Public Utilities Board
Régie des services publics

Order No. 145/23

MANITOBA PUBLIC INSURANCE (MPI OR THE CORPORATION):

COMPULSORY 2024/2025 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

December 18, 2023

BEFORE: Irene A. Hamilton, K.C., Panel Chair
Robert Gabor, K.C., Chair
George Bass, K.C., ICD. D, Member
Susan Boulter, Member
Susan Nemec, FCPA, FCA, Member

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1.0 SUMMARY

This is an order of the Public Utilities Board (Board) in Manitoba Public Insurance's 2024 General Rate Application (GRA or Application).

The Board is an independent, quasi-judicial tribunal that derives its jurisdiction to regulate rates for universal compulsory automobile insurance (Basic) premiums from *The Crown Corporations Governance and Accountability Act*, *The Manitoba Public Insurance Corporation Act*, and *The Public Utilities Board Act*. In doing so, the Board must balance the following duties:

1. Protect the public interest by balancing the interests of ratepayers against the financial health of Manitoba Public Insurance;

2. Protect and ensure the institutional integrity of the Board as an independent, quasi-judicial administrative tribunal that makes apolitical decisions based on sound judgment;

3. Promote transparency and accountability through the hearing process; and

4. Promote and facilitate public participation in the hearing process.

Manitoba Public Insurance (MPI or the Corporation) filed the Application on June 15, 2023. In the Application, MPI sought no overall rate change to Basic insurance premiums, as a result of a directive issued to it by the Government of Manitoba on April 3, 2023. The directive required MPI not to apply for any changes in rates pending an organizational review, which is to be completed no later than December 31, 2023.

While the Application requested no overall rate change, it included a rate indication calculated in accordance with Accepted Actuarial Practice (AAP). The indicated rate reflected a decrease of 0.13% based on market interest rates as of March 31, 2023. On October 4, 2023, the Corporation filed an updated rate indication using August 31, 2023 interest rates reflecting a decrease of 1.48%.

The Government directive does not affect the Board's legislated jurisdiction to approve, dismiss, or vary the Application.

MPI also applied for approval of:

- a new Capital Management Plan for the Basic Rate Stabilization Reserve, in which capital will be returned to ratepayers through rebates only;
- changes to vehicle discounts available through the Driver Safety Rating (DSR) system, by increasing the scale to discounts applied to drivers at DSR levels +9 to +17, increasing the maximum merit level under the DSR scale from +17 to +18 in the 2023/24 policy year, and offsetting the -5.0% impact of the increased DSR discounts with an overall increase in base premiums of 5.2%; and
- a new insurance policy framework for Vehicles for Hire (VFH).

The Board has rejected MPI's Application, and has ordered an overall 5.0% rate decrease to universal compulsory automobile insurance premiums for the 2024/25 insurance year, effective April 1, 2024 for all Major classes combined, and no changes in permit and certificate rates, service and transaction fees, or fleet rebates or surcharges. In addition, the Board has dismissed MPI's request for approval of the Capital Management Plan and the VFH policy framework.

The Board has varied MPI's application for the discount to be applied to DSR +18, from 48% to 46%. The Board has approved the balance of MPI's requests in respect of DSR.

The Board's reasons for these decisions, among others, are set out in detail below.

Background to the 2024 GRA

The Corporation has experienced significant change since the 2023 GRA. A new Chief Financial Officer was appointed. In May 2023, a new MPI Board Chair was appointed, and the President and CEO and the Chief Information Technology Officer left their positions with MPI. Further change occurred on October 20, 2023, when all but one of the members of the Board of Directors of MPI was replaced, and another new MPI Board Chair was appointed.

Additionally, in late August, MPI's unionized staff commenced strike action. During the public hearings, the Board heard that the Corporation would likely need six to nine months to recover from the period of labour interruption.

Notwithstanding this, the Board notes that MPI staff were able to respond to Information Requests and undertakings on a timely basis, and the public hearings proceeded without disruption. The Board commends the MPI representatives who were able to carry out this regulatory process under such significant change.

Rates

Under *The Crown Corporations Governance and Accountability Act*, the Board must set rates paid by ratepayers of MPI. 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.

A vehicle's base premium depends on where in Manitoba the ratepayer lives, the type of vehicle, and the vehicle's use. The 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

ratepayer 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 5.0% results from the Board's approval of rates calculated in accordance with AAP based on a Naïve interest rate forecast, taking into account actual interest rates as at August 31, 2023.

The Board's order for a decrease of 5.0% does not mean that rates for all motorists within each Major vehicle class will decrease by that amount. Rates paid by individual ratepayers 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 ratepayer resides. As a result, some individuals will experience increases in insurance rates, and others will experience decreases.

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.

Project Nova

The predecessor to Project Nova was MPI's Legacy Systems Modernization (LSM) project. Both LSM and Project Nova were conceived to modernize the core legacy systems of MPI.

The original business case for Project Nova, filed in the 2020 GRA, had a budget of $106.8 million. This was comprised of $85.4 million in project costs and a $21.4 million contingency. The original business case was based on a top-down budget analysis, prior to MPI having received any pricing from vendors.

The Board had noted its concern in Order 1/21, following the 2021 GRA, with the budget overruns early in Project Nova. The Board stated at that time that "Project Nova remains the most significant, costly, ambitious, and risky initiative that MPI has undertaken."

Following the 2021 GRA, MPI undertook a re-baseline exercise (2021 re-baseline), which resulted in an increase to the budget of Project Nova. The re-baselined budget was $128.5 million, comprised of $111.7 million in projected costs and $16.8 million of contingency. At that time, MPI advised the Board that the business case for Project Nova was more refined because MPI had received pricing from vendors. The net present value (NPV) for the 2021 re-baseline was based on a 15-year period from project initiation, March 1, 2019, and the NPV was $18.4 million. MPI assessed Project Nova as medium-high risk and applied a 7.5% discount rate. MPI reported that, while a positive NPV was projected, this was highly dependent on many factors and the margin of error was very slim.

In Order 134/21 following the 2022 GRA, the Board found that there was a significant risk that MPI's IT initiatives would increase in scope and cost. The re-baselined business case had increased the project budget, but the Board commented that the costs outlined in the 2021 re-baseline might not be a reliable indicator of future project costs, given MPI's planned move towards an initiative described as "MPI 2.0" or "Supernova." The Board also noted that, for a second consecutive GRA, MPI had presented a Project Nova budget that would be subject to change in the months immediately following the public hearings, which presented a challenge for the Board in its review of the prudence of MPI's IT expenses.

In the 2023 GRA, the Board heard evidence about the state of Project Nova as of mid-2021. By mid-2021, six months after the start of the project's implementation, and before the commencement of the 2022 GRA public hearings, MPI management had recognized that the complexity and scale of the project were greater than anticipated and that, if the scope of work were to remain the same, it was unrealistic that the project could be completed on time and budget. The Corporation's Project Nova Governance Advisor,

PwC, expressed similar concerns. This led to a flattened timeline for the project, based on an assessment by McKinsey, to de-risk the delivery of four planned project releases, extending the project timeline from 40 months to 60 months. The budget was also increased to $224.1 million plus a contingency in the range of 20-40% ($32.9 to $65.8 million) (2022 re-baseline).

The 2022 re-baseline budget range is $257 to $289.9 million, with the midpoint cost estimate at $273.5 million. The Board heard in the 2023 GRA that this re-baseline budget was only a best estimate as it would take the project to the third of four releases, and that the total final budget was unknown.

The Board found, in Order 4/23 following the 2023 GRA, that many of the expected benefits set out in the 2022 re-baseline were lower than identified in previous iterations of the business case, because of the flattened delivery plan, which delayed the realization of benefits. With the new higher estimated project cost and revised lower project savings benefits, the NPV of the Project Nova business case was revised to negative $188.9 million, equivalent to a $207.3 million decrease from the 2021 re-baseline. The Board also found that it was unclear where the Corporation was making necessary investments to modernize outdated technology, and where it was going beyond necessary improvements and into modernizing the business operating model in excess of the original LSM scope. The Board also expressed concern with an apparent lack of management control over IT expenses.

Project Nova continues to be a central focus of the GRA. In the 2023 GRA, the Board's previously expressed concerns about the Project Nova budget were confirmed. The Project Nova budget is double that of the initial business case, and, notwithstanding that the base budget is $224.1 million, MPI appears to consider itself as remaining within the budget as long as it does not exceed $290 million. The $290 million would include use of the upper end of contingency of 40% which, by definition, would mean MPI had exceeded its budget.

Project Nova is composed of four “Releases”. Releases 1 and 2 are focused on Special Risk Extension and commercial insurance. Releases 3 and 4 are the most significant to the Basic line of insurance and involve the work required to replace front-end systems used by MPI and brokers and introduce online products and services. The Board found in Order 4/23 that significant uncertainty remained with respect to the costs for Releases 3 and 4, and based on the evidence in this hearing, that remains the case. Further, there are issues that remain with Releases 1 and 2, and additional delays due to the labour interruption. All of this leads to the conclusion that Project Nova remains at high risk of significant budget overruns and delays. As of the 2023 GRA, NPV was no longer being used by the Corporation as a measure of the value of Project Nova, whereas in prior hearings it had relied on a positive NPV as a justification for proceeding. The Board is concerned that MPI will overspend on IT initiatives until it has more certainty with respect to its budget allocation maturity. In addition, the labour interruption will have an impact on the delivery schedule for the Release 3 of Project Nova.

The Board is also concerned that the evidence in this GRA was unclear as to which IT projects, not included within the $224.1 million budget, must be completed for Project Nova. This raises the question of whether the $290 million budget (including contingency) could be, in fact, higher as it does not include the costs of these projects, upon which Project Nova is fully or partially dependent.

Based on the history of the project and the evidence in this GRA, the Board does not have confidence in MPI’s Project Nova budget. Ultimately, the Board is concerned that the amount may far exceed $290 million.

The Board had found in Order 4/23 that MPI should continue to engage a project governance consultant. Instead, the Corporation was without any such guidance and oversight for 11 months. This is of grave concern, given the status of the project at the time that the previous governance contract concluded.

As well, since the 2023 GRA, there has been significant turnover in management and governance at MPI. The Chief Information Technology Officer has left, there is a new Chief Financial Officer, and during the hearing, all but one of the members of the MPI Board of Directors was replaced. The new Board and Information Technology Committee, which is delegated oversight of Project Nova and all IT projects, does not have the experience to fully understand the complexities of Project Nova.

Given the history and current challenges of Project Nova, the Board finds that significant ongoing review is required, not only on Nova, but across MPI's IT initiatives in order to review the Corporation's prudence going forward. The Board has issued a series of directives requiring MPI to file significant and detailed information in the 2025 GRA regarding Project Nova and other IT initiatives.

Further, in order to be apprised on a timely basis of the status of Project Nova, the Board has again directed an IT summit to take place no later than May 2024, to review progress on Project Nova and on IT projects beyond the scope of Project Nova, which will include, among other things, an interim governance report prepared by MNP covering all observations, recommendations, and status to date.

The Board has also directed MPI to make improvements to its IT benchmarking reporting for the next GRA.

Lastly, it is not yet clear to the Board what MPI is using as a measurement framework in its budgeting process. It is important that the Corporation be able to explain how it is performing and where it has or has not met its objectives. Accordingly, the Board has directed MPI to file, in the 2025 GRA, detailed information as to its budgeting process framework and what measurement it is using to assess performance, whether key performance indicators or objectives and key results.

Capital Management Plan and Rate Stabilization Reserve

In prior GRAs, the Board has deliberated on and ordered the appropriate level of and methodology for setting MPI's Basic Rate Stabilization Reserve (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* (MPIC Act). The Regulation also restricted the use of any surplus reserve funds in the Basic RSR, requiring that any amounts in excess of the amount required by the Regulation be used only for the purpose of reducing the Basic rate indication in a subsequent year. The effect of the Regulation was to set the Basic RSR at a minimum level of the amount determined using a Minimum Capital Test (MCT) ratio of 100%, rather than having the Basic RSR set by the Board through the GRA process.

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 MPI's 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.

In early November 2022, amendments to the MPIC Act came in to force, which removed the Board's previously held jurisdiction to set the level of the Basic RSR. Section 18 of the MPIC Act now prescribes the level of the Basic RSR at a minimum of 100% MCT,

and permits MPI to apply to the Board for a rebate when the MCT exceeds 120% at the beginning of the fiscal year.

In the 2023 GRA, the Corporation applied for approval for a new CMP that aligned with the incoming amendments to the MPIC Act. That proposed CMP included AAP ratemaking, capital targets by line of business, capital transfer rules, and a capital build provision. The Corporation proposed the removal of the capital release provision contained in the 2019 CMP, and proposed the addition of a capital rebate provision. The Board dismissed MPI's application to approve the CMP and found that it required greater clarity, transparency and accountability. A more robust presentation of the proposed CMP was required and the Board directed that the Corporation file a proposed CMP in this GRA that would include specific criteria and processes under which the Corporation would apply to the Board for a capital rebate, and the criteria for a capital build.

In this Application, the Corporation advised that its interpretation is that it satisfies the requirements of section 18 where:

- the Basic RSR MCT ratio is at 100% or greater, based on year-end audited financial statements for the fiscal year; or
- despite the 100% MCT target, because MPI requires a range to address adverse events such as high levels of inflation, and a range would protect ratepayers from capital build requests, MPI would apply for a capital rebate when the MCT ratio exceeds 120% at the beginning of a fiscal year; or
- where the Basic RSR ratio is below 100% MCT, MPI establishes a plan for a capital build to bring the MCT ratio to 100% within five years or less.

The Corporation stressed that any rebate would need to be based on audited financial statements. It does not consider the 2022/23 financials, restated under the International Financial Reporting Standard (IFRS) 17- Insurance Contracts (IFRS 17), to be audited

statements. MPI, therefore, did not apply for a capital rebate, despite the restated financial statements showing an updated MCT ratio of 135.5%.

The Corporation had, as of March 31, 2023, $665.3 million in retained earnings, including $354.7 million in Basic, $83.2 million in Extension, $153.7 million in SRE, and $73.7 million in Driver and Vehicle Administration (DVA). DVA's positive level of equity was a result of transfers of Extension retained earnings of $60 million in 2020/21 and $57 million in 2021/22.

The Board has dismissed MPI's application for approval of the CMP. Without a clear path forward to address the funding deficit in DVA, and given the discretionary nature of transfers from Extension excess reserves, there remains a risk that that even if approved, the CMP will operate in theory but not in practice, as has already been the case.

The Board found in Order 134/21 that the Extension transfers to DVA, which took place after MPI's first CMP was approved, reduced the amount available to Basic ratepayers by approximately $113.4 million. The result is that Basic ratepayers were subsidizing taxpayers, whereby the Basic ratepayers' premiums for Extension insurance exceeded the amount required for that Extension coverage. These excess premiums were then transferred by MPI to DVA, which is not part of the insurance operations but is a Government/taxpayer responsibility. The Government increased its contribution to DVA following the 2022 GRA by $10 million for two fiscal years, but in this Application, the only evidence is that discussions with the Government to address the funding shortfall are ongoing.

In addition to transfers to DVA, the Board observed in Order 134/21 that, despite MPI's previous statements that it did not favour rebates and would instead focus on adjusting the CMP to stay close to the MCT target, there were three occasions in 18 months in which MPI applied for a rebate as a result of reduced claims resulting from the COVID-19 pandemic. In order to issue those rebates, the Corporation was required to seek approval from the Board to deviate from the requirements of the CMP.

Historically, MPI has chosen not to follow its own CMP. The Basic MCT ratio is at 135.5%, equivalent to $121 million in excess Basic RSR funds over 100% MCT, and yet, MPI does not have any plans to apply for a rebate. The Corporation now endorses its legislated target capital level as allowing it to retain a “range” of 100% to 120% MCT, in direct contradiction to its position in previous hearings that a single target capital level is favourable to a range to promote rate stability. MPI’s overly conservative approach comes at the expense of ratepayers and underscores the need to restore Board’s oversight of the Basic RSR.

The lack of reliability of forecasted transfers from Extension to Basic is particularly troubling because the Board does not have the jurisdiction over the Extension RSR. While Extension is characterized as MPI’s competitive line of business, the practical reality is that MPI effectively holds a monopoly over non-compulsory automobile insurance in Manitoba. In the years since the CMP was established, the need for Board jurisdiction over Extension has become clearer. The evidence before the Board in the 2020 GRA was that MPI holds 95% of the market for Extension products.

