPI has a plan to move beyond Project Nova to a new initiative MPI now calls Supernova. This is intended to move MPI towards MPI 2.0 resulting in an organization that is omnichannel enabled, producing flexible products for Manitobans, and providing increased business agility. Mr. Herbelin expressed the view that the original concept of Project Nova lacked certain foundational components. It is as yet unclear what the impact of Supernova will be on the current delivery and future direction. MPI is working to ascertain the timing and costs of MPI 2.0. Further details are not expected until the first quarter of 2022.

MPI did not file an IT Strategy for fiscal year 2022/23, advising that it will continue to be developed through Q3 and Q4 of 2021.

In this GRA, a total of seven IT initiatives were considered part MPI's Value Management. The total expense for the Value Management initiatives in this GRA is $64.1 million of budget allocation, with Project Nova comprising $43.7 (68.1%) of the total budget.

In the current fiscal year, MPI completed the RFP process and entered into contracts with a number of SaaS, Platform-as-a-Service, and System Integrators. In addition, licensing contracts were signed with commercial-off-the-shelf providers for software solutions. These vendors were engaged using a combination of fixed price, subscription, and time-and-materials pricing methods.

8.8 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 the 2021 GRA, MPI advised that it was no longer engaging Ward and was in the process of undertaking a Crown benchmarking analysis.

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 an RFP in order to engage a new IT benchmarking service provider.

MPI filed the results to date of its Crown benchmarking services in this Application. MPI compared certain benchmarks against other Crown insurers, SGI and Insurance Corporation of British Columbia (ICBC). This was further supplemented by leveraging third party research. While comparisons were drawn between MPI and SGI and ICBC, MPI noted that significant variations exist among the entities, making it difficult to draw conclusions. The current Crown Benchmarking is not complete. MPI expects that it will be completed Q1 of 2022.

With respect to operational benchmarking measures, generally:

- MPI did not compare favourably to SGI's SAF on headcount. MPI attributed the difference to its business model, which has end-to-end customer service performed by MPI;

- MPI compared favourably to its peers on the ratio of staff to management; MPI had 14.3 staff to management compared to 8.0 for both SAF and ICBC;

- MPI compared favourably to SAF on total gross expenses as a percentage of gross written premium, but unfavourably to ICBC (MPI 13% vs. 17% SAF, 10.5% ICBC).

MPI advised that it is shifting IT Benchmarking from Q1 to Q3, in order to reflect financial results and to review and action recommendations. The next review will be in Q3 2021/22 and will be filed in GRA 2023. Following the RFP process referred to in the 2021 GRA, Gartner was selected as the top vendor. Gartner has been engaged to support MPI's IT benchmarking for the next three years.

8.9 Interveners' Positions

CAC

CAC argued that MPI's forecasted vacancy allowance for 2022/23 might not be high enough, given the historical under budget staffing and given the trend in FTEs vacancy over the past three years. CAC recommended that the Board direct MPI to provide a clear plan to achieve the vacant FTEs implied by their vacancy allowance; otherwise, MPI should adjust the vacancy allowance upwards, so that it does not over-collect from ratepayers. Given that MPI's persistent under-budgeting of FTEs has not resulted in deterioration of its business operations, the Board should direct MPI to conduct an analysis of productivity gains in the areas which have been operating under its staffing budget, in order to inform MPI whether it should be reducing its budgeted FTEs in those areas.

With respect to capital expenditures, CAC argued that MPI should investigate the opportunity to rely on debt financing. It would have been advantageous for MPI to promptly investigate this issue and act on the historically low interest rates in 2020.

The Fleet Rebate program should be transitioned from cost recovery from the general population of the Private Passenger, Commercial and Public classes, and toward a model that recovers more of the costs from the program participants.

Regarding IT, CAC submitted that the Board should direct MPI to file an analysis of the foundational issues relating to Project Nova, including the impact of those issues on the project budget and schedule, as soon as possible. Given the importance for ratepayers of accountability and transparency on Project Nova as a high-risk project, CAC also recommended that the Board direct MPI to:

- File a summary of PwC's work as the Independent Program Governance Vendor for Project Nova on the public record, and present PwC as a witness in the 2023 GRA;
- Present MPI operations staff as part of the Project Nova panel in the 2023 GRA;
- Continue to engage customers in a variety of ways and on an ongoing basis relating to Project Nova and file summary results of this engagement, including methodology, in the 2023 GRA; and
- File a public version of KPMG's work (or a summary of work) on the public record and present KPMG, the external firm conducting a detailed and comprehensive customer experience roadmap and implementation plan for use by Project Nova, as a witness in the 2023 GRA.

Lastly, on the issue of benchmarking, CAC asked that the Board direct MPI to continue to retain Gartner or another external IT benchmarking consultant as it experiences significant changes in its IT department.

8.10 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 Order 1/21 the Board commented that its review of MPI's expenses was against the backdrop of the COVID-19 pandemic and fiscal year 2020/21 was unique. However, the effects of the pandemic have carried over to the 2021/22 fiscal year, as demonstrated by MPI's continued accumulation of excess capital and reduction in claims incurred.

The Board notes the challenges associated with forecasting in the context of these circumstances, which have no recent historical precedent. Therefore, the Board finds that MPI's forecast of the impact of COVID-19 on claims and expenses is reasonable.

The Board acknowledges that MPI continues its efforts to contain costs, but finds that there is a significant risk that its IT initiatives will increase in scope and cost. The Board noted its concern in Order 1/21 with the budget overruns early in Project Nova. The re-baselined business case has increased the project budget, but the costs outlined in the re-baseline may not be a reliable indicator of future project costs, given MPI's now planned move towards MPI 2.0 through Supernova. The Board notes that for a second consecutive GRA, MPI has presented a Project Nova budget that will be subject to change in the months immediately following the public hearings. This presents a challenge for the Board in its review of the prudence of MPI's IT expenses.

Given the timing of MPI's planned changes to Project Nova and the Board's concerns noted above, the Board finds that it is necessary for MPI to engage with the Board prior to the 2023 GRA. The Board therefore orders that MPI shall meet with Board advisors no later than April 30, 2022 to review its IT initiatives (IT Summit). The IT Summit shall review all aspects of Project Nova and the planned Supernova/MPI 2.0, including but not limited to project deliverables, timeline, budget, discount rate, and any foundational elements not part of the original Project Nova plan that are being added to the initiative.

The Board also directs MPI to:

- File the IT Strategy with the Board upon its approval by the Board of Directors;
- File the Gartner IT Benchmarking report upon its completion; and
- Include the IT Strategy and IT Benchmarking report as items for review in the IT Summit.

With respect to benchmarking, 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, the Board directs MPI to file its completed Crown Benchmarking Report in the 2023 GRA.

9.0 INVESTMENTS

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 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 EFB, primarily the Corporation's pension obligations.

9.1 Investment Income

MPI's funds available for investment are primarily backing unearned premium reserves and unpaid claims reserves. The investment portfolio supports both the payment of accident claims and the pension obligations of the Corporation.

The Corporation's total investment assets at March 31, 2021 were over $3.6 billion. The size of the Basic portfolio, including Basic Claims, RSR, and EFB is $3.1 billion for 2020/21, is forecast to be $3.2 billion in 2021/22 and projected to grow to $3.6 billion for 2023/24.

Historically, the Corporation's investment income has been a major component of its income and has offset its annual underwriting losses. Basic investment income was $89.5 million in 2020/21. Basic investment income was forecast at the time of filing to be $100.5 million for 2021/22, $99.7 million in 2022/23 and $101.0 million for 2023/24.

The financial markets were negatively affected by COVID-19, which has resulted in significant economic uncertainty. Equity markets declined sharply in March 2020 (the TSX fell by 37.4% in the span of a month). The Corporation took a $67.7 million impairment write-down, including a $54.4 million reduction in its equity investments. Basic's share of the impairment charge totalled $42.7 million. The Basic investment income was reduced to $59.6 million in 2019/20. The markets staged a strong recovery as unprecedented fiscal and monetary stimulus measures were announced. The S&P/TSX index fully recovered by January 7, 2021, a span of less than eleven months from the previous high on February 20, 2020, and less than ten months from the low on March 23, 2020.

MPI realized $89.5 million in Basic investment income in 2020/21, including the recovery of $10.0 million in fixed-income investments written down, which represents Basic's share of the $13.4 million corporate recovery of Bonds and private debt investments written down last year. The equity assets which were written down, and formed the majority of last year's impairment loss, have increased in market value which, according to IFRS, is recognized in other comprehensive income, and this increase is not reflected in net income until the gain is crystalized through a sale. As at March 31, 2021, the net unrealized gain on Basic Available for Sale assets was $54.0 million.