The Board has therefore recommended to the Government of Manitoba that:

- Section 18 of the MPIC Act, which sets capital targets for the Basic, Extension, and SRE RSRs, and grants MPI the discretion to apply for a rebate, should be repealed; and
- It should work with MPI on a funding strategy for DVA, pursuant to which MPI would charge the Government for all costs for administering DVA.

Vehicles For Hire

The primary issue regarding VFH in this Application was whether the Board should approve an insurance model for VFH; MPI's Blanket Policy framework separate from approval of the VFH rates. Analysis of the rates was impossible in this GRA as Uber was not prepared to share its kilometre data with the Board or Interveners. The data formed the underpinning for the proposed VFH per kilometre rate in this Application.

Until the Board has evidence of all aspects of the proposed Blanket Policy, which would include the rates and the methodology for calculating the rates, the Board is not prepared to approve the policy. The Board has therefore dismissed MPI's request for approval of the Blanket Policy framework.

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.

Two aspects of the DSR have been under review for the last number of GRAs: the rating scale and the rating model. The rating scale sets the level of driver demerits and merits used to set the amount of driver premium payable or the vehicle premium discount to be applied (if any) to a policy of vehicle insurance, respectively.

The rating model, also referred to as the Basic Insurance Model (BIM) is the method by which MPI determines which driver record will be used to set the amount of any vehicle premium discount. Currently, MPI employs the Registered Owner model, which calculates the vehicle premium discount based on the DSR scale level of the registered owner of the vehicle, as opposed to, for example, the primary driver of the insured vehicle.

Rating Scale

In the 2022 GRA 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. Given the gap between the discount/premium charge and the indicated discount/premium charge, MPI recommended a gradual implementation to remedy the subsidization of drivers with low DSR ratings by those with high DSR ratings. MPI indicated a plan to increase the upper limit of the DSR scale from +15 to +20 over the next five years and proposed to move one-fifth of the difference between current and indicated vehicle premium discounts each year.

Directive 11.15 from Order 134/21 following the 2022 GRA required the Corporation to 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.

Rating Scale Changes

The Board finds that the correct discount in accordance with Order 4/23 Directive 12.15 with respect to DSR +18 is 46% instead of 48%, as applied for by MPI. With that one change, the Board has approved the proposed DSR discounts for 2024/25.

The Board finds that the use of a single straight line to fit the indicated DSR relativities overpredicts the higher DSR discounts and directs MPI to improve the fit of the DSR discounts to the indicated relativities. Consideration of the volume of vehicles at each DSR level, and potentially the use of several connected curves or straight lines, may improve the fit without requiring the use of categorical variables.

The Board has directed MPI to move all DSR discounts one-third of the way to actuarially indicated rates in the 2025 GRA. This direction is applicable for all positive DSR levels. The calculation of the change is to be one-third of the difference between the current and

the actuarially indicated discount for each DSR level, and then rounded down to the nearest whole number, with base rates adjusted to off-balance these changes.

The Board also finds it is just and reasonable to make the changes to the system as indicated, and has therefore directed the Corporation to expand the DSR scale from DSR +17 to DSR +18 in the 2024/25 policy year forward. Drivers will still require an incident-free year before moving to the new top merit level.

Rating Model

In the 2022 GRA, MPI advised that it intended to continue to use the Registered Owner model and would not be considering any changes to its model for five years. The Board therefore found that MPI had not complied with Order 1/21, that a change in the rating model was required. Directive 11.13 of Order 134/21 required the Corporation, in the 2023 GRA, to bring forward a five-year plan for the implementation of the Primary Driver rating model. Directive 11.13 was the subject of an application for leave to appeal filed by MPI in the Manitoba Court of Appeal on March 29, 2022. The court dismissed MPI's application on October 19, 2022.

In response to Directive 11.13 of Order 134/21, in the 2023 GRA the Corporation filed a plan with a six-year time frame for the implementation of the Primary Driver rating model. The Board then directed MPI to bring forward a detailed plan for a transition to a new rating model in this GRA.

In this Application, the Corporation filed the Project Charter for Basic Insurance Model Evolution.

MPI addressed the importance of compelling data collection in order to proceed to evaluate options for a new BIM, and potential solutions to compel data collection. MPI’s position was that it must have clear legislative authority to compel data collection in order to proceed with the research and analysis necessary to determine what BIM to implement

in the future. MPI advised, however, that it planned to assess the following rating models before deciding on a future direction:

- Registered Owner, in which the vehicle premium discount is based on the DSR level of the registered owner of the vehicle;
- Primary Driver, in which the vehicle premium discount is based on the DSR level of the primary driver of the vehicle;
- Listed Driver, in which the vehicle premium discount is calculated taking into account the DSR level of all drivers of the vehicle listed under the policy; and
- Primary/Listed Driver Hybrid, which is a weighted calculation based on Primary Driver and Listed Driver.

On January 12, 2023, the Government of Manitoba denied MPI's request to make regulation changes to permit MPI to collect driver information from registered owners of MPI-insured vehicles. MPI holds the view that without the legislative authority to collect driver information, MPI cannot conduct a pricing examination of alternative rating models. It is continuing to work with the Government to seek approval to make regulation changes.

Approximately six months from the commencement of data collection, the Corporation would begin an actuarial examination of the pricing models. This work will culminate in MPI submitting, as part of the 2027 GRA, its actuarial and product analysis, which will be based on more than a full year of data collection. In the 2028 GRA, the Corporation would then bring forth its recommendation for examination and approval for a new BIM, effective April 1, 2028.

Whether or not MPI's position that it does not have the legislative authority to commence data collection is correct, if the Government were to make the changes requested by MPI the issue would become moot. The Board has therefore recommended to the

Government that it engage with MPI on a timely basis to initiate necessary legislative change to permit the collection of driver information from registered owners.

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, co-mingled investment portfolio that backed all liabilities and surplus. As a result of recommendations made by Mercer (Canada) Ltd. (Mercer) in a 2017 Asset Liability Management (ALM) Study, MPI separated its co-mingled investment portfolio into five unique portfolios including Basic Claims, Basic Rate Stabilization Reserve (RSR), Employee Future Benefits or Pension (EFB), Extension, and Special Risk Extension (SRE). Each has unique asset allocations and allows the Corporation to develop investment portfolios better reflecting associated liabilities and investment goals of each portfolio.

MPI engaged Mercer to conduct the 2022 ALM study, which was reviewed in detail at the 2023 GRA. Mercer's ALM study covered issues including the implications of adopting IFRS 9 - Financial Instruments (IFRS 9) and IFRS 17 and the impact on investment strategy, consideration of adding new fixed-income asset classes, merits of adding non-fixed income asset classes for long tail Basic liabilities, asset class optimization and review of new assets classes such as real return bonds (RRBs), commercial mortgages, real estate, three times levered long provincial bonds, three times levered real return bonds and Canadian and global equities. The study considered the impact of various inflation scenarios on MPI assets and liabilities using a real liability benchmark. Mercer's analysis indicated that RRBs improved returns and lowered risk related to the inflation scenarios evaluated.

In February 2023, the MPI Board approved a new investment policy which included investments for the Basic claims portfolio in commercial mortgages and real estate, and to incorporate inflation protection using a bond overlay strategy using purchase and

repurchase agreements with counterparties. The goal of the overlay strategy is to create a synthetic provincial RRB. The strategy allows MPI to maintain the current bond portfolio and the increased yield that provincial and corporate bonds offer, with no impact to the discount rate, and avoid having to purchase RRBs on a cash basis, affecting the interest rate risk management strategy.

MPI is currently developing an inflation hedging policy and considering the appropriate level of inflation protection by establishing an inflation hedge ratio. MPI's forecast assumed a 50% inflation hedge ratio which provides $600 million in inflation protection.

As of October 4, 2023, MPI forecasted a $45.6 million negative overall financial impact in 2023/24 due to changes in interest rates. During this period, the weighted average interest rates rose by approximately 82 basis points, causing the market value of the bond portfolio to fall by $103.5 million and the net present value of the Basic Claims liabilities to drop by $57.9 million, creating a net negative impact of $45.6 million.

MPI acknowledges a disconnect between the protection intended to be generated from the ALM approach and indicated the Corporation is in early-stage discussions on how to revise the ALM strategy.

As of March 31, 2023, the Basic Claims portfolio had a return of -1.8%, which was better than the benchmark's performance of -2.4%. Additionally, the EFB portfolio returned 0.2%, outperforming the benchmark return of -0.6%. However, the RSR portfolio returned only 0.2%, which was lower than the benchmark return of 0.7%.

MPI provided a 2023 Investment Performance Report prepared by Ellement Consulting. MPI's four-year performance of the Canadian fixed income comparison was in the bottom quartile of peers at the 89th percentile. The EFB portfolio was at the 53rd percentile, and the total fixed income fund was at the bottom of performance against peers at the 100th percentile. MPI attributed the poor performance relative to the benchmark due to the duration of the bond portfolio versus that used in the benchmarks.

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. Nevertheless, the review of MPI's investment portfolios is critical to the Board's examination of MPI's overall financial position.

Based on the evidence in this hearing, the Board finds that the ALM strategy should be adjusted to better protect against changes in interest rates. The Board notes that it recommended that MPI consider RRBs after the 2017 GRA, but the Corporation did not pursue this. Given that MPI ranks in the bottom quartile of peers, including Crowns, when it comes to investment returns, the Corporation should reconsider its current investment strategy. Poor investment performance leads to reduced income, which will require MPI to charge ratepayers a higher premium. The Board has therefore directed MPI to file, in the 2025 GRA:

- An Investment Committee Working Group analysis of and commentary on the Ellement investment report, including recommendations for changes to improve the performance of the investment portfolio;
- An update to its ALM to better match the impact of changes in interest rates, including an analysis and recommendations from Addenda Capital to address differences in movement in assets versus claims liabilities to address this disconnect; and
- An update to its inflation hedging strategy.

Further, now that MPI will be employing a bond overlay strategy, the Board expects that MPI will be in a position to report on its effectiveness at least on a preliminary basis. Accordingly, the Board has also directed MPI to file, in the 2025 GRA, a report on the effectiveness to date of the bond overlay strategy.

Other Issues

In recent years, the Board has examined the issue of road safety and loss prevention bi-annually. As the issue was not examined in depth in this GRA, the Board has directed that a technical conference on road safety take place in the Spring of 2024 and that the issue will be examined in detail in the 2025 GRA.

Lastly, as noted above, the Government of Manitoba directed that an organizational review of MPI take place and a report be prepared by December 31, 2023. The Board recommends that the Government provide it with a copy of the review, so that the Board may consider the information therein in future applications.

2.0 THE RATE APPLICATION

2.1 Procedural History

On June 15, 2023, the Corporation filed with the Board the 2024 General Rate Application (GRA or Application), seeking approval of premiums for universal compulsory automobile insurance (Basic), commencing April 1, 2024 and ending March 31, 2025.

Pursuant to a directive issued to MPI by the Government of Manitoba on April 3, 2023, MPI applied for no overall changes in rates pending an organizational review, which is to be completed no later than December 31, 2023.

While the Application sought no overall change in rates, MPI did file a rate indication calculated in accordance with Accepted Actuarial Practice (AAP) and grounded in a Naïve interest rate forecast as at March 31, 2023, which was for an overall -0.13% rate change. In accordance with recent past practice, on October 4, 2023, the Corporation filed updated interest rates and financial results to August 31, 2023, which revised the indicated rate change to -1.48%.

Prior to the filing of the Application, the Board issued Interim Procedural Order 64/23, 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 2024 GRA in the normal course; issues requiring more detailed examination in the 2024 GRA; and issues deferred from the 2024 GRA to future applications, or which would be the subject of a technical conference or another process.

In Order 64/23, 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. Information placed on the public record was redacted by MPI to prevent the release of any information it claimed as confidential. MPI filed the omnibus motion on September 12, 2023, and then amended the relief sought on September 15, 2023, to withdraw certain claims for CSI status. By Order 111/23, dated September 25, 2023, the Board found that, for the most part, the material claimed as confidential by MPI would be received in confidence.

After the filing of the Application, and following the Pre-Hearing Conference, by Order 77/23 dated July 5, 2023, 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).

Twelve days of public hearings took place, during which the Board heard evidence from witnesses appearing on behalf of MPI and CAC. The Board also received submissions from presenters. The public hearings began on October 10, 2023, and concluded on October 27, 2023.

2.2 The Application

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

The GRA requires the Board to set just and reasonable insurance rates. In this Application, MPI did not apply for a rebate. It is important to distinguish among each of the concepts considered in the setting of just and reasonable insurance rates, which are outlined below.

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. Currently, MPI employs the Registered Owner rating model in order to determine the applicable discount on the vehicle's base premium. The Registered Owner rating model assigns the vehicle premium discount based on the placement of the registered owner of the vehicle on the DSR scale.

The vehicle base premium, adjusted for the vehicle premium discount, is the annual rate a ratepayer pays for vehicle insurance. Each year, the Board orders an overall rate change that applies to the annual rate of vehicle insurance.

Capital Release

In the 2021 and 2022 GRAs, when MPI’s capital reserve fund had excess capital, the Board ordered a capital release. Based on MPI's Capital Management Plan (CMP) in effect at the time, the capital release in one year could be as high as 5%. The capital release was applied to the rate to be paid in the next (i.e., upcoming) insurance year and was not applicable to any future years. The capital release served to reduce the amount of a vehicle's insurance premium in the upcoming insurance year. The CMP approved by the Board for two years in Order 176/19, and extended a further year in Order 134/21,

contemplated the possibility of a capital release. The proposed CMP, for which MPI requested approval in this Application, would not permit capital releases but instead would return excess capital to ratepayers by rebates only.

Capital Build

The CMP approved in Order 176/19 included a capital build provision, which could be used to rebuild capital levels back up to the 100% Minimum Capital Test (MCT) target. If the forecasted MCT ratio at the end of the rating period was to be less than the target MCT ratio, the capital build provision could be applied such that the forecasted MCT equals the target MCT at the end of the rating period. A capital build provision was included in the new CMP filed in this Application.

Rebate

In two Special Rebate Applications in 2021 and one Special Rebate Application in 2022 brought about by reduced claims resulting from the COVID-19 Pandemic, the Board ordered rebates when MPI's capital reserve fund had excess capital. A rebate is an amount refunded to a ratepayer from premiums that the ratepayer had already paid in the current or prior insurance year. The amount of the rebate paid to the ratepayer depends on the premium the ratepayer paid in the current or prior year.

2.2.1 Rate Request

MPI requested no overall rate change but, as noted above, the Application also included a rate indication calculated in accordance with AAP. The indicated rate was for a decrease of 0.13%, based on market interest rates as of March 31, 2023. On October 4, 2023, the Corporation filed an updated rate indication of -1.48%, based on interest rates at August 31, 2023.

MPI applied for approval of a new Capital Management Plan (CMP) for the Basic Rate Stabilization Reserve (RSR), in which capital will be returned to ratepayers through rebates only. The Corporation's first CMP, approved by this Board in Order 176/19, contemplated return of capital via capital releases reflected in premiums.

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 2023.

Rates paid by individual ratepayers 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 ratepayer resides. As a result, some individuals will experience increases in insurance rates, and others will experience decreases.

MPI applied for changes to vehicle discounts available through the Driver Safety Rating (DSR) system, by increasing the scale to discounts applied to drivers at DSR levels +9 to +17, increasing the maximum merit level under the DSR scale from +17 to +18 in the 2023/24 policy year, and offsetting the -5.0% impact of the increased DSR discounts with an overall increase in base premiums of 5.2%.

MPI did not propose changes to service or transaction fees, permit and certificate fees, fleet rebates or surcharges.

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

Year	Applied For (%)	Ordered (%)
2024/25	0.0	-5.0
2023/24	-0.1	-3.8
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

2.3 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 2024/25 and 2025/26 (the years affected by the Application) based on the October 4, 2023 update with a -1.48% rate indication were as follows:

	2024/25 Projection Per October 4, 2023, Update (millions)	**2025/26 Projection Per October 4, 2023, Update (millions)**
Motor Vehicle Premiums	$1,130.3	$1,166.8
Capital Release Provision	0.0	0.0
Drivers' License Premiums	63.7	65.7
Reinsurance ceded	(16.9)	(17.4)
Total Net Premiums Earned	1,177.1	1,215.1
Investment Income	134.7	142.2
Service Fees & Other Revenues	27.1	27.7
Total Earned Revenues	**1,338.9**	**1,385.0**
Claims Incurred	983.8	1,010.9
Claims Expenses	146.0	140.9
Road Safety Expenses	12.1	12.1
Operating Expenses	94.0	90.5
Commissions	56.3	56.1
Premium Taxes	36.4	37.5
Regulatory/Appeal expenses	4.2	4.3
Total Claims and Expenses	**1,332.8**	**1,352.3**
Net income (loss) – Basic	**6.2**	**32.8**
Initiative Expenses (Order 4/23 12.1d)	(24.0)	(24.2)
Net Income (Loss) for Rate Setting Purposes	**$30.2**	**$57.0**

Rounding may affect totals

The investment income in the above forecast assumes a constant interest rate yield curve throughout the forecast period, whereas the valuation of the claims incurred, through the use of a forward curve, assumes that the yield curve will change over time.

The Application as initially filed was based on market interest rates as of March 31, 2023 with a new money yield of 4.22%, a breakeven rate indication, excluding the impact of coverage changes, of -0.13%.

The above forecast defers costs that are for Information Technology (IT) systems that do not benefit current ratepayers, and MPI excluded initiative expenses from the rate indication.

In Order 4/23, the Board stated that, with respect to initiative expenses, the Board considered it appropriate and consistent with AAP to defer costs that are for systems that do not benefit current ratepayers. The Board directed MPI to defer these integration costs through a regulatory deferral account for rate-setting purposes. The account will accumulate the integration costs and will be recovered when Project Nova is fully in service.

MPI has stated that it intends to adjust its financial forecasts (for regulatory purposes) reflecting the deferral of integration costs for the purposes of GRA. However, MPI has not recorded a regulatory deferral account in its financial statements to accumulate these deferred integration costs. As set out in further detail below, MPI believes that it is not eligible to apply the IFRS 14 - Regulatory Deferral Accounts (IFRS 14), which would allow MPI to set up a deferral account in its financial statements. As a result, there is a misalignment between rates approved by the Board (based on forecasts) and MPI's financial statements.

MPI has adjusted its financial forecast to reflect the Board's directive to provide net income from operations and then adjusted for initiative expenses to a net income or loss for rate-setting purposes. The 2024/25 forecast net income from operations is $6.2 million, and after considering initiative expenses, the net income for rate setting is $30.2 million. Similarly, the net income for operations for 2025/26 is forecast at $32.8 million and for rate-setting purposes is $57.0 million.

MPI has not reflected this higher net income in its equity, nor has it established a regulatory asset for the deferred integration costs in the forecast in this Application. MPI provided details of what it anticipates deferring, which totals $108.2 million to be recovered commencing in 2026/27. MPI has acknowledged the amount is material to its financial reporting.

MPI obtained an opinion from Deloitte LLP supporting its position that it was not eligible to apply IFRS 14. MPI's view is that when it transitioned to IFRS it had not in the past accounted for regulatory deferral account balances under its previous Canadian Generally Accepted Accounting Principles (GAAP).

MPI initially filed the Deloitte LLP opinion with a request that it not be placed on the public record and classified as CSI, and filed a motion the day before the public hearings in that regard. On the day that the motion was scheduled to be heard by the Board, MPI advised that Deloitte LLP would not be taking a position and asked that the motion be decided on the basis of the written material filed. The Board dismissed the motion and the Deloitte LLP report was placed on the public record.

Deloitte LLP stated the following regarding MPI's ineligibility to apply IFRS 14:

> *IFRS 14 has a very narrow and restrictive scope which also stipulates that an entity is only eligible to adopt the standard in its IFRS financial statements if the entity had recognized regulatory deferral accounts under its previous GAAP. MPI did not meet this eligibility criteria in IFRS 14 at any time including when it issued its first IFRS financial statements, when IFRS 14 was first issued, or as of the current date because it did not recognize any regulatory deferral accounts in its last Canadian GAAP Statements issued for the fiscal year ended March 31st, 2010 <u>or in any prior year.</u> [emphasis added]*

In the public hearings, MPI acknowledged that it had not considered whether its prior accounting treatment of the RSR, including the tracking of RSR surcharges (as

implemented in 1995 and removed in 2001) approved by the Board for rate-setting under Canadian GAAP, would represent a regulatory deferral accounting practice. MPI indicated it may consider following up with Deloitte LLP for an updated opinion on the application of the interim standard IFRS 14, in light of this past accounting treatment of the RSR.

In January 2021, the International Accounting Standards Board (IASB) issued an Exposure Draft, Regulatory Assets and Regulatory Liabilities, that proposes rate regulated entities report regulatory assets and liabilities, and regulatory income and expenses in their financial statements. The new standard, if and when issued, will replace the existing IFRS 14 interim standard. MPI is unable to comment on whether it would be subject to regulations set out in the currently unissued exposure draft.

MPI has indicated it is not currently looking at preparing separate financial statements, but it is prepared to discuss a workable solution with the Board.

2.4 Vehicle Premiums

Total net premiums earned were forecasted to be $1.18 billion in 2024/25, increasing to $1.22 billion in 2025/26. 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 2.41% for 2023/24 and ranges from 2.11% in 2026/27 to 2.32% 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 forecasted using policy year earned units. MPI Volume Factor growth was 0.74% in 2022/23. Volume Factor growth for 2023/24 and thereafter was forecast at 0.86% per annum. 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
2022/23	2.24%	0.00%	2.24%	0.74%	2.98%
2023/24	2.35%	0.06%	2.41%	0.86%	3.27%
2024/25	2.35%	-0.07%	2.28%	0.86%	3.14%
2025/26	2.35%	-0.03%	2.32%	0.86%	3.18%
2026/27	2.35%	-0.24%	2.11%	0.86%	2.97%
2027/28	2.35%	-0.10%	2.25%	0.86%	3.11%

2.5 Driver Premiums

The amount of Driver Premiums paid by licensed drivers is set based on their placement 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 2024/25 to include a level +18 but has not proposed any changes in the driver premiums payable.

Driver premiums were forecast to be $61.2 million in 2023/24, to increase to $63.7 million in 2024/25, and $65.7 million in 2025/26. 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.

2.6 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 recommendations made by Mercer Canada Ltd. (Mercer) in a 2017 Asset Liability Management (ALM) Study, MPI separated its co-mingled investment portfolio into five unique portfolios including Basic Claims, Basic Rate Stabilization Reserve (RSR), Employee Future Benefits (EFB) or Pension, Extension, and Special Risk Extension (SRE). Each has unique asset allocations and allows the Corporation to develop investment portfolios better reflecting the associated liabilities and investment goals of each portfolio.

The Corporation had short and long-term investments, including cash and equities, for the Basic Line of Business (Basic Claims, Basic RSR and EFB) totaling $2.8 billion in 2022/23, which is forecast to be $3.1 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 $17.4 million in net investment losses in 2022/23.

Based on the August 31, 2023 updated Naïve interest rate forecast, MPI forecasted investment income allocated to Basic of $10.4 million in 2023/24, $134.7 million in 2024/25 and $142.2 million in 2025/26. Further discussion on MPI's investment portfolios and returns is found in Section 8 of this Order.

2.7 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. MPI is projecting income to Basic from Service Fees and Other Revenues of $26.9 million in 2023/24, $27.1 million in 2024/25, and $27.7 million in 2025/26. MPI did not apply for any changes in service fees.

2.8 Basic Revenue Requirement Financial Presentation

MPI has made changes to its financial presentation as it transitioned from IFRS 4 to comply with IFRS 17 effective April 1, 2023. MPI was required to identify and aggregate expenses related to insurance contracts and separate them into costs to acquire or maintain the contracts. Other operating costs were also grouped separately.

The financial presentation changes reduce the detail of the financial information to be provided, due to the aggregation of amounts that were previously presented separately. MPI is required to adopt this presentation going forward.

The Corporation's projected operating results reflecting the new financial presentation for 2024/25 and 2025/26 were as follows:

	2024/25 Projection Per October 4, 2023, Update (millions)	**2025/26 Projection Per October 4, 2023, Update (millions)**
Insurance revenue	$1,210.3	$1,249.2
Insurance service expenses	1,128.1	1,156.8
Recovered claims from reinsurance contracts	(0.0)	(0.0)
Expenses from reinsurance contracts held	16.9	17.4
Insurance service result	**65.4**	**75.0**
Net investment income	**134.7**	**142.2**
Finance expenses from insurance contracts issued	107.7	101.6
Finance income from reinsurance contracts held	0.2	0.1
Net insurance finance expenses	**107.5**	**101.5**
Net insurance and investment result	**92.6**	**115.7**
Other Income	10.8	11.0
Other Operating expenses	97.2	93.9
Gain (loss) on disposal of property and equipment	-	-
Net income from Operations	**6.2**	**32.8**
Adjust for Initiative Expenses (BO 12.1 d)	(24.0)	(24.2)
Net Income (Loss) for Rate Setting Purposes	**$30.2**	**$57.0**

Rounding may affect totals.

2.9 Extension Operations

The Corporation filed historical financial information and forecasts for Extension operations. The CMP, which was approved by the Board in Order 176/19 and was in effect through the 2022 GRA, assumed the transfer of excess retained earnings from Extension to Basic, to assist with the building of Basic capital.

	2024/25 Projection Per Oct 4, 2023 Update (millions)	2025/26 Projection Per Oct 4, 2023 Update (millions)
EXTENSION		
Motor Vehicles	$196.4	$203.1
Reinsurance ceded	(2.6)	(2.6)
Total Net Premiums Earned	193.8	200.4
Investment Income	10.7	12.2
Service Fees & Other Revenues	9.2	9.4
Total Earned Revenues	**213.7**	**222.0**
Claims Incurred	$109.7	$111.8
Claims Expenses	18.2	17.0
Road Safety Expenses	1.4	1.4
Operating Expenses	12.9	13.0
Commissions	34.5	33.3
Premium Taxes	6.0	6.2
Total Claims and Expenses	**182.7**	**182.8**
Net income – Extension	**$31.0**	**$39.2**

In the 2021 GRA, MPI committed to implementing Compulsory and Extension Revision Project (CERP) changes with no impact on Basic ratepayers. MPI advised that it expected a reduction in the Extension profit margin to ensure that changes related to CERP are both revenue and rate neutral.

The target underwriting profit margin for Extension was forecast last year to be 21.3% in 2022/23 and 20.5% in 2023/24 and 20.76% in 2024/25. MPI actual underwriting profit

margin was lower than forecast at 18.0% in 2022/23 and its revised forecast lower to be 11.5% in 2023/24, 14.8% in 2024/25 and 17.5% in 2025/26.

2.10 Extension Transfers to Driver and Vehicle Administration

Over fiscal years 2020/21 and 2021/22, MPI transferred $117 million from Extension to DVA. In the 2022 GRA, MPI indicated these transfers would pay for the Project Nova costs and five years' operating deficits and would carry the DVA line of business to near the end of the 2026/27 fiscal year. MPI administers the DVA on behalf of the Government of Manitoba and collects driver licensing and registration fees. Under its agreement with the Government, MPI retains a portion of the fees it collects to fund its administration of DVA, and remits the balance to the Government.

By letter dated March 30, 2022, the Provincial Government advised the MPI Board of Directors not to approve any further transfers to the DVA line of business for 2022/23 or 2023/24, while the Government undertakes a full review of the DVA program and its funding model.

In 2022/23, MPI collected $201.3 million on behalf of the Province and retained $40.25 million representing a temporary increase of $10 million for each of the years 2022/23 and 2023/24. With the increased level of funding, DVA incurred a loss of $10.6 million in 2022/23. DVA's retained earnings were $73.7 million at March 31, 2023. Based on an updated forecast cost of Project Nova, provided at this year's application, DVA's share of the project's costs are $83 million.

The Corporation is forecasting deficits of $15.6 million in 2023/24, $22.9 million in 2024/25, $18.5 million in 2025/26, $13.4 million in 2026/27 and $11.8 million in 2027/28. DVA retained earnings are forecast to be in a deficit in 2027/28 without additional funding from the Province.

MPI advised in this GRA, as it did last year, that it is in ongoing discussions with the Provincial Government about making the DVA line of business financially self-sufficient.

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.

Five aspects of the AAP ratemaking methodology were explored in some detail through this GRA process: the new money yield, claims costs forecasts, claim expense forecasts, expense forecasts, and the distribution of the cost of fleet rebates.

3.1.1 New Money Yield

The 2024 GRA forecast was initially based on a Naïve interest rate forecast as at March 31, 2023, using a weighted average of the yields of provincial and corporate bonds, and commercial mortgages with durations of 2.67 years, based on the duration of the premium liabilities. The initial new money yield assumption was 4.35% before investment management expenses, and 4.22% after expenses.

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 4, 2023, and was based on a Naïve interest rate forecast as at August 31, 2023,

with a new money yield of 5.16% before investment management expenses, and 5.04% after, an increase of 82 basis points from the initial assumption, which reduced the rate indication by 1.35%. MPI indicated that the use of fixed income investments and the premium liabilities duration for striking the new money yield was in accordance with AAP. MPI confirmed that there is only one investment portfolio for Basic claims, and the duration is supposed to be matched with the claims duration.

The use of the premium liability duration of about 2.6 years instead of the claim liability duration of about 8.6 years is a change from the approach approved in Order 4/23 for the 2023 GRA. The addition of commercial mortgages is another change from the approach approved in Order 4/23. In February 2023, the Corporation revised its investment strategy for the Basic claims portfolio, adding commercial mortgages and real estate.

The Corporation advised that the indicated new money yield would be 5.06% before investment management expenses, and 4.87% after expenses, based on bond durations equal to that of the investment portfolio supporting Basic claims, using provincial bonds with a yield of 4.31%, corporate bonds with a yield of 5.41%, MUSH bonds with a yield of 5.19%, mortgages with a yield of 5.73%, and real estate with a yield of 6.23%. The use of a new money yield of 4.87% would increase the AAP rate indication by about +0.27% to -1.21%.

In normal market conditions, longer term bonds have higher expected yields than shorter term bonds but, as at August 31, 2023, there was an inverted yield curve where shorter duration bonds had higher yields than longer duration bonds. As a result, while normally the use of the claims liability duration would generate a higher new money yield than the use of the premium liability duration, currently the opposite occurs.

3.1.2 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 costs based on a review of the historical experience, selecting trends to reflect both changes in the number of claims (frequency), and the severity of claims, and 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. In the 2024 GRA, the Corporation has made significant improvements to its claims forecasting methodology, using more robust trending approaches, and applying the selected trends to the most recent five accident year average of claims costs to improve the predictability and stability of the claims cost indications. The Corporation uses a pure premium trend model to allocate the overall indicated rate level indication to each major class.

In the 2024 GRA, the 2024/25 rating year total Basic ultimate incurred forecast (excluding interest rate impact) was $0.7 million higher than the 2023 GRA, with higher Comprehensive claims costs offset by lower Accident Benefits claim costs, primarily due to lower than forecasted PIPP and Liability claims. In the October update, the Corporation did not make any changes to its projected undiscounted claims costs for the 2024/25 and the 2025/26 accident years.

COVID-19

The impact of the COVID-19 pandemic was modeled in the claims forecasting using two approaches. The first approach was applied to the trending and the projection to accident year 2022/23, and the second applied to project to the new normal from accident year 2022/23. First, a mobility factor based on Google data on commuting to work and school was included in the trend model selection process, and where it was deemed significant, was included in the final selected model for many coverages. The Google data availability ended in October 2022. For those coverages in which the mobility data was deemed statistically significant, it was included in the final model. Second, a survey of Manitobans was performed to compare their driving during the 2022/23 accident year to their expected level during the 2023/24 accident year. The average number of days per week commuting to work or school was 3.6 in 2022/23, and 3.8 in 2023/24, for a net increase of 5.56%. This factor was used to adjust for the anticipated return to normal from accident year 2022/23 to accident year 2023/24.

Accident year weightings

MPI replaced accident year 2020 with 2017 for all coverages in which it determined that the pandemic affected frequency. MPI's mobility adjustment was intended to adjust for mobility changes related to commuting to workplaces and the Corporation did not consider it to account for reductions in the other mobility categories (e.g., groceries and pleasure), and hence did not consider 2020/21 to be predictive of experience during the 2024/25 rating year. For PIPP Enhancements, equal weight of 10% was applied to the last ten accident years.

MPI testified that the approach introduced by Oliver Wyman (OW) in their expert evidence has never been seen in the actuarial literature that they reviewed, and in their view, it blended the variability and volatility trending process with another important process called accident year weighting. The accident year weighting approach OW introduced penalized volatility, and is the opposite of the rate stability MPI is hoping to achieve.

Depending on the last data point introduced, the weighting changes every year based on the standard deviation.