Due to uncertainty caused by COVID-19, corporate and provincial bond spreads widened substantially in 2019/20. The corporate bond spreads declined by 100 to 150 basis points during 2020/21, returning to more normal long-term levels. As of August 2021, the corporate bond spreads were still 10 to 15 basis points higher than they were before the pandemic began in March 2020. The decline in yields since March 31, 2021, has produced capital gains for fixed-income investments.

MPI's forecast of investment income is sensitive to changes in interest rates. MPI initially forecasts its investment income using a Naïve interest rate forecast. The original filing was based on the March 31, 2021 Government of Canada 10-Year Bond interest rate of 1.56% and a new money yield of 2.46%. Basic investment income was projected to be $100.5 in 2021/22, $99.7 million for 2022/23, and $101.0 million for 2023/24. Based on the October 5 update, the forecast Basic investment income for 2021/22 increased from $100.5 million to $149.3 million. The Corporation's update projected Basic investment income of $100.1 million for 2022/23 and $96.9 million for 2023/24.

The target asset mixes for the Basic Claims, Basic RSR, and Pension portfolios as of the commencement of the 2021/22 fiscal year was as follows:

Targeted Weights	Basic Claims	RSR	Employee Future Benefits
Fixed Income			
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%
Total Fixed Income	**100.0%**	**50.0%**	**40.0%**
Public Equities			
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%
Total Equities	**0.0%**	**35.0%**	**35.0%**
Alternatives			
Canadian Real Estate	0.0%	10.0%	15.0%
Infrastructure	0.0%	5.0%	10.0%
Total Alternatives	**0.0%**	**15.0%**	**25.0%**

As of March 31, 2021, the returns on the Basic Claims portfolio (3.9%) had outperformed the benchmark, and the RSR and EFB portfolios returned 13.2% and 13.9% respectively, with the equity market having fully recovered from early pandemic losses.

MPI advised that it is now pursuing a "moment matching" strategy, which is expected to reduce interest rate risk exposure by 40%, while not compromising the portfolio yield.

In the 2021 GRA, MPI advised that it intended to consider 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 Class. This was a change that MPI expected would benefit the Motorcycle class. However, in this GRA MPI advised that for the long-term liabilities associated with the PIPP claims of motorcycles, this methodology change did not have the desired result. When the equity market goes down and incurs losses, the

Motorcycle class would see a dramatic increase in rates unless other Basic customers were to subsidize those losses. Alternatively, if the Basic Claims portfolio were to include growth assets to accommodate the Motorcycle liabilities, the interest rate forecasting risk would increase for the Corporation and the minimum capital requirements of Basic.

9.2 ALM Strategy

MPI's ALM strategy has minimized the risk of interest rate changes, but has not completely eliminated their impact due to MPI's investment in MUSH bonds (which are not revalued when interest rates change), and lags in rebalancing the duration of the marketable bond portfolio to match the duration of the claims reserves. As at the October 5 update, the change in interest rates had an overall $32.6 million positive impact on the financial forecast for 2021/22.

Previously, MPI had advised it planned to divest from its investment in MUSH bonds. In this GRA, the Corporation reported that as part of the "moment matching" strategy, a portion of its liabilities will be carved out and matched to the cash flows of MUSH bonds.

MPI advised in this GRA that it is planning to complete a new ALM study by June 30, 2022 and is in the process of preparing an RFP for the study. MPI indicated that it typically takes three to five years for a fully funded portfolio to experience a full market cycle, which is advisable before conducting the next ALM study. However, the Corporation needs to review its investment strategies prior to adoption of International Financial Reporting Standards (IFRS) 9 (Financial Instruments) and IFRS 17 (Insurance Contracts). The next ALM study will carefully consider impacts of inflation and IFRS 9 and 17.

Both new standards must be implemented for reporting periods commencing on or after January 1, 2023. MPI is in the process of completing position papers, which will guide its implementation of the new standards. One of the requirements of IFRS 17 will result in a change in the determination of the discount rate used to value claims liabilities. MPI is exploring how the yield curve used for discounting will be constructed under IFRS 17, and whether there will be any changes required to the Investment portfolio composition. MPI is working with its External Auditor, PwC, and with Deloitte to assist through the process. MPI provided a preliminary assessment of the transitional adjustments on the adoption of IFRS 17 and IFRS 9. Currently, MPI expects a positive financial impact as a result of adopting IFRS 17. After transition, and on an ongoing basis, MPI expects that there will be a negligible impact on rate-setting, since rates will continue to be based on AAP and therefore largely independent of accounting presentation changes.