Claims Trending

Accident Benefits Other (non-indexed) experienced a significant decrease in the estimated ultimate claim counts for accident years 2018/19 through 2021/22 from the estimates in the 2023 GRA. As a result, the indicated frequency trend decreased substantially to -4.90% in the 2024 GRA. MPI does not believe a high negative trend will continue indefinitely, even during the five-year forecasting period, and selected a future frequency trend of 0%. MPI did create a loss cost model to validate the selected trends for frequency and severity. Based on a shorter trending period starting in 2018/19, the loss cost trend appears to be between 5% and 8%. Based on a review of the loss cost projected, MPI believes that a 0% future frequency trend is reasonable. Although other coverages all had negative trends, MPI considers 0% to be the most appropriate selection. The observed frequency for 2019/20 through 2022/23 was 0.107%, 0.090%, 0.114%, and 0.111% respectively, a short-term trend of close to 0%. MPI did not find the mobility factor to be statistically significant for this coverage.

The Collision severity historical trend model was the combination of two models, one from 2010/11 to 2020/21, with a trend of 5.67%, and a second model from 2020/21 to 2022/23, with a trend of 10.68%. The two historical trend models were not connected, such that the lines of the two regressions did not meet at 2020/21. If the two historical trend models were replaced with an equivalent single model with one additional trend parameter, eliminating the misalignment issue, the historical trends would have been 5.66% and 9.38% respectively, and the indicated overall rate would decrease by 0.93%. The selected future trend model was based on repair and total loss severity growth estimates, reviewing closed claim data, with a selected trend of 6.4% for 2023/24 and 4.7% thereafter.

Similar to Collision, the Property Damage Third Party Loss of Use severity model was the combination of two models, one from 2009/10 to 2020/21, with a trend of -0.72% and the second from 2020/21 to 2022/23, with a trend of 24.86%. If the two historical trend models were replaced with an equivalent single model with one additional trend parameter, eliminating the misalignment issue, the historical trends would have been -0.67% and 18.61% respectively, and the indicated overall rate would decrease by 0.07%.

For Accident Benefits Weekly Indemnity, the Corporation selected a frequency trend based on 2009/10 to 2022/23 and a severity trend based on 2012/13 to 2022/23. Similarly, for Accident Benefits – Other indexed, the Corporation selected a frequency trend based on 2009/10 to 2022/23 and a severity trend based on 2012/13 to 2022/23. The Corporation believes that trend models for frequency and severity do not need to be based on the same number of years for a given coverage.

3.1.3 Claims Expense Forecasts

MPI assumed an Unallocated Loss Adjustment Expense (ULAE) ratio of 18% of claims costs, based on the Appointed Actuary's valuation. In the financial forecast, however, the projected claims expense levels were shown to be lower than 18% for each of the fiscal years. Based on a ratio of the forecast paid ULAE to paid claims for each fiscal year throughout the forecast period, applied to the expected claims payments for rating year 2024/25 throughout the forecast period, the expected ULAE ratio is 16.0%. The use of a 16% ULAE ratio instead of an 18% ULAE ratio would reduce the rate indication from -1.48% to -3.00%, a decrease of 1.52%.

The Corporation indicated that higher SRE claims may have contributed to a lower allocation of ULAE to Basic.

3.1.4 Expense Forecasts

Consistent with Board Order 4/23, where the Board considered it appropriate and consistent with AAP to defer costs that are for systems that do not benefit current ratepayers, MPI excluded initiative expenses (i.e., expenses for ongoing projects) from the rate indication. The total amount of these expenses in the 2024 GRA was $29.2 million in 2024/25 and $26.1 million in 2025/26, an average of $27.2 million for the 2024/25 rating year. If these expenses had not been deferred, the rate indication would have been 2.41% higher. In MPI's financial projections, MPI has used a five-year amortization period for initiative expenses other than Project Nova, and a ten-year amortization period for Project Nova expenses once the systems are implemented.

In the 2024 GRA, the Corporation removed all initiative expenses from the expense forecast used for rate-setting purposes. As a result, the forecast Basic expenses, for rate-setting purposes in the 2024 GRA are lower than in the 2023 GRA. The Corporation did

not perform any adjustments to the undiscounted expenses in the 2024 October update. The following are the expenses:

Expenses ($ millions)	2023 GRA Rating Years				2024 GRA Rating Years			
	2023/24		2024/25		2024/25		2025/26	
	Initial	Oct.	Initial	Oct.	Total	Rate-setting	Total	Rate-setting*
Operating Expenses	96.0	107.5	96.3	108.1	93.4	67.3	94.8	68.2
Road Safety/Loss Prevention	12.7	15.0	12.7	14.1	12.1	12.1	12.1	12.1

**Excludes initiative expenses*

The Corporation forecasted broker commissions, premium taxes, and regulatory/appeal expenses, as a percentage of premium, to be comparable to the estimates in the 2023 GRA for 2024/25 and 2025/26.

The expense decreases are due primarily to decreases in forecast staffing levels as a result of Government directives on cost control.

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 retention limit (the level of claims required in order for the Corporation to receive any payment from the reinsurers) for catastrophe coverage was $40 million, and was increased to $50 million to offset general increases in catastrophe reinsurance costs.

The costs of reinsurance for the 2024/25 rating year are $14.6 million for the catastrophe policy and $2.6 million for casualty.

3.1.5 Financial Forecast – Impact of IFRS 9 and IFRS 17

With respect to the financial impact of IFRS 9 and IFRS 17, MPI stated as follows:

- Adoption will not have an impact on MPI's AAP rate-setting, as rate setting is based on actuarial methodologies;
- The discount rate for discounting unpaid claims liabilities carried on the balance sheet changes with IFRS 17 as there is no longer a direct connection between the Corporation’s asset portfolio and the discount rate. However, for AAP rate-setting there will be no change to the methodology used for the discount rate;
- Acquisition costs are considered in the AAP rate indication, but whether the costs are deferred or not is an accounting adjustment and not relevant within the AAP rate indication. All costs associated with an insurance year are included in the AAP to ensure rate adequacy;
- Risk adjustments under IFRS 17 are not included in the AAP rate indication; and
- With respect to EFB, upon adoption of IFRS 9 and IFRS 17, assets backing EFB are classified as Fair Value Through Profit or Loss (FVTPL). As a result, mark-to-market movements of the assets no longer flow through Other Comprehensive

Income (OCI) but rather through the Statement of Operations. This introduces more net income volatility for MPI.

MPI adds or removes invested assets from the RSR depending on the net income of Basic. The IFRS 17 accounting policy changes will have some overall impact on equity, hence MPI would add or remove invested assets from the RSR.

MPI has yet to determine the impact of the adoption of IFRS 17 on its Integrated Cost Allocation Methodology (ICAM), but will review and confirm these impacts in its financial modeling.

3.1.6 Fleet Rebate Allocation

In Order 4/23, the Board provided a directive in respect of the fleet rebate:

> *Directive 12.6: In the 2024 GRA, the Corporation shall file an analysis and proposal for modifications to the fleet program to better reflect cost causation.*

MPI initially attempted to eliminate the net rebate/surcharge by recalibrating the rebate/surcharge scale. MPI was unable to find an adequate solution.

In the 2024 GRA MPI proposed an interim solution to distribute the cost of rebates across the three major classes (Private Passenger, Commercial, and Public) in proportion to the fleet vehicles within each Major Class. This resulted in substantial changes in per unit costs per Major Class, changing from an average of $21.18 if all vehicles received the same per unit cost, to a level of $11.52 per unit cost for Private Passenger, $130.25 for Commercial, and $249.26 for Public. The increased per unit costs for Commercial and Public increased the rate indication for each of these classes by over 10%. MPI was unable to determine actual fleet rebates by Major Class.

3.1.7 Large Loss Loading

In Order 4/23, the Board issued a directive in respect of large loss loading:

> *Directive 12.2: MPI shall combine its current methodology with the alternative rate indication provided in Information Request response PUB (MPI) 1-8. For each use and territory, the serious loss loading to be applied is to be a credibility weighted combination of the two indications. The credibility to be assigned to the current methodology is to be based on MPI's credibility weighting methodology used for relativities. A credibility of N/(N+K) is to be assigned, where N is the ten-year earned units for the use and territory. The constant, K, is equal to 60,000. The credibility assigned to the average of the actual serious losses for the last ten years for each use and territory is subject to a minimum of 10%. The complement of credibility, 1–N/(N+K) is to be assigned to the alternative serious losses based on collision claim counts.*

The Corporation complied with Directive 12.2 with respect to large loss loading in the 2024 GRA.

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 (OW). 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 and the Board accepted that he was so qualified.

CAC filed a report prepared by Mr. Sahasrabuddhe, Paula Elliott, and Chris Schneider. Ms. Elliott is a Fellow of the Canadian Institute of Actuaries and a Fellow of the Casualty Actuarial Society and is a Principal with OW. Mr. Schneider is a Senior Manager with OW and is also a Fellow of the Casualty Actuarial Society, an Associate of the Canadian Institute of Actuaries, and a Member of the American Academy of Actuaries. Although CAC did not call Ms. Elliott or Mr. Schneider to testify or ask that they be qualified as experts in the field of actuarial analysis, Mr. Sahasrabuddhe confirmed that the report was prepared jointly with them under his care and control.

The OW report provided actuarial commentary with respect to accident year weightings and loss trends. Mr. Sahasrabuddhe indicated that the Corporation's trending analysis in the 2024 GRA was more robust than in the 2023 GRA.

With respect to accident year weighting:

- OW indicated that the rate filings they review generally, but not always, adjust loss experience and/or the weights applied to experience periods affected by the pandemic. They were unable to estimate how many of the 75 filings they review each year may have given zero weight to 2020, or less weight to 2020, or less weight to 2021, or how many may have varied the weight by accident year.
- OW indicated that it was common practice to use the most recent five accident years of experience.
- Mr. Sahasrabuddhe suggested an alternative approach, giving no weight to 2017, increasing the weights for 2018, 2019 and 2022 to 25% from 20%, and varying the weights for each of 2020 and 2021 based on their relative likelihood. This approach decreased the rate indication by 2.52%.
- OW confirmed that it had never seen this approach used before but considered it appropriate in these unique circumstances.

- OW indicated that 2020 was a relatively light snow year, and 2021 was a heavier snow year.
- OW indicated that, in general, MPI's models overpredicted 2020 and underpredicted 2021.
- An alternative estimate, giving 20% weight to each of accident years 2018/19 to 2022/23 resulted in a rate indication that was 1.28% lower than the filed indication.

The report provided evidence of alternative indications for nine different frequency or severity trends, affecting a total of eight coverages. For each alternative trend, OW provided its estimate of the frequency or severity as well as the projected incurred claims for each of 2024/25 and 2025/26, as well as an estimate of the impact on the overall rate indication. Alternative trend models were provided for Accident Benefits - Weekly Indemnity severity, Accident Benefits – Other Indexed frequency, Accident Benefits – Other Non-indexed frequency, Collision severity, Comprehensive severity, Property Damage third Party Loss of Use severity, Property Damage Third Party Deductible frequency and severity, and Property Damage Other frequency.

For three coverages, OW recommended the use of the same trend period for both frequency and severity. For Collision, OW recommended the use of a single model. For Accident Benefits – Other indexed, OW recommended the use of a future frequency trend of -2.45% instead of 0%. OW recommended including a scalar factor for 2017 for two coverages, and recommended shortening the trending period to 2014 to 2022 for one coverage. OW estimated that substituting all of the alternative trends for the Corporation's selected trends would result in a rate indication that would be lower by about 0.98%.

CAC recommended that the Board order an overall rate decrease of at least 5.45%. This would be comprised of the AAP rate indication of -1.48%, plus the OW alternative assumptions for claims forecasting of -3.58%, and a rate change based on staffing of -0.54% (by maintaining MPI's 2021/22 staffing level for rate-setting purposes). Offsetting these decreases would be an adjustment of +0.15%, to take into account a 1% increase

to MPI's current forecast for salaries, given the uncertainty with collective bargaining process at the time of the public hearings.

CMMG

CMMG supported the continued use of AAP ratemaking, and recommended the approval of a rate indication requiring an overall required rate change of -1.5%, assigned as follows:

- 1% of the rate decrease be assigned to DSR level +18 to allow a 48% discount; and
- The remaining 0.5% rate decrease be assigned to DSR levels +12 through +17.

TC

TC submitted that MPI's existing approach to credibility weighting was not sufficiently responsive, and that a higher minimum credibility level would accelerate the rate at which actual experience would be reflected in the rates for categories of insurance use with low volumes. The MPI 10% minimum credibility is judgmental, and not based on any analysis.

TC submitted that the Board should direct MPI to increase its judgmentally selected minimum credibility standard of 10% in its new relativities calculation for insurance use and territory. Alternatively, the Board should direct MPI to analyze its judgmental selection of 10% credibility, and report to the Board in the 2025 GRA on whether its selection remains appropriate or whether it should be increased.

TC submitted that the change to the fleet rebate allocation should be deferred pending completion of MPI's full review of the fleet rebate program.

3.3 Board Findings

The Application as filed by MPI, and as updated on October 4, 2023, sought an overall rate change of 0%, due to the Government directive.

The Board hereby varies MPI's request, and orders an overall rate decrease of 5.0% based on the Naïve interest rate forecast updated to August 31, 2023. This rate decrease is a combination of the -1.48% rate indication calculated by MPI, along with the additional impact on the AAP rate indication of the following items:

	Description	Rate Impact
1	**AAP rate indication filed by MPI**	**-1.48%**
2	The Naïve interest rate forecast to be determined in a fashion consistent with prior GRAs and based on the duration of the invested assets supporting the Basic claims portfolio, and incorporating all of the investment categories in the Basic claims investment portfolio. This is a new money yield of 5.06%. The new money yield of 5.06% is to be reduced by 19 basis points for investment management expense, resulting in a final new money yield of 4.87%, a decrease of 0.17% from the 5.04% proposed by MPI	+0.27%
3	The claims forecast for 2024/25 and 2025/26 is to be adjusted, using 20% weights for each of the most recent five accident years (2018/19 through 2022/23)	-1.28%
4	The claims forecast for 2024/25 and 2025/26 is to be adjusted, using a contiguous single model for each of Collision and Property Damage Third Party Loss of Use severity, instead of the two misaligned models	-1.00%
5	The claims expense forecast for 2024/25 and 2025/26 for rate-setting purposes is set at 16% of the claims costs, excluding PIPP enhancements and claims incurred expenses	-1.52%
6	**Final AAP rate indication**	**-5.00%**

Further explanation of these variances is provided in detail, below. First, however, the Board provides comment on an issue raised by MPI in its submissions at the public hearing. MPI submitted that within the context of the Application, while it bore the onus of establishing that its rate requirement and the methodology were reasonable, once it had done so, the Board was essentially required to accept what was brought forward, regardless of whether there might be evidence of improvements to the methodology that would result in adjustments to the rate. The Board finds that this argument is without merit. It is well-settled within the regulatory context that rates are to be "just and reasonable", a specific term of art and a specific analysis, as explained by Rothstein J., for the majority of the Supreme Court of Canada in *Ontario (Energy Board) v. Ontario Power Generation Inc.*:[1]

> *This Court has had the occasion to consider the meaning of similar statutory language in Northwestern Utilities Ltd. v. City of Edmonton, [1929] S.C.R. 186. In that case, the Court held that "fair and reasonable" rates were those "which, under the circumstances, would be fair to the consumer on the one hand, and which, on the other hand, would secure to the company a fair return for the capital invested" (pp. 192-93).*
>
> *This means that the utility must, over the long run, be given the opportunity to recover, through the rates it is permitted to charge, its operating and capital costs ("capital costs" in this sense refers to all costs associated with the utility's invested capital)….*
>
> *Over the long run, unless a regulated utility is allowed to earn its cost of capital, further investment will be discouraged and it will be unable to expand its operations or even maintain existing ones. This will harm not only*

1 2015 SCC, paras. 15-20.

its shareholders, but also its customers: TransCanada Pipelines Ltd. v. National Energy Board, 2004 FCA 149, 319 N.R. 171.

This of course does not mean that the Board must accept every cost that is submitted by the utility, nor does it mean that the rate of return to equity investors is guaranteed.

[…]

In order to ensure that the balance between utilities' and consumers' interests is struck, just and reasonable rates must be those that ensure consumers are paying what the Board expects it to cost to efficiently provide the services they receive, taking account of both operating and capital costs. In that way, consumers may be assured that, overall, they are paying no more than what is necessary for the service they receive, and utilities may be assured of an opportunity to earn a fair return for providing those services.

MPI's attempt to equate the standard of reasonableness with the setting of just and reasonable rates is erroneous. The Board's decision making used to set just and reasonable rates is based on its determination of the best estimate, not a reasonable estimate. Accordingly, where the Board has found that certain methodology more accurately strikes the balance between MPI and ratepayers, it may direct MPI to use that methodology.