9.3 Intervener Positions

CAC

CAC commented that MPI's portfolio contains nominal bonds, which are subject to interest rate risk. MPI's most recent ALM study was based on a nominal liability benchmark, which assumed no inflation volatility and a consistent inflation rate of 2%. CAC argued that a real liability benchmark would better reflect the inflation risk associated with its liabilities.

CAC had a number of recommendations for the forthcoming ALM study:

- MPI should expedite the completion of the new ALM study so that it is ready to be filed with the 2023 GRA in June 2022, to allow for a meaningful review by the Board and Interveners prior to implementation;
- The Board should direct MPI to base the next ALM Study on a real liability benchmark, as opposed to a nominal liability benchmark; and
- The Board should direct MPI to remove costly constraints that MPI "self-imposes" (e.g., prohibiting real return bonds and equities from the investable universe) in ALM studies.

CAC argued that reasonable capital market assumptions, and optimizations of total portfolio return/risk, show that the constraints imposed by MPI have a significant cost (lower returns and/or higher risks), and removing these constraints would give the ALM model (and modern portfolio theory) a chance to work.

CAC also submitted that MPI should file an analysis of alternative investment income forecasting approaches in the 2023 GRA.

With respect to IFRS 17, CAC recommended that the Board direct MPI, upon completion of its IFRS 17 position papers, to provide a summary of the impact on MPI's financial statements, capital management, claims forecasting and composition of the investment portfolio for a full understanding of the impact of these accounting standard changes.

CAC also recommended that the Board direct MPI that, as soon as its mock IFRS 17 policy liability valuation is completed and a mock set of financial statements is completed, it file these documents with the Board and Interveners, so they can familiarize themselves with what financials will look like in the future, which may assist with efficiency during the hearing process.

CMMG

Like CAC, CMMG recommended that the new ALM study be completed on an expedited basis, with the results filed with the 2023 GRA.

CMMG also recommended that the Board direct MPI to include, within the new ALM study, an objective opinion regarding the prudence of including or excluding various assets in the Basic Claims portfolio. (e.g., equities or other non-fixed income assets). This opinion should consider the following:

- Whether the inclusion of growth assets is prudent while maintaining the surplus volatility (the relevant risk) at levels that are consistent with the risk appetite of the Corporation; and
- If so, what weighting of equities and other non-fixed income assets may be included to achieve the best possible expected risk-adjusted return.

9.4 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 Board notes, however, the incoming changes to IFRS 9 and 17 that necessitate a new ALM study take place earlier than might be otherwise warranted. The Board intends to review the results of the ALM study in the 2023 GRA and directs MPI to file its 2022 ALM study with the 2023 GRA.

The continued economic uncertainty caused by COVID-19 requires that MPI take into account the impact of inflation in its investment strategy. A prudent examination of MPI's investment strategy must include an examination of inflation risks, and how to mitigate such risks. In addition, while the current composition of MPI's portfolio serves to mitigate interest rate risk, this risk has not been eliminated. Thus far MPI has for the most part experienced a favourable interest rate impact, but the potential remains that a change in interest rates will have significant negative impacts for MPI.

The Board notes that MPI's five-year returns were 2.3% lower than those for SGI. MPI attributed the difference in returns to SGI having extensive exposure to equity investment returns, whereas MPI has eliminated equities from the Basic Claims portfolio.

With the foregoing in mind, the Board finds that the forthcoming ALM study should be broad in its review to ensure that MPI explores a wide range of options to mitigate against inflation and interest rate changes, hedge against claims liabilities, and maximize returns. The Board therefore directs the following with respect to the ALM study:

- That MPI consider the use of real liability benchmark, as opposed to a nominal liability benchmark;

- That MPI require the study to examine the reasons for higher investment returns in MPI's peers;
- That MPI refrain from imposing constraints on the type of investments included;
- That MPI require the provision of an objective opinion regarding the prudence of including or excluding various assets in the Basic Claims portfolio, including:
    - Whether the inclusion of growth assets is prudent while maintaining the surplus volatility (the relevant risk) at levels that are consistent with the risk appetite of the Corporation; and
    - If so, what weighting of equities and other non-fixed income assets may be included to achieve the best possible expected risk-adjusted return.