The Board's approval of the use of the Naïve interest rate forecast is consistent with its decisions in the past five GRAs. The Board finds that the volatility in market interest rates and the uncertainty in forecasting their movement are self-evident and acknowledges 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. None of the parties in this GRA argued for the use of a forecast other than Naïve despite rising

interest rates and there was insufficient evidence in this GRA for the Board to deviate from the use of the Naïve forecast at this stage.

The Board has considered MPI's proposal of the use of yields based on a 2.6 year bond duration, based on the duration of the premium liabilities, and compared this to the existing approach based on the yields based on bonds with a duration of about 8.6 years, equal to that of the outstanding claims liabilities as well as the investments backing the Basic claims portfolio. The Board considers that both approaches would fall within AAP, but the existing approach is more consistent with the wording of the Standards of Practice. The cash flow from insurance operations is currently invested in one investment portfolio which has a duration equal to that of the claims liabilities, that backs all Basic claims.

The Board has also considered MPI's proposal of the use of yields based on provincial and corporate bonds and mortgages, which are the fixed income components of the investment portfolio. The Basic claims investment portfolio now includes provincial, corporate and MUSH bonds, and mortgages and real estate. The Board considers that both approaches would fall within AAP, but the use of all asset categories will better reflect the expected return of the entire investment portfolio, and hence is more consistent with break-even pricing.

The Board approves the use of a reduction of 19 basis points in the new money yield due to investment management expenses, as this is consistent with AAP.

The Board accepts the Corporation's position that a mobility adjustment increase in frequency from accident year 2022/23 to 2023/24 of 5.56% for Collision, Property Damage, Weekly Indemnity, and Accident Benefits Other – indexed coverages is a reasonable assumption. The Board recommends increased precision be used in the 2025 GRA if a similar approach is used.

With respect to accident year weighting, the Board considers it appropriate to apply 20% weight to each of accident years 2018/19 through 2022/23 for all coverages other than PIPP enhancement. The Board considers the mobility adjustments included in the

trending models to be sufficient to adjust accident year 2020/21, and hence does not consider it necessary to exclude that year from the five-year average.

With respect to the trend models proposed by the Corporation, and the alternative trend models recommended by OW, the Board finds as follows:

- For Accident Benefits Other (non-indexed) frequency, given the shorter-term trend of about 0% from 2019/22 to 2022/23, the selected future frequency trend of 0% is reasonable in the circumstances.

- For Collision severity, the use of a single model, with an additional trend parameter, eliminates the misalignment and inconsistency in the two separate models proposed by the Corporation. This decreases the overall rate indication by 0.93%.

- For Property Damage Loss of Use severity, the use of a single model, with an additional trend parameter, eliminates the misalignment and inconsistency in the two separate models proposed by the Corporation. This decreases the overall rate indication by 0.07%.

- The other trend models proposed by OW were not considered improvements over the MPI models.

The total impact of the above changes to forecasted claims costs is a decrease of 1.00% to the overall rate indication.

The Board considers it appropriate to use a claims expense ratio that is consistent with the forecasted claims expenses. Based on a review of the paid expense to paid claims ratios throughout the forecast period, and considering the timing of claims payments for the 2024/25 rating year, the Board finds that a 16% ULAE ratio, applied to projected claims costs excluding PIPP enhancements and incurred claims expenses, is appropriate

for rate-setting purposes. The reduction of the ULAE ratio from 18% to 16% results in a decrease of the overall rate indication of 1.52%.

With respect to serious loss loadings used by the Corporation in its ratemaking, the Board directs the Corporation to continue to use the methodology as set out in Order 4/23, Directive 12.2.

The Board finds that insufficient analysis has been performed on the fleet rebate allocation, and therefore directs MPI to revert to the 2023 GRA approach for the three Major Classes (Private Passenger, Commercial, and Public), allocating $21.18 per vehicle. The Board directs MPI to file a revised analysis and proposal for modifications to the fleet program to better reflect cost causation in the 2025 GRA.

The Board directs that, in the 2025 GRA, MPI shall report on whether the 10% minimum credibility used in the classification ratemaking process remains appropriate or whether it should be changed.

Lastly, given that MPI acknowledged that it had not considered whether its prior accounting treatment of the RSR, including the tracking of RSR surcharges (as implemented in 1995 and removed in 2001) approved by the Board for rate-setting under Canadian GAAP, would represent a regulatory deferral accounting practice, the Board hereby directs MPI to file an updated opinion in the 2025 GRA from Deloitte LLP, in a form suitable for filing on the public record, on the application of the interim standard IFRS 14, in light of the past accounting treatment of the RSR.

4.0 RATE STABILIZATION RESERVE (RSR) AND CAPITAL MANAGEMENT PLAN (CMP)

4.1 Overall Financial Strength

The purpose of the RSR is to protect ratepayers from rate increases made necessary by unforeseen variances from forecasted results and by unexpected events or losses arising from non-recurring events or factors.

Pursuant to an amended section 18 of *The Manitoba Public Insurance Corporation Act* (the "MPIC Act"), which came into force on November 3, 2022, MPI has established target RSR levels for each line of business based on the capital management framework from the Office of the Superintendent of Financial Institutions (OSFI) and the MCT. Section 18 of the MPIC Act stipulates that the MCT targets are 100% for Basic, 200% for Extension, and 300% for Special Risk Extension. The MCT is a ratio of capital available to capital required and uses a risk-based formula to assess the capital adequacy of an insurance company.

The Corporation had, as of March 31, 2023, $665.3 million in retained earnings, including $354.7 million in Basic, $83.2 million in Extension, $153.7 million in SRE, and $73.7 million in DVA. DVA’s positive level of equity was a result of transfers of Extension retained earnings of $60 million in 2020/21 and $57 million in 2021/22.

In Order 176/19, the Board approved the Corporation's CMP, including the 100% MCT Basic target capital level, on a trial basis for the 2020/21 and 2021/22 insurance years. The CMP was 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 five-year and three-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 Directive 11.10 of Order 134/21, the Board extended the CMP for the 2022/23 insurance year. In the 2023 GRA, the Corporation applied for approval of a new CMP, which would include the continuation of the following components: AAP ratemaking; capital targets by line of business (now set by legislation); capital transfer rules; and a capital build provision. The Corporation proposed the removal of the capital release provision and proposed the addition of a capital rebate provision, whereby MPI would apply to the Board for a rebate when the MCT exceeds 120% at the beginning of the fiscal year, at its discretion.

In Order 4/23, the Board observed that the MPIC Act was amended near the conclusion of the public hearings, which did not provide the parties or the Board with an adequate opportunity to fully consider the impacts of section 18 of the MPIC Act, or to explore in detail how MPI proposed to implement the legislative requirements. The Board found that a more robust presentation of the proposed CMP was required from MPI, and therefore declined to approve the MPI's proposed CMP at that time and directed MPI to file a proposed CMP in this GRA that would include specific criteria and processes under which the Corporation would apply to the Board for a capital rebate.

In the 2023 GRA, MPI took the position that one of the consequences of the amendments to the MPIC Act was that this Board no longer has the jurisdiction to order a capital release. While the Board removed the capital release in Order 4/23 GRA, that was due to the lapsing of the CMP, and was not to be understood as a finding by the Board that it accepted MPI's position.

In this Application, MPI requested approval of its new CMP, which again establishes the means and pathway to achieving the 100% MCT target capital level for the Basic RSR, the specific criteria and processes under which MPI would apply to the Board for a capital rebate when the Basic RSR reaches 120% MCT, and the continuation of the capital build provision.

The Corporation advised that its interpretation of the legislation is that it satisfies the requirements of section 18 where:

- The Basic RSR MCT ratio is at 100% or greater, based on year-end audited financial statements for the fiscal year; or, despite the 100% MCT target, because MPI requires a range to address adverse events such as high levels of inflation, and a range would protect ratepayers from capital build requests, MPI will apply for a capital rebate when the MCT ratio exceeds 120% at the beginning of a fiscal year; and

- MPI establishes a plan for a capital build to bring the MCT ratio to 100% within five years or less.

The determination of the capital build or rebate would be independent of the AAP rate indication, and therefore a rebate could be proposed within the same year as a requested rate increase.

The CMP would be applied by following three steps:

1. Determining capital transfers

2. Determining the capital rebate provision, if applicable

3. Determining the capital build provision, if applicable

Step 1 refers to transfers from Extension to Basic. Section 18 requires the Extension RSR to be maintained at an amount equivalent to 200% MCT. The proposed CMP would require MPI to transfer amounts held in the Extension RSR in excess of 200% MCT at the end of the fiscal year. However, the MPI Board of Directors may elect to transfer amounts above 200% MCT during the course of the fiscal year to cover any shortfalls to its other lines of business. This was seen in the decision to transfer $117 million from Extension to DVA to cover shortfalls in fiscal years 2020/21 and 2021/22.

With respect to Step 2, if it chose to do so, MPI would apply for any rebate at the same time as the GRA. If approved, the rebate would be paid in February of the following year. Ratepayers on a rebate/surcharge program would be excluded from this rebate as they are regularly rebated as a group to a break-even position.

For Step 3, after applying all assumed transfers from Extension, MPI would determine the need for a capital build provision. Unless the assumed transfers would bring the Basic RSR to 100% MCT within five years, MPI would apply for a capital rebuild. The capital rebuild would be subject to capping at either 5% or the rate change that brings the total overall rate indication from all sources to 5%.

The Corporation stressed that any rebate would need to be based on audited financial statements. It does not consider the 2022/23 financials, restated under IFRS 17, to be audited statements and therefore did not apply for a capital rebate, despite the restated financials showing an updated MCT ratio of 135.5%.

4.2 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 was required to comply with the *Reserves Regulation*, which required 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 on October 6, 2023, initially with a claim for treatment as CSI, which claim was subsequently withdrawn during the public hearings on October 14, 2023. During the course of the hearing, the FCT analysis results were queried.

The base scenario used the 2024 GRA projected financials and did not reflect the October 4, 2023 update. As such, the base scenario had an MCT ratio of 106.5% and Total Equity of $490 million at the end of 2023/24. It assumed that the CMP was in effect throughout the forecast period, but it assumed no premium rebate in 2027/28, even though the MCT ratio was 134% at the end of 2026/27.

Under the most adverse solvency scenario (deemed to be a 1-in-100 year event), a combined scenario, with inflation, equities dropping 30% and claims increasing by 20% in 2024/25 and 2025/26, without assumed management action, the equity would fall to a low of $115.3 million in 2025/26, a decline of $375 million from the level at the end of 2023/24. Management action proposed was written premium increases relative to the base scenario of 5% in each of 2024/25 and 2025/26. Given the timing of the claims increases in 2024/25, and the GRA process, written premiums would not likely reflect this

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

adverse event until the 2026/27 year, and hence the proposed management action would begin to have an impact in 2026/27.

In the FCT filed in the 2022 GRA, the most adverse solvency scenario only required a starting MCT of about 50% in order to remain solvent. In the FCT filed in the 2023 GRA, the most adverse solvency scenario required a starting MCT over 100% to remain solvent. In the FCT filed in the 2024 GRA, a starting MCT of slightly under 100% would be required.

The FCT indicated that the capital corresponding to a MCT ratio of 42% would be considered sufficient for Basic to be compliant with the MPIC Act amendments, with an expectation that it could return to a 100% MCT ratio within five years with the use of the capital build provision. No evidence was provided with regard to the determination of this minimum. Under the most adverse going concern scenario (deemed to be a 1-in-10 year event), a High Loss Ratio scenario, without management action, the MCT ratio of the Corporation fell to a low of 45% at the end of 2025/26, and 66% with management action. As such, the Chief Actuary was of the view that under going concern scenarios, MPI meets the regulatory minimum capital ratio. Similar to the solvency scenario, the timing of the proposed rate increases does not reflect the GRA process, and the rate changes projected in 2024/25 and 2025/26 would not occur until 2026/27, and hence the results without management action are more reflective of the GRA process.

The FCT was modeled under IFRS 17. This is a change from the FCT submitted during the 2023 GRA, in which no impacts of IFRS 17 or IFRS 9 accounting policies were reflected in an IFRS 17 pro forma statement. The FCT was also modeled under the Corporation’s proposed CMP, incorporating capital build provisions into adverse scenarios.

4.3 *Interveners' Positions*

CAC

CAC was critical of MPI's decision not to contemplate a rebate this year, despite what it characterized as over-collection from ratepayers. It also noted that MPI continues to keep the door open to transferring money from Extension, which should benefit Basic ratepayers, to areas other than Basic. It is clear that DVA will require additional funding and Extension excess reserves, which should benefit Basic ratepayers under the CMP, are at risk.

Another risk to ratepayers is that there is no official policy for funding capital shortfalls for Extension and SRE, and this represents another potential risk to Basic ratepayer funds.

CAC also argued that the amendments to the MPIC Act removed an integral element of rate-setting from the Board and, based on testimony from MPI, it appears that MPI assisted in drafting legislation.

CAC requested that:

- The Board should recommend that MPI apply for a rebate to bring Basic RSR MCT ratio from 135.5% to between 110-120%, recognizing both some uncertainty with the 135.5% MCT and the considerable financial strength of the Corporation.

- The Board dismiss MPI's request to approve the CMP, because MPI has failed to provide a satisfactory plan for the long-term funding of DVA thereby jeopardizing Extension reserves and prospective Basic capital rebates, and the CMP is premised on the statutory removal of an integral element of the Board's rate-setting authority.

In addition to the requests of the Board, CAC presented recommendations for the Government of Manitoba to restore the full independence of the Board, including:

- Capital targets should be removed from legislation, to recognize the integral role of capital requirements in rate-setting. The appropriate level of reserves and methodology for determining capital adequacy are central to the Board's assessment of the financial health of the Corporation.

- The section of the MPIC Act mandating that a rebate request can only be initiated by MPI should be removed from legislation to recognize the integral rate-setting role of the Board, and the Board's authority to vary the relief sought by MPI should apply equally to capital as it does to rates.

- The Government and MPI should work on a long-term self-sustaining funding strategy for DVA, including updating the 2004 Master Agreement. This long-term strategy should be reviewed every year, and should reflect the responsibility of taxpayers to pay for DVA as opposed to MPI ratepayers.

CMMG

Similar to CAC, CMMG expressed concerns with the ongoing shortfall in DVA and the potential that Extension surplus will be diverted to DVA rather than transferred to Basic. CMMG expressed concern that the MPIC Act leaves rebates to the discretion of the Corporation given how Extension excess funds have been used in the recent past.

CMMG recommended that the Board direct MPI to bring a rebate application to bring the Basic RSR MCT ratio down to 110% MCT.

CMMG also took the position that the Board should not approve the CMP.

TC

TC did not take specific issue with the proposed CMP but raised concerns about whether MPI would in fact carry through with it in practice, given that Extension transfers are discretionary. TC therefore recommended that MPI be directed to amend its CMP such that if there is a surplus in Extension, forecasted transfers to Basic must occur, arguing

that while the Board does not have jurisdiction over Extension rates, it has some limited jurisdiction to issue this directive.

In the alternative, the TC recommended that the Board issue the following information-seeking directives:

- That MPI seek a status update from the Government on its operational review of DVA, stressing the importance of self-sufficiency, the potential impact of deficits in DVA on the proposed CMP, and the potential impact of any further delay in the completion of the operational review on Basic;
- That MPI bring forward an official policy for funding capital shortfalls for Extension and SRE, and provide specific details on the actions MPI is permitted take to mitigate the shortfalls, and under what circumstances MPI intends to take such action; and
- That MPI update the Board in the 2025 GRA on if and/or how it intends to combat and mitigate its diminished forecasting accuracy due to the uncertainty in the use of excess Extension funds.

4.4 Board Findings

The MPIC Act has removed the Board's jurisdiction to set the level of the Basic RSR and therefore the issue for the Board to decide in respect of Basic's capital position is whether to approve the proposed CMP.

The Board found in Order 4/23 that a more robust presentation of the proposed CMP was required from MPI. In response, in this Application MPI did provide criteria and processes under which the Corporation will apply to the Board for a capital rebate. The Board, however, notes the concerns raised by the Interveners regarding the ongoing deficit in DVA. Without decisions that address this issue, and given the discretionary nature of transfers from Extension excess reserves, there remains a risk that even if approved, the

CMP will operate in theory but not in practice, as has already been the case. The Board previously commented in Order 134/21:

> *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.* [emphasis added]

The Board found in Order 134/21 that the Extension transfers to DVA, which took place after MPI's first CMP was approved, reduced the amount available to Basic ratepayers by approximately $113.4 million. Essentially, Basic ratepayers were subsidizing taxpayers. The Government increased its contribution to DVA following the 2022 GRA by $10 million for two fiscal years, but in this Application, the only evidence is that discussions with the Government to address the funding shortfall are ongoing.

In addition to transfers to DVA, the Board observed in Order 134/21 that, despite MPI's previous statements that it did not favour rebates and would instead focus on adjusting the CMP to stay close to the MCT target, there were three occasions in 18 months in which MPI applied for a rebate brought about by reduced claims resulting from the COVID-19 pandemic. In order to issue those rebates, the Corporation was required to seek approval from the Board to deviate from the requirements of the CMP.

Taking all of this into account, the concerns raised by the Interveners about the reliability of the CMP are well-founded. Historically, MPI has chosen not to follow its own CMP. The evidence in this hearing is that, while unaudited, the Basic MCT ratio is at 135.5% (after applying IFRS 17), equivalent to $121 million in excess Basic RSR funds over 100% MCT, and yet, MPI does not have any plans to apply for a rebate. Under section 18, the Board does not have the authority to order a rebate unless MPI requests one. The Corporation now endorses its legislated target capital level as allowing it to retain a "range" of 100% to 120% MCT, in direct contradiction to its position in previous hearings that a single target capital level is favourable to a range to promote rate stability. MPI's overly conservative approach comes at the expense of ratepayers and underscores the need to restore Board's oversight of the Basic RSR.

Accordingly, the Board dismisses the Corporation's request for approval of the CMP as presented in this Application.

The lack of reliability of forecasted transfers from Extension to Basic is particularly troubling because the Board does not have the jurisdiction over the Extension RSR.

While Extension is characterized as MPI's competitive line of business, the practical reality is that MPI effectively holds a monopoly over non-compulsory Extension insurance. The evidence before the Board in Order 176/19 was that MPI holds 95% of the market share of Extension insurance products. The Board held in Order 130/17:

> *Lastly, the Board continues to hold the view, as it has expressed in the past that the Extension line of business should be regulated, given the Corporation's market position as a de facto monopoly provider of non-compulsory auto insurance in Manitoba. The evidence in this Application was that the Corporation has never held less than 95% of the Extension market since 2008. In the public hearings in this Application it became apparent to the Board that the process employed at the broker level for issuance and renewal of Basic insurance policies favours MPI policies over those of competitors, because the program used by brokers integrates Basic coverage with options for MPI provided Extension coverage. The broker asks the customer a series of questions about the type and amount of insurance to be purchased. Basic (compulsory) insurance consists of third-party liability insurance of $200,000 and a $500 deductible. Any additional level of coverage selected by the ratepayer is optional. The broker receives a separate and higher commission for Extension coverage than for Basic coverage.*
>
> *During the hearing the Corporation was asked what it would do with the Extension reserve if Basic was self-sufficient and the Extension reserve funds were not required to cover any shortfall. MPI counsel stated that Extension reserves are owned by the Government of Manitoba and the Government has the ability to determine what to do with the funds. In such an instance, rates paid by ratepayers could effectively be used to subsidize taxpayers. In the case of Basic, regulation is a proxy for competition. In the absence of evidence that there is any real competition to Extension, it necessarily follows that there should be regulation of Extension. This is*

especially the case considering that the majority of operating costs are allocated to Basic, but the Board cannot analyze what proportion of expenses should be allocated to Basic versus Extension.

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

In the years since the CMP was established, the need for Board jurisdiction over Extension to protect the interests of Basic ratepayers has become even clearer.

In addition, the Board has previously articulated, most recently in Order 176/19, why the Basic RSR is an essential component of the rate indication and the rate approval process. The amendments to section 18 of the MPIC Act have circumscribed the Board's rate-setting jurisdiction.

The Board therefore makes the following recommendations to the Government of Manitoba:

- Section 18 of the MPIC Act, which sets capital targets for the Basic, Extension, and SRE RSRs, and grants MPI the discretion to apply for a rebate, should be repealed; and
- It should work with MPI on a funding strategy for DVA, pursuant to which MPI would charge the Government for all costs for administering DVA.

Lastly, as always, despite severing the link between the Basic FCT and the setting of Basic target capital levels, the Board expects the Corporation to annually undertake, and file with the GRA, the Basic FCT investigation as a part of its prudent risk management and good governance processes.

5.0 VEHICLES FOR HIRE (VFH)

On March 1, 2018, MPI introduced a new vehicle for hire (VFH) insurance model for insurance coverages for the various subcategories of VFH, including taxis, limousines, accessible vehicles and private passenger vehicles.

The premiums for each category of VFH were established separately. Insurance premiums were based on four defined time bands, and premiums would be established based on the number of time bands selected. The purchase of four-time bands would allow for 24 hours, seven days a week operation. For the Passenger VFH category, the Corporation employed a jurisdictional scan of the VFH rates in other Canadian jurisdictions and judgmentally set the rate for purchasing all four-time bands at a 20% premium above the then-current Private Passenger All-purpose rate for the corresponding vehicle type and rate group. Rates would then decline incrementally by five percentage points, based on the number of time bands selected.

The Corporation acknowledged, at that time, that this rating class had not previously existed in Manitoba. Therefore, it had no internal data to support its ratemaking.

In implementing the new model, MPI indicated it would follow the approved Basic ratemaking methodology for adjusting vehicle group relativities, which would give at least 10% weight to the Passenger VFH experience in each rate application. However, if experience-based rates were observed to be significantly different from the initial rates, MPI might come forward with a special rating adjustment falling outside the approved ratemaking methodology."

Board Order 1/21 following the 2021 GRA directed consecutive rate increases of 20% for the Passenger VFH Major Class in the 2022/2023 and 2023/2024 GRAs, unless MPI could demonstrate that the Passenger VFH Major Class was no longer being subsidized.

Board Order 134/21 following the 2022 GRA directed 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 ability 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 Corporation advised in the 2023 GRA that it was developing a blanket policy for transportation network companies (TNC) that dispatch Passenger VFH, and that it was the Corporation's intention that this blanket policy would replace the current Passenger VFH category. At that time, the Corporation planned to submit the blanket policy for approval in this Application.

In this GRA, MPI initially requested approval of a TNC blanket policy (Blanket Policy). The Blanket Policy would be issued to a TNC company and would provide Basic coverage for participating registered owners operating in Manitoba. Registered owners who elect to drive in a rideshare capacity would also have an option to stay with the current Basic insurance model and insure as a Passenger VFH for all four time bands, and be responsible for paying for VFH insurance coverage. All TNC drivers would be required to notify MPI that they are driving in a rideshare capacity, and would be required to maintain a policy that provides the appropriate non-commercial use for when the Blanket Policy is not in effect.

The operating model for the Blanket Policy would be comprised of four distinct periods within the lifecycle of a trip:

- Period 0 (P0-Offline): The TNC driver has not activated the TNC online platform.
- Period 1 (P1-Available): The TNC driver has status set to "available" on a TNC platform but has yet to confirm or accept a ride.
- Period 2 (P2-Enroute): The TNC driver has confirmed a ride on a TNC online platform and is travelling to pick up the passenger.

- Period 3 (P3-On Trip): The TNC driver has picked up the passenger for the ride on the TNC platform and is transporting them to their destination.

Under the proposed framework, the Blanket Policy would become active during P2 and P3, with the Basic policy in effect at all other times. MPI would therefore determine premium required for each TNC using kilometres travelled of affiliated vehicles and claims experience in P2 and P3.

The administration of the Blanket Policy would involve an MPI VFH Administrator, through which TNCs will be required to purchase their coverage. There would be minimum requirements for a dispatcher to obtain Blanket Policy coverage, including the ability to use technology to electronically record and report kilometres during P2 and P3. TNCs could also be required to provide an annual premium deposit and pay monthly premium installments, report monthly aggregate kilometres in P2 and P3 for all vehicles, and provide all active vehicle listings on a regular basis.

The premiums will be determined by the number of kilometres driven in P2 and P3. At the onset of a policy year, TNCs will be required to provide an annual estimate of kilometres travelled throughout the policy year by their affiliated vehicles. The kilometre estimate would be used to determine an annual premium estimate and the deposit required. The deposit would be the equivalent of 20% of the annual premium estimate. Monthly premiums would be charged based on the aggregate kilometres travelled in the previous month by all of the TNC's affiliated vehicles, with the per-kilometre rate being $0.1484. The per-kilometre rate was developed through actuarial methodology.

Following approval of the Blanket Policy, there would be no option for the previous time band model for all VFH classes. Under the Blanket Policy, losses accruing during ridesharing use would be allocated to the TNC experience and considered in the annual review of the per kilometre rate. There would be a blanket rebate or surcharge, based on claims experience, with a loss cap of $50,000.00.

The proposed per kilometre rate of $0.1484 was based on data from Uber. After production of the data was requested in this GRA through Information Requests, Uber indicated that it was not prepared to provide the information to the Board or Interveners, citing concerns about confidentiality. Given that this prevented any analysis of MPI's proposed rate under the Blanket Policy, in September 2023, MPI withdrew its request for approval of the Blanket Policy rate but maintained the request for approval of the Blanket Policy framework.

MPI took the position that, without a directive protecting the confidential information from Uber about aggregate kilometres travelled, it cannot implement the Blanket Policy. MPI therefore requested that the Board issue a directive that the per kilometre data from Uber could be received in a future GRA confidentially, restricting access only to the Board and its advisors.

The Corporation has also been working on a telematics project for Taxis. The initial RFP received no responses, thereby delaying the project. MPI issued a new RFP this year and is currently evaluating responses. Until vendor selection is complete, MPI is unable to confirm when it expects the pilot to be completed. The Corporation also intends to remove the existing time bands for Taxis, but indicated that it may create a part-time Taxi category.

5.1 Interveners' Positions

CAC

While CAC did not take a position on the proposed Blanket Policy framework, CAC indicated that following a review of proposed pricing in a future GRA, it would advocate to ensure that the Blanket Policy is truly revenue neutral, and that MPI will collect the data necessary to verify that P1 drivers' claims experiences consistent with a larger pool of Basic insureds, such that Phase 1 would not be covered by the Blanket Policy.

TC

TC asked that the Board direct MPI to put forward versions of the Blanket Policy that could be adopted by VFH stakeholders other than TCs, and that this should occur before the Board approves the Blanket Policy. Further, TC asked that the Board direct MPI to delay the decommissioning of the time band model until such time as MPI has developed a part-time option for Taxi VFH. TC recommended that the Board direct MPI to consult with other VFH stakeholders before decommissioning the time band model, in order to canvass the desirability of part-time options.

Lastly, TC opposed MPI's request for prospective approval of Uber's request for confidentiality of its per kilometre data. The data should be shared with Interveners in order to permit a full review of MPI's methodology in a future GRA.

In response, TC prepared a part-time Taxi VFH discount based on MPI's own methodology used to price the time band model. Based on TC's calculations, a part-time option in each of the territories should have a discount of between 22% – 27% less than full time. TC submitted that MPI ought to be able to implement this approach with relative ease on an interim basis until it is able to collect data to put forward an alternative part-time framework.

5.2 Board Findings

The primary issue regarding VFH in this Application was whether the Board should approve the Blanket Policy framework at this time, separate from approval of the VFH rates. As noted above, analysis of the rates was impossible as Uber was not prepared to share its data with the Board or Interveners. As a consequence, MPI has asked that the Board issue a prospective directive which, presumably, would give Uber the comfort it seeks that its kilometre data will not be made public. The Board dismisses the Corporation's request for two reasons. First, there is no justiciable issue before the Board on the confidentiality of potential filings in the future by Uber. The Board cannot determine, on the basis of the evidence it now has, that Uber automatically has a valid claim that its kilometre data is CSI. Second, no evidence has been filed by Uber to support its claim. A party cannot simply make a categorical statement that its information is confidential and expect the Board to accept that position in the absence of specific evidence.

Until the Board has evidence on all aspects of the proposed Blanket Policy, which would include the rates and the methodology for calculating the rates, the Board will not approve the policy. The Board therefore dismisses MPI's request for approval of the Blanket Policy framework.

Lastly, the Board also observes that MPI appears to lack consistency in its approach to the VFH class. As an example, it has proposed the Blanket Policy for TNCs but not for Taxi VFH, and has not yet addressed the possibility of a part-time model for Taxis.

6.0 DRIVER SAFETY RATING

6.1 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.

Two aspects of the DSR have been under review for the last number of GRAs: the rating scale and the rating model, also referred to as the Basic Insurance Model (BIM). The rating scale refers to the levels of driver demerits and merits used to set the amount of driver premium payable or the vehicle premium discount to be applied (if any) to a policy of vehicle insurance, respectively.

The BIM is the method by which MPI determines which driver record will be used to set the amount of any vehicle premium discount. Currently, MPI employs the Registered Owner model, which calculates the vehicle premium discount based on the DSR scale level of the registered owner of the vehicle, as opposed to, for example, the primary driver of the insured vehicle.

Rating Model (Basic Insurance Model) History

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, 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 BIM 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 the *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 BIM in a timely manner.

In Order 1/21 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 at that time, such a change would be more difficult to implement after completion of Project Nova.

In the 2022 GRA, MPI advised that, notwithstanding its position in the 2020 and 2021 GRAs, it intended to continue to use the Registered Owner model and would not be considering any changes to its model for five years. The Board therefore found that MPI had not complied with Order 1/21 and that a change in the BIM was required. Directive

11.13 of Order 134/21 required the Corporation, in the 2023 GRA, to bring forward a five-year plan for the implementation of the Primary Driver rating model, addressing:

- 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.

Directive 11.13 was the subject of an application for leave to appeal filed by MPI in the Manitoba Court of Appeal on March 29, 2022. The court dismissed MPI's application on October 19, 2022.[3] Madam Justice Steel accepted that Directive 11.13 was an information-seeking directive, but stated that even if it the Board had required MPI to adopt the Primary Driver model, it was within the Board's jurisdiction to do so.

MPI did file a plan in the 2023 GRA with a six-year time frame for the implementation of the Primary Driver rating model. The Corporation advised that the time frame was based on estimates. The steps identified by MPI to transition to a Primary Driver rating model prior to applying to the Board for approval included obtaining government approval of regulatory changes, developing business rules, consulting with stakeholders, coordinating with the launch of online systems, and finalizing pricing.

MPI advised, however, that it planned to assess the following rating models before deciding on a future direction:

- Registered Owner, in which the vehicle premium discount is based on the DSR level of the registered owner of the vehicle;
- Primary Driver, in which the vehicle premium discount is based on the DSR level of the primary driver of the vehicle;
- Listed Driver, in which the vehicle premium discount is calculated taking into account the DSR level of all drivers of the vehicle listed under the policy; and
- Primary/Listed Driver Hybrid, which is a weighted calculation based on Primary Driver and Listed Driver.

3 *Manitoba Public Insurance Corp. v. Manitoba (Public Utilities Board) et al.*, 2022 MBCA 86.

Rating Scale History

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 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.

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 Order 1/21, the Board directed that in the 2022 GRA, the Corporation incorporate DSR into its minimum bias analysis used to set rating relativities.

In the 2022 GRA, 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. Given the gap between the discount/premium charge and the indicated discount/premium charge, MPI recommended a gradual implementation to remedy the cross-subsidization of drivers with low DSR ratings by those with high DSR ratings. MPI indicated a plan to increase the upper limit of the DSR scale from +15 to +20 over the next five years and proposed to move one-fifth of the difference between current and indicated vehicle premium discounts each year.

Directive 11.15 from Order 134/21 following the 2022 GRA required the Corporation to 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.

6.2 Current Application

Rating Model (Basic Insurance Model)

As noted above, MPI was directed to file a five-year plan for the implementation of a Primary Driver rating model in Order 134/21. Order 4/23 from the 2023 GRA directed the Corporation to provide further detail about the five-year plan.

In this Application, the Corporation filed the Project Charter for Basic Insurance Model Evolution.

MPI addressed the importance of compelling data collection in order to proceed to evaluate options for a new BIM, and potential solutions to mandate data collection. MPI's position was that it must have clear legislative authority to compel data collection in order to proceed with the research and analysis necessary to determine what BIM to implement in the future.

MPI explained that any large-scale change to the BIM must be handled in a data-driven manner. In 2022, MPI conducted a study using household data with assumptions applied to estimate, at a high level, the prevalence of households leveraging the current BIM (Registered Owner) to their benefit. But, because household data does not provide MPI with information about who drives vehicles insured under each policy, without driver data collection, MPI is not able to determine what impact any potential changes to the BIM may have on its customers. MPI also took the position that without driver data collection it cannot responsibly recommend any potential large-scale changes to the model.