10.0 PRESENTERS

The Board received submissions from three 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.

Bike Winnipeg

The Board heard from Charles Feaver of Bike Winnipeg. Bike Winnipeg is a non-profit organization dedicated to improving cycling conditions in Winnipeg and encouraging Winnipeggers to cycle more often.

According to Bike Winnipeg, the biggest barrier for potential cyclists is feeling unsafe while cycling among automobiles. Bike Winnipeg attempts to address this concern by encouraging roadway authorities to build infrastructure that separates cyclists from automobiles and promoting measures that will improve safety for cyclists who share the road with automobiles. An important way to address road safety for cyclists is to ensure that automobile drivers know how to safely share the road with cyclists.

As MPI is principally responsible for training drivers in Manitoba and the cost of MPI's driver training program is included in the base insurance, Bike Winnipeg stated that cyclist safety should therefore be considered by the Board. Mr. Feaver provided a history of Bike Winnipeg's involvement with MPI's GRA hearings. One issue that Bike Winnipeg has raised over the years is its concerns with MPI's loss prevention strategy. Bike Winnipeg stated that while representatives of MPI have previously assured the Board that they considered cyclist fatalities in the development of their loss prevention strategy, they could not describe the methodology used.

More recently, the provincial government has introduced a road safety initiative called Vision Zero, which involves a scientific methodology to reduce harm to humans on the road. Mr. Feaver explained that the last time the Board reviewed MPI's road safety measures in a GRA, MPI assured the Board that they had adopted Vision Zero, but struggled to explain the concept. Mr. Feaver's argument was that if MPI were working to improve road safety, the number of fatalities and injuries should be decreasing.

Overall, Bike Winnipeg takes issue with MPI's approaches to promoting road safety and preventing cyclist fatalities. Bike Winnipeg requested that at next year's GRA, the Board deal with four issues. First, Bike Winnipeg asked the Board to establish whether MPI is the road safety training authority for Manitoba. If MPI is the road safety training authority, Bike Winnipeg asked the Board to ensure that MPI will deploy the resources required for all drivers to achieve and maintain a sufficient standard of training to operate their vehicles in a manner that prioritizes the safety of cyclists. If MPI is not the road safety training authority, Bike Winnipeg stated that the Board must make clear in its future order that MPI is not adequately resourced to lead ongoing driver safety training. Second, Bike Winnipeg asked the Board to ensure that MPI establishes that the processes and methodologies used in their road safety programs are appropriate and effective for updating the training of automobile drivers. Third, Bike Winnipeg asked the Board to ensure that the goal for road safety training is to reduce the human costs of collisions, rather than monetary loss prevention. Finally, Bike Winnipeg asked the Board to design a different road safety process. Bike Winnipeg stated that the Road Safety Technical Conference should be led by an independent road safety expert rather than reviewing the road safety proposals put forward by MPI.

Manitoba Brain Injury Association

The Board heard from Fred Dugdale of the Manitoba Brain Injury Association. The Manitoba Brain Injury Association is a non-profit organization that helps individuals and families cope with brain injuries by offering support, education and advocacy.

Mr. Dugdale was involved in an automobile collision in September 2000 which resulted in whiplash and a concussion, and subsequently a diagnosis of post-concussion syndrome, with which he suffers to this day. Mr. Dugdale stated that he has not received a satisfactory result from his personal injury claims with respect to this injury. Mr. Dugdale expressed frustration with the lack of transparency surrounding the credentials of the employees of MPI who assess the personal injury claim, as well as the criteria that is used to assess the claims. Mr. Dugdale stated his belief that the personal injury claim assessment process is flawed and expressed frustration at what he perceives to be the lack of improvements made in diagnosing and treating brain injuries, many of which result from automobile collisions.

Mr. Dugdale expressed concern that MPI is requesting a rebate, when those funds could be used to compensate injury claims and/or provide proper diagnosis and treatment options.

Eduard Hiebert

The Board heard from Mr. Hiebert, who made representations on his own behalf. Mr. Hiebert expressed concern regarding the following topics: the manner in which a multi-car family can register its vehicles; the market value versus replacement value of written off vehicles; and the previous rebates issued by MPI.