Regarding the detailed work plan for the ultimate implementation of a new BIM, MPI has developed definitions for four potential insurance models that it will examine as options for the evolution of the DSR:

- Primary Driver (PD) model, where the vehicle premium discount is based on the DSR level of the primary driver. The primary driver is the person who spends the most time driving the vehicle as named by the registered owner;
- Listed Driver (LD) model: The vehicle premium discount is based on the calculation of the DSR level of all drivers of the vehicle as named by the registered owner;
- Combined Driver (CD) model: The vehicle premium discount is based on the DSR level of all drivers of the vehicle named by the registered owner of the vehicle, with a percentage of the premium based on the primary driver and the remaining percentage of premium based on the listed drivers; and
- Registered Owner (RO) model: This is the current model used by MPI, where the vehicle premium discount is based on the DSR level of the registered owner.

MPI also advised it intends to consult with customers on the topic of the BIM in at least two stages. At the time of filing of the Application, it was MPI's intention to commence customer engagement in the summer of 2023; however, that was delayed. In addition to customer engagement, MPI intends to consult with stakeholders, including but not limited to representatives of the Government, the Board, interveners to the GRA, and brokers.

On January 12, 2023, the Government of Manitoba denied MPI's request to make regulation changes to permit MPI to collect driver information from registered owners of MPI-insured vehicles. MPI holds the view that without the legislative authority to collect driver information, MPI cannot conduct a pricing examination of the Primary Driver, Listed Driver, or Combined Driver models. It is continuing to work with the Government to seek approval to make regulation changes.

The Corporation also intends to develop a communication plan for data collection and ensure that Project Nova Release 3 is aligned with the process so that the necessary system changes are implemented in order to begin data collection from customers.

Approximately six months from the commencement of data collection, the Corporation will begin an actuarial examination of the pricing models. This work will culminate in MPI submitting, as part of the 2027 GRA, its actuarial and product analysis, which will be based on more than a full year of data collection. In the 2028 GRA, the Corporation would then bring forth its recommendation for examination and approval for a new BIM, effective April 1, 2028.

Rating Scale Changes

Board Order 4/23, Directive 12.15 required that, in this GRA, that all DSR discounts be moved by one fourth of the way to the actuarially indicated rate, rounded down to the next whole number.

MPI filed an updated DSR analysis, reflecting an additional year of experience, and reflecting the DSR level that vehicles would have been at, if higher DSR levels had been available. The indicated discounts at the higher end of the scale were greater than the discounts indicated in Order 4/23. MPI fit a straight line to the indicated discount levels for DSR levels -20 to +20, and then rounded the discounts to the nearest percentage point. Fitted discounts for DSR levels +14 through +20 were all greater than the indicated discounts.

In the Application, MPI sought changes to the DSR within the existing Basic Insurance Model, Registered Owner, by proposing the following for 2024/25 policy year:

- For existing DSR levels, up to DSR +17, discounts were moved by one fourth of the way to the actuarially indicated discount, rounded down to the next whole number;

- For DSR level +18, the proposed discount level was determined by applying the ratio of the fitted discount for DSR +18 of 66% to the fitted discount for DSR +17 of 62%, and then multiplying by the selected discount for DSR +17 of 45%, generating a resulting discount of 48%. If, alternatively, MPI had taken a current discount level of 40% and moved one fourth of the way to the fitted discount of 66%, rounding down, then the resulting discount would be 46%;
- No changes would be made to the DSR driver premiums; and
- The top of the DSR scale would increase from DSR +17 to DSR +18 in the 2024/25 policy year.

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.

The change in the proposed DSR discounts reduces overall rates by 5.0%, necessitating an overall base rate increase of +5.2% to offset this, varying by major class. If, alternatively, the DSR discount for DSR +18 is 46% instead of 48%, then the change in the DSR discounts would reduce overall rates by 4.0%, necessitating an overall base rate increase of about +4.1% to offset this, varying by major class.

6.3 Interveners' Positions

CAC

CAC submitted that it is well understood that the Registered Owner model does not accurately reflect risk. CAC was not prepared to endorse an alternative BIM in this proceeding, and indicated its position in future GRAs would be informed by both the data collection and pricing examination conducted by MPI and results of customer engagement.

With respect to the rating scale changes, Oliver Wyman recommended that MPI continue its transition from a minimum bias model to a Generalized Linear Model (GLM). Oliver

Wyman does not believe that it is appropriate to consider DSR level to be a continuous numeric variable as MPI does in calculating fitted relativities. Under MPI's approach, movement of a single DSR level results in the same absolute, but not relative, change in relativity. OW views DSR level to be an ordered categorical variable without the restrictions noted. OW appreciate that this view would require MPI to either use the indicated rather than the fitted relativities or apply manual smoothing. This would not be an issue when MPI transitions to the GLM model. OW noted that the MPI approach overpredicts (fitted relativity greater than indicated) DSR levels below +11 and underpredicts DSR levels above +13. Given the underprediction of the highest volume classes, MPI risks not collecting sufficient premiums.

CMMG

CMMG was critical of MPI's position on its lack of authority to commence data collection, and recommended that the Board direct the Corporation to immediately commence data collection sufficient to proceed with a pricing analysis of alternatives to the current Registered Owner model. It also recommended that the Board direct the Corporation to file an update in the 2025 GRA regarding data collection and preliminary results.

TC

TC noted that although the DSR scale continues to depart from what is actuarially indicated, the changes that have been adopted to bring the DSR closer to actuarially indicated rates have been adopted on an incremental basis, and gradually over time, in order to avoid rate shock for customers.

6.4 Board Findings

6.4.1 Rating Scale Changes

Through its prior Orders, the Board has required MPI to address 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 Board finds that the correct discount in accordance for Order 23/4 Directive 12.15 with respect to DSR +18 would be 46% instead of 48%. With that one change, the Board approves the proposed DSR discounts for 2024/25.

The Board finds that the use of a single straight line to fit the indicated DSR relativities overpredicts the higher DSR discounts and directs MPI to improve the fit of the DSR discounts to the indicated relativities. Consideration of the volume of vehicles at each DSR level, and potentially the use of several connected curves or straight lines, may improve the fit without requiring the use of categorical variables.

The Board directs MPI to move all DSR discounts one-third of the way to actuarially indicated rates in the 2025 GRA. This direction is applicable for all positive DSR levels. The calculation of the change is to be one-third of the difference between the current and the actuarially indicated discount for each DSR level, and then rounded down to the nearest whole number, with base rates adjusted to off-balance these changes.

The Board finds it is just and reasonable to make the changes to the system as indicated, and therefore directs the Corporation to:

a. Expand the DSR scale from DSR +17 to DSR +18 in the 2024/25 policy year forward. Drivers will still require an incident-free year before moving to the new top merit level; and

b. Implement the following increases to the vehicle insurance premium discounts:

DSR Level	Current Discount	Increase	2023/24 Discount
18	40%	6%	46%
17	40%	5%	45%
16	40%	4%	44%
15	40%	3%	43%
14	34%	4%	38%
13	33%	2%	36%
12	32%	3%	35%
11	31%	2%	33%
10	29%	2%	31%
9	27%	1%	28%
8	26%	0%	26%
7	26%	0%	26%
6	21%	0%	21%
5	16%	0%	16%
4	16%	0%	16%
3	11%	0%	11%
2	10%	0%	10%
1	5%	0%	5%

6.4.2 Rating Model (Basic Insurance Model)

The Board notes that the Corporation has put forward a detailed plan for the evolution of the BIM in this Application. It is of concern that the planned customer engagement was delayed prior to the labour interruption, and now may be delayed further. The evidence in previous GRAs was clear that the Primary Driver model is more actuarially sound than Registered Owner.

MPI has taken the position that it does not have the authority to compel data collection. Whether or not this position is correct, if the Government were to make the legislative changes requested by MPI the issue would become moot, and the Board therefore recommends to the Government that it make legislative change to permit MPI to collect the data it states it requires.

7.0 PROGRAM COSTS

7.1 Basic Claims Incurred

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

Claims Incurred for the fiscal years 2018/19- 2022/23 for the major coverages were as follows:

Basic Claims Incurred For years ending March 31 (millions)	**2019***	**2020***	**2021**	**2022**	**2023**	**5-year change**	
Accident Year Basis						**$**	**%**
Physical Damage - All Perils							
Collision	$409	408	317	442	452	43	10%
Comprehensive	115	87	85	87	113	-2	-2%
Property damage	43	39	28	44	45	2	6%
Sub-total	**567**	**534**	**430**	**573**	**610**	**43**	**8%**
PIPP Accident Benefits & Other	162	166	166	173	177	15	9%
Public Liability	6	4	4	5	6	0	-8%
Total Claims Incurred	**736**	**705**	**600**	**750**	**793**	**57**	**8%**
Fiscal Year Basis							
Claims Incurred	864	788	620	839	903		
DPAC/Premium Deficiency Adjustment	(13)	(17)	(11)				
Interest Rate Impact	41	(9)	44	(133)	(101)		
Total Claims Incurred	**$892**	**761**	**653**	**706**	**802**		

**Rounding may affect totals*

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

The actual claims incurred for the 2022/23 fiscal year were $801.7 million, which reflected an overall increase of $12.1 million from the $789.6 million estimate provided in the October 14, 2022 update for the 2023 GRA. This overall change was the combination of an increase of $32.8 million due to the impact on claims reserves of interest rate increases, an increase of $62.0 million in claims forecasts for Collision, Comprehensive,

Bodily Injury, and Property Damage, offset by a decrease of $82.7 million in forecasted costs for PIPP, loss adjustment expenses, and allowance for subrogated accounts.

The 2023 GRA financial statement forecasts were provided on an IFRS 4 basis, whereas the 2024 GRA financial statement forecasts were provided on an IFRS 17 basis. In the 2024 GRA, there were restatements for the retained earnings at March 31, 2023, due to changes in the claims discount rate, replacement of provisions for adverse deviation with a risk adjustment for non-financial risk, with an aggregate impact of an increase in Basic retained earnings of $86.3 million and the writing off of the deferred policy acquisition expenses (DPAE), reducing retained earnings by $37.7 million. In addition, the total claims incurred for fiscal year 2022/23 was restated to be $31.2 million higher under IFRS 17, due primarily to a $31.8 million reduction in claims incurred due to interest rate impact.

The projected claims incurred for the 2023/24 fiscal year are $857.1 million, which reflects an overall decrease of $81.0 million from the $938.1 million estimate provided in the October 14, 2022 update for the 2023 GRA. This change in incurred claims was a combination of a decrease of $65.2 million due to interest rate impacts, a $24.0 million decrease in claim costs for PIPP and Liability, Comprehensive, loss adjustment expenses combined, offset by an increase of $8.3 million due to Collision and Property Damage claims.

The projected claims incurred for the 2024/25 fiscal year are $983.8 million, which reflects an overall decrease of $2.4 million from the $986.3 million estimate provided in the October 14 2022 update for the 2023 GRA. This overall change was due to a decrease in claim costs of $33.2 million for PIPP and Liability and loss adjustment expenses, offset by an increase in claims costs of $15.2 million for Comprehensive, Property Damage, and Collision, and an increase of $15.6 million due to interest rate impacts.

The projected claims incurred for the 2025/26 fiscal year of $1.01 billion reflects an overall decrease of $22.3 million from the $1.03 billion estimate provided in the October 14, 2022 update for the 2023 GRA. This overall change was due to a decrease in claim costs of

$48.5 million for PIPP and Liability, Collision, and loss adjustment expenses, offset by an increase in claims costs of $15.2 million for Comprehensive, and Property Damage, and an increase of $11.0 million due to interest rate impacts.

There were several key drivers of the change in claims costs. In general, Comprehensive and Property Damage claims costs have risen. Projected claims costs for PIPP has decreased due to an expectation that wage increases are not as closely tied to general inflation. Loss adjustment expenses have decreased due to reductions in FTEs and changes in allocations among Basic, Extension and SRE.

Interest rates rose during this period. The projected claims discount rate at 2023/24 Q2 was 4.19% in the October 12, 2022 update of the 2023 GRA, rose slightly to 4.24% in the initial 2024 GRA filing, and rose further to 5.17% in the October 4, 2023 update. MPI is currently using a forward curve to project yield rates for discounting claims, resulting in small decreases forecast for interest rates throughout the projection period. Increases in interest rates reduce the present value of claims paid in the future. The cumulative interest rate impact on claims was a $58.0 million reduction in 2023/24, followed by increases of $13.8 million and $6.2 million in 2024/25 and 2025/26, respectively, as the forecast yield curve slowly declines.

7.2 Basic Expenses Overview

MPI's global corporate costs are allocated among Basic, Extension, SRE and DVA. Costs are allocated to Basic through an 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.

In this Application, MPI did not propose any material changes to its ICAM. MPI advised that Ernst & Young (EY), as part of its organizational review of MPI, has been tasked with reviewing the ICAM and it could potentially change. MPI will be filing the third-party review of the ICAM in the 2025 GRA.

In the Application as filed, total Corporate operating expenses, including the costs of administering claims and road safety, were $358.4 million in 2022/23 and were forecast to grow to $416.7 million in 2023/24. MPI forecasted total Corporate expenditures to be $398.2 million in 2024/25 and $389.3 million in 2025/26. Expenditures allocated to Basic were $248.1 million in 2022/23 and were forecasted to be $273.4 million in 2023/24, to decrease to $256.2 million in 2024/25 and to be $258.8 million in 2025/26.

As a result of the October 4, 2023 update, MPI revised its forecasted Corporate expenses allocated to Basic to $245.3 million for 2022/23, a decrease of $2.8 million reflecting the results of an IFRS 17 expense allocation review.

The forecast update showed that the Corporate allocated costs are expected to decrease to $265.0 million in 2023/24, followed by a further drop to $256.3 million in 2024/25, declining to $247.7 million in 2025/26. This represents a decrease of $8.4 million in 2023/24, an increase of $0.1 million in 2024/25, and a decrease of $11.1 million in 2025/26 compared to the initial Application.

The details of total Basic Operating expenses including allocated Corporate costs and directly assigned expenses based on the October 4, 2023 update are as follows:

Total Estimated Basic Expenses (millions)	**2023/24**	**2024/25**	**2025/26**
Basic Allocated Corporate Expenses			
Claims Expenses	$150.9	$146.0	$140.9
Operating Expenses	95.0	94.0	90.5
Road Safety/Loss Prevention	14.5	12.1	12.1
Regulatory/Appeal expenses	4.6	4.2	4.3
Total Basic Allocated Corporate Expenses	265.0	256.3	247.8
Basic Direct Expenses			
Commissions	50.8	56.3	56.1
Premium Taxes	35.2	36.4	37.6
Total Basic Expenses	**$351.0**	**$349.0**	**$341.5**

7.3 Claims Expenses

Claims expenses represent the administrative costs associated with processing and settling claims. Forecast claims expenses for the rating year increased from $118.4 per vehicle in the 2023 GRA to $122.19 per vehicle in the 2024 GRA.

MPI updated its forecast claims expenses on October 4th, decreasing the claims expense per vehicle from $122.19 to $121.04 per vehicle, due primarily to increases in the New Money Yield.

7.4 Operating Expenses

Operating expenses were $86.5 million in 2022/23 and were forecast to grow to $98.4 million in 2023/24, decline to $93.4 million in 2024/25 and increase to $94.8 million in 2025/26. Consistent with Board Order 4/23, where the Board considered it appropriate and consistent with AAP to defer costs that are for systems that do not benefit current ratepayers, MPI excluded initiative expenses from the rate indication. The total amount of these expenses in the 2024 GRA was $29.2 million in 2024/25 and $26.1 million in 2025/26, an average of $27.2 million for the 2024/25 rating year.

Operating expenses for the prospective rating year decreased from $85.21 per vehicle in the 2024 GRA to $53.65 per vehicle in the initial filing of the 2024 GRA. This reduction in operating expense per vehicle recovered in rates is attributable to the Board's directive with respect to deferral of initiative expenses for rate-setting purposes.

MPI amended its operating expenses for its settled 2022/23 fiscal year in the October 4, 2023 update, reducing expenses from $86.5 million to $85.1 million owing to an IFRS 17 implementation adjustment. The projected operating expenses for 2023/24 were also reduced by $3.4 million, to $95.0 million. The forecast for 2024/25 has been changed to $94.0 million, a $0.6 million increase over the initial forecast, while the budget for 2025/26 has been reduced to $90.5 million, a $4.3 million reduction from the original application.

Operating expenses per vehicle decreased from $85.21 per vehicle to $54.09 per vehicle. Overall operating expenses per vehicle have decreased by $31.12 per vehicle of approximately 36.5% from the 2023 GRA. The decrease has been attributed primarily to the removal of the initiative expenses and to a lesser extent due to a reduction in forecasted staffing levels.