11.0 IT IS THEREFORE ORDERED THAT:

1. There shall be an overall 1.57% rate decrease in compulsory vehicle insurance premiums for the 2022/23 insurance year, effective April 1, 2022, for all major classes combined. 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, 2021.

2. There shall be a 5% capital release applied to compulsory vehicle insurance premiums for the 2022/23 insurance year, effective April 1, 2022, for all major classes combined, which capital release shall be applied to vehicle premiums after the Driver Safety Rating discount.

3. In the 2023 GRA, the Corporation shall provide an alternative rate indication by use and territory. For this alternative rate indication:

   a. The Corporation shall remove actual serious losses (consistent with the current approach) and allocate serious losses based on the frequency of collision claims for each vehicle type;

   b. The Corporation shall split vehicle type among passenger vehicle, light truck, heavy truck, bus, motorcycle, trailer, and off-road vehicle; and

   c. The Corporation shall consider whether this approach is expected to result in less volatility for smaller uses or territories, and whether an adjustment to its credibility standard or minimum credibility may be warranted.

4. In the 2023 GRA, the Corporation shall provide an alternative rate indication using a preliminary set of Generalized Linear Models using existing rating factors, and bring forward a plan to study additional rating factors and interactions in order to address the question of territorial subsidies, among others.

5. In the 2023 GRA, MPI shall file an analysis and proposal for modifications to the fleet program to better reflect cost causation.

6. In the 2023 GRA, the Corporation shall provide an alternative rate indication on an Overall basis and by Major Class using the yield that corresponds to each Major Class's average duration of its projected unpaid claim liabilities as at October 1, 2023. The average duration by Major Class shall be calculated using only the claims for a particular Major Class. The Overall indication should be consistent with the Corporation's filed rate indication.

7. The Board hereby varies Orders 176/19, 146/20, and 1/21 to the extent that they do not allow for rebates, and directs MPI to issue to ratepayers a uniform percentage of Basic premiums earned from November 22, 2020 to December 9, 2021, for all vehicle classes, through a rebate in an amount required to lower the MCT ratio of the RSR to 100%, taking into consideration the 5% capital release provision applied to the 2022/23 rating year, using the excess capital MPI projects it will accumulate from March 31, 2021 to March 31, 2022, in the approximate amount of $312 million, as soon as hereafter is reasonably practicable.

8. There shall be a rate increase of 20% from current rates for the Passenger Vehicle For Hire (VFH) category, along with a rate increase of 20% for the Passenger VFH Major class in the 2023 GRA, subject to the Board's ability to vary such increase based upon the experience filed within that GRAs and as the Passenger VFH rates approach actuarially indicated break-even rates.

9. The Board accepts the Corporation's request that there be no changes to miscellaneous permits and certificates, service and transaction fees, or fleet rebates and surcharges.

10. The Capital Management Plan approved for a two-year period in Order 176/19 is hereby extended for the 2022/23 insurance year.

11. The Corporation shall include the following matters in its Vehicle For Hire framework review:

a. Whether MPI 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 of 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.

12. The Corporation shall file its Vehicle For Hire framework review in the 2023 GRA.

13. In the 2023 GRA, the Corporation shall bring forward a five-year plan for the implementation of the Primary Driver rating model. The five-year plan shall address such issues as:

a. Required regulatory changes and a timeline for the initiation of the regulatory changes;

b. Required IT changes and a timeline for the implementation of the IT changes;

c. The process the Corporation will employ to obtain the necessary primary driver information from ratepayers; and

d. The Corporation's communications plans in order to educate ratepayers about the rating model change.

14. The Board hereby approves the following changes to the DSR system:

a. The top of the DSR scale shall increase from DSR +15 to DSR +16 in the 2022/23 policy year;

b. Premium discounts for DSR Levels +15 and +16, shall increase by 4% (from 33% to 37%);

c. Premium discounts for DSR Levels +11 to +14 shall increase by 2%; and

d. Premium discounts for DSR Level +10 shall increase by 1%.

15. In the 2023 GRA, the Corporation shall bring forward a DSR transition plan to manage the required increase in the base rate and year-to-year rate dislocation, while moving the DSR vehicle discounts and driver premiums to actuarial targets in a timely manner. The transition plan shall include:

a. The methodology for moving rates from current to target and whether this approach should be purely actuarial (e.g. equal steps to move between current and target rates by DSR level) or include other policy considerations (e.g. change DSR discounts more/less depending on the size of the overall rate indication applied for each year);

b. Whether capping rules should be applied to limit rate increases caused by DSR changes in a given year (e.g. a 5% cap on single year movements from DSR);

c. Whether DSR vehicle discounts and driver premiums should be rounded to amounts that can be effectively communicated (e.g. if the indicated discount is 21.2% is this amount rounded down to 21% or up to 22%); and

d. How to recognize that indicated DSR vehicle discounts will always be changing, specifically for (i) the new DSR levels +16 and (ii) potential changes in driver behavior as a result of more accurate pricing.

16. MPI shall meet with Board advisors no later than April 30, 2022 to review its IT initiatives (IT Summit). The IT Summit shall review all aspects of Project Nova and the planned Supernova/MPI 2.0, including but not limited to project deliverables, timeline, budget, discount rate, and any foundational elements not part of the original Project Nova plan that are being added to the initiative.

17. The Corporation shall:

    a. File its IT Strategy with the Board upon its approval by the Board of Directors;

    b. File the Gartner IT Benchmarking report upon its completion; and

    c. Include the IT Strategy and IT Benchmarking report as items for review in the IT Summit.

18. The Corporation shall file the Crown Benchmarking Report in the 2023 GRA.

19. The Corporation shall file its ALM study to be undertaken in 2022 with the 2023 GRA.

20. With respect to the ALM study to be undertaken in 2022, the Corporation shall:

    a. Consider the use of a real liability benchmark, as opposed to a nominal liability benchmark;

    b. Require the study to examine the reasons for higher investment returns in MPI's peers;

    c. Refrain from imposing constraints on the type of investments included; and

    d. Require the provision of an objective opinion regarding the prudence of including or excluding various assets in the Basic Claims portfolio, including:

        i. Whether the inclusion of growth assets is prudent while maintaining the surplus volatility (the relevant risk) at levels that are consistent with the risk appetite of the Corporation; and

        ii. If so, what weighting of equities and other non-fixed income assets may be included to achieve the best possible expected risk-adjusted return.

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

THE PUBLIC UTILITIES BOARD

"Irene Hamilton, Q.C."
Panel Chair

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

Certified a true copy of Order 134/21
issued by the Public Utilities Board

Darren Christle
Secretary

APPENDIX A

LIST OF DIRECTIVES NOT COMPLIED WITH

Order and Directive No.	Directive
1/21, 10.7	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.
1/21, 10.8	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 of 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.

1/21, 10.12	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.

APPENDIX B

GLOSSARY OF ACRONYMS AND TERMS

AAP	Accepted Actuarial Practice in Canada
Application	2022 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
FTEs	Full-Time Equivalents
GRA	General Rate Application
GLM	Generalized Linear Model
HRMS	Human Resource Management System

HTA	Highway Traffic Act
ICWG	Investment Committee Working Group (MPI)
IT	Information Technology
LVAA	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
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 C

APPEARANCES

K. McCandless / R. Watchman / K. Moore	Counsel for the Public Utilities Board (the Board)
S. Scarfone / A. Guerra	Counsel for Manitoba Public Insurance Corporation (MPI / the Corporation)
K. Dilay / C. Klassen	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

APPENDIX D

WITNESSES

Witnesses for the Corporation

E. Herbelin	President and Chief Executive Officer
M. Giesbrecht	VP, Finance
S. Jatana	VP, Chief Customer Officer
S. Mitra	VP, Chief Transformation Officer
S. Parthi	VP, Chief Information & Technology Officer
M. Gandhi	Corporate Controller
J. Lang	Director, Pricing and Portfolio Management
L. Lazarko	Director, Information Technology
G. Bunston	Manager, ALM & Investment Management
D. Dunstone	Manager, Reinsurance and Forecasting
S. Patton	Manager, Customer Insights & Analytics
C. Prystupa	Manager, Product Development & Management
A. Ramirez	Program Director, Nova Program Delivery
T. Phoa	Actuarial Analyst

Witnesses for CAC

R. Sahasrabuddhe	Principal, Oliver Wyman

Witnesses for Taxi Coalition

S. Dion	President and Consulting Actuary, Dion Strategic
J. Wong	Senior Actuarial Consultant, Dion Strategic

APPENDIX E

Interveners

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

Presenters

Charles Feaver
Fred Dugdale
Eduard Hiebert

Bike Winnipeg
Manitoba Brain Injury Association