Salaries and benefits are a significant component of Basic's operating expenses, representing over 55% of the total operating expenses in the year of the Application. Since 2019/20, Basic has experienced compound annual growth of salaries and benefits of 2.5% in the last four years, with Basic compensation that has grown from $124.2 million

in 2018/19 to $136.8 million in 2022/23. Salaries and benefits were budgeted in the application to be $145.7 million in 2023/24, a year over year increase of 6.5% and were forecast at $142.2 million in 2024/25 and $142.7 million in 2025/26. The forecasted annual growth for 2023/24 to 2025/26 was 1.4%.

The growth in Basic salaries and benefits is lower than that forecast last year as follows:

Basic Total Compensation (millions)

	2022/23	2023/24	2024/25
2024 GRA	$136.8	145.7	142.2
2023 GRA	142.9	160.0	159.8
Change	($6.1)	(14.3)	(17.6)

MPI attributed the lower growth in Basic compensation expenses from the 2023 GRA is primarily related to lower forecast staff levels and changes in assumptions on compensation contract changes.

MPI's actual staff complement in 2021/22 was 1,879.5 FTEs. MPI had initially planned to increase its staff complement to 2,048.6 FTEs for 2022/23 at the 2023 GRA. However, MPI reduced its staff hiring and ended up with 2,005.6 FTEs in 2022/23, a yearly increase of 126.1 FTEs. Additionally, MPI revised its projected 2023/24 staff complement to increase 145.2 FTEs to 2,150.8 FTEs compared to 2,348.1 FTEs forecast at the 2023 GRA. Over the two years, the staff complement increased by 271.3 FTEs or 14%, less than the planned hiring of 468 FTEs or 25% at the 2023 GRA. MPI attributed the increase in staffing to addressing competency gaps, service levels, and additional staff needed for Project Nova.

MPI stated that not all of the new FTE positions will be permanent. Approximately 28 FTEs will be term or “bubble staff.” The 2023/24 staff budget of 2,150.8 FTEs consists of 2,055.8 FTEs for normal operations, while 95 FTEs are focused on initiatives. However,

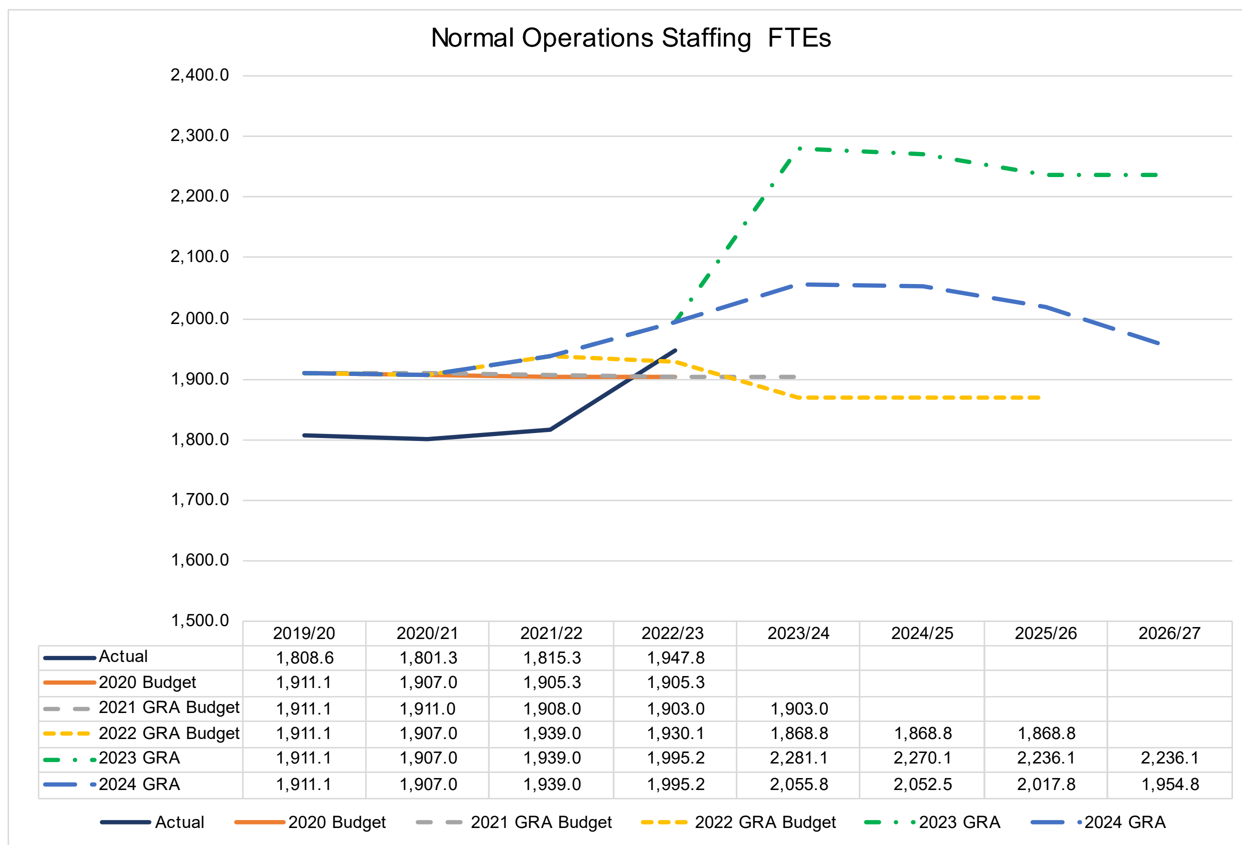
with the labour interruption, during which 1,700 staff are excluded from FTE counts, MPI anticipates it will end the year in a significantly lower position than budgeted.

MPI now forecasts its overall staff complement to grow to 2,156 FTEs for 2024/25, an increase of 5.2 FTEs. MPI noted that it had effectively frozen its staffing budget based on its 2023/24 budget level. However, MPI notes this forecast FTE count and compensation will be affected by the ongoing labour interruption and future efforts to restore services to normal expected levels once it is resolved.

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

Fiscal Year	Normal Operations	Improvement 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	1,863.5	14.7	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	1,766.7	34.6	1,801.3
2021/22	1,815.3	64.2	1,879.5
2022/23	1,947.8	57.8	2,005.6
2023/24BF	2,055.8	95.0	2,150.8
2024/25F	2,052.5	103.5	2,156.0

There was a marked increase in MPI's forecast budget for Normal FTEs in the 2023 GRA October update from prior applications. In the 2024 GRA the staff budget was revised downward as shown in this graph:



	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Actual	1,808.6	1,801.3	1,815.3	1,947.8				
2020 Budget	1,911.1	1,907.0	1,905.3	1,905.3				
2021 GRA Budget	1,911.1	1,911.0	1,908.0	1,903.0	1,903.0			
2022 GRA Budget	1,911.1	1,907.0	1,939.0	1,930.1	1,868.8	1,868.8	1,868.8	
2023 GRA	1,911.1	1,907.0	1,939.0	1,995.2	2,281.1	2,270.1	2,236.1	2,236.1
2024 GRA	1,911.1	1,907.0	1,939.0	1,995.2	2,055.8	2,052.5	2,017.8	1,954.8

MPI's actual Normal Operations FTE 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	1,766.7	1,907.0	(140.3)
2021/22	1,815.3	1,939.0	(123.7)
2022/23	1,947.8	1,995.2	(47.4)
2023/24BF	-	2,055.8	n/a
2024/25F	-	2,052.5	n/a

7.5 Broker Commissions

The new Broker Agreement, entered 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. In the 2022 GRA, MPI forecast Basic's commission expense was $4.6 million higher in 2022/23, and $7.6 million higher in 2023/24, than the 2021 GRA forecast.

The Broker Agreement 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 Broker Agreement also requires that a commission be paid for Basic online transactions at the same rate as in-person transactions for 2021/22 and 2022/23. The Basic online transaction rate then decreases to 2.25% from 2023/24 through 2025/26. Under the Broker Agreement, once Project Nova is completed, any person renewing online will be required to select a broker before the transaction can be completed and that broker will receive a commission.

At the 2023 GRA, MPI indicated a twelve-month delay in the implementation of Project Nova to allow for online transactions contemplated in the new Broker Agreement fee schedule. As a result, Broker commissions payable had increased from what was forecast.

Due to the postponement of online transactions, MPI and IBAM renegotiated the commission agreement so that the revised commission rates for in-person and online transactions would now begin on the date that online transactions are implemented. As a result, MPI forecast Basic commissions paid to be $13.3 million lower than what was contemplated at the 2023 GRA.

Basic Broker commission expenses are forecast to be $56.3 million in 2024/25 and $56.1 million in 2025/26, $3.3 million and $2.3 million lower than what was forecast in the respective years at the 2023 GRA.

Premium Taxes

Premium taxes are paid to the Province of Manitoba on the premiums MPI collects from ratepayers. Premium taxes are levied based on 3% of earned premiums net of rebates paid. Premium taxes are forecast to be $35.2 million in 2023/24 and increase to $36.4 million in 2024/25 and $37.6 million in 2025/26 based on the forecast growth in Basic premiums. MPI does not forecast a premium rebate in 2024/25 or 2025/26.

7.6 Information Technology (IT)

7.6.1 IT Strategy

MPI filed the 2023-24 IT strategy in this GRA. Fundamentally, it remains consistent with the 2022-23 filed IT Strategy, with updates to reflect new industry trends. The 2023/24 IT strategy focuses on achieving four main goals including:

1. Support for Project Nova and MPI future needs;
2. Cloud Adoption;
3. Improved Cybersecurity; and
4. Delivery of Data Intelligence and Automation.

Project Nova continues to be the largest single and most complex IT initiative undertaken by MPI. Patterns, practices, and technologies developed through the delivery of Project Nova are expected to create a new IT foundation for how MPI delivers IT initiatives in the future. MPI continues to adopt and refine IT delivery processes centered on Scaled Agile Framework (SAFe). A total of nine funding envelope areas were approved for 2023/24 as follows, representing at budgeted total of $24.4 million:

- Data & Analytics;
- Cloud Adoptions;
- Partners & Customer Experience;
- Enterprise Content Management;
- Innovation Funding;
- Security Technology Risk Management;

- HR & Finance;
- Digital Culture; and
- Government Insertions.

Once the labour interruption has concluded, MPI IT will be allocating resources to clearing the backlog of business operations. All IT projects will be affected, due to shifting of resources. The duration required to clear the operational backlog is uncertain, and could take between six and nine months.

7.6.2 Project Nova

Project History

The Corporation continued to present its plans for its main IT initiative, Project Nova. The predecessor to Project Nova was MPI's Legacy Systems Modernization (LSM) project. Both LSM and Project Nova were conceived to modernize the core legacy systems of MPI. The project has now evolved into a holistic business transformation aimed to address business continuity risks and provide modern self-service experiences for Manitobans.

The original business case for Project Nova had a budget of $106.8 million, which was comprised of $85.4 million in project costs and a $21.4 million or 25% contingency for a total of $106.8 million. The original business case was based on a top-down budget analysis, prior to MPI having received any pricing from vendors.

Following the 2021 GRA, MPI undertook a re-baseline exercise (2021 re-baseline), which resulted in an increase to the budget. The re-baselined budget was $128.5 million, comprised of $111.7 million in projected costs and $16.8 million or 15% contingency. At that time, MPI advised the Board that the business case for Project Nova was more refined. The net present value (NPV) for the 2021 re-baseline was based on a 15-year period from project initiation, March 1, 2019, and the NPV was $18.4 million. MPI

assessed Project Nova as medium-high risk and applied a 7.5% discount rate. MPI reported that, while a positive NPV was projected, this was highly dependent on many factors and the margin of error was very slim. At the 2023 GRA, detailed evidence was filed about the state of Project Nova as of mid-2021. By mid-2021, six months after the start of the project's implementation, and before the commencement of the 2022 GRA public hearings, MPI management had recognized that the complexity and scale of the project were greater than anticipated and that, if the scope of work were to remain the same, it was unrealistic that the project could be completed on time and budget. The Corporation's Project Nova Governance Advisor, PwC, expressed similar concerns.

Both MPI and PwC had identified issues that led MPI to re-baseline Project Nova. The issues were reviewed by MPI's Technology Committee at a meeting on September 28, 2021, and were:

- Scope increase in digital;
- Teams having divided focus;
- Limited resources & capabilities;
- Turnover;
- Immature centres of excellence;
- Sequencing;
- Leadership consistency and ownership;
- Architectural runway (technical infrastructure required for support of future technology initiatives with minimum redesign); and
- General contractor inexperience.

At that same meeting, the Technology Committee approved an untendered contract between MPI and McKinsey & Company (Canada) (McKinsey), for McKinsey to address the issues identified by PwC and MPI, at a cost of up to $3.0 million plus expenses and taxes.

In February 2022, upon completion of McKinsey's project assessment, MPI management and McKinsey recommended a flattened timeline for the project to de-risk the delivery of project releases. The minutes from the February 10, 2022 meeting of the Technology Committee summarized the progression of Project Nova and the events leading to new re-baselined budget and timeline (2022 re-baseline):

> Throughout the history of Project Nova, MPI, recognized that it did not have the internal expertise and that no single external consultant had the expertise to successfully implement a transformational project of the complexity presented by this project. It has engaged the services of industry experts to assist in providing advice on how best to carry out this project. Based upon consideration of advice provided by external experts MPI set the initial timeline and budget at 40 months and a cost of $85.4 million + $21.4 million (25% contingency) = $106.8 million. This initial timeline/budget was prior to entering into contracts with the major technology vendors and system integration providers. In January 2021, after the various contracts were competitively tendered and awarded the budget was re-baselined at a cost of $111.7 million + $16.8 million (15% contingency) = $128.5 million. The timeline initially set to 54 months, back in 2019, was later reduced to 40 months based on the belief that external vendors and MPI combined could implement several work streams in parallel.
>
> In mid-2021, 6 months after the start of the project's implementation, MPI management recognized, despite prior advice and best efforts, that the complexity and scale of the project was greater than anticipated; consequently, it was unrealistic based upon current plans that the project could be completed on time and on budget, assuming that the scope of work would remain constant. The Committee's Governance Advisor, PwC, also expressed similar concerns. MPI management began the process of internally assessing required changes to ensure successful implementation of the scope of the project. In conjunction with this assessment, MPI retained McKinsey & Company (McKinsey) to provide an independent assessment of the project delivery along with implementable advice on how best to successfully complete the scope of the project.

> […]
>
> Through the internal assessment as well as the McKinsey review of project NOVA, the unforeseen extent of project risk has been acknowledged. In particular, MPI lacks some critical resources to execute on this plan successfully, specifically its ability to exercise the role of General Contractor. The necessity to provide value assurance and project leadership coordination across all the moving parts and parties involved is both critical and urgent for MPI to fill with the help of external qualified advisors who understand the specifics of MPI and NOVA while building this capability internally in parallel. It is recognized that due to the complexity of this project, even if Release 1A is successfully implemented on time that it does not guarantee success for the overall project. The complexity related to the preparation, discovery and launch as well as implementation of the subsequent releases is significantly greater than what MPI displayed. The successful completion of the project in accordance with Re-baseline 2022 budget requires MPI to mature its capabilities as quickly as possible with the assistance of [a] highly qualified General Contractor.

The 2022 re-baseline, approved in the February 10, 2022 Technology Committee meeting, extended the project timeline from 40 months to 60 months. The budget was also increased to $224.1 million plus a contingency in the range of 20-40% ($32.9 to $65.8 million) (2022 re-baseline). The 2022 re-baseline budget range is $257 to $289.9 million, with the midpoint cost estimate (including contingency) at $273.5 million.

The evidence in the 2023 GRA indicated that many of the expected benefits set out in the 2022 re-baseline were lower than identified in previous iterations of the business case. This was attributed to the flattened delivery plan, which delays the realization of benefits. With the new higher estimated project cost and revised lower project savings benefits, the NPV of the Project Nova business case was revised to negative $188.9 million. This amounted to a $207.3 million decrease from the 2021 re-baseline. This re-baseline budget is only a best estimate, as it takes the project to the third of four releases, and the total final budget is currently unknown. In the 2023 GRA public hearings, the then CEO of MPI analogized the task to climbing a mountain: MPI is attempting to reach the summit, was in the "dead zone", and must proceed through.

The CEO also testified that a NPV analysis was not the appropriate metric for determining whether to move forward with Project Nova. Rather, his evidence was that MPI would need to ensure that legacy technologies are replaced in the most fiscally prudent and effective way, and that MPI's current technology would not be able to sustain the business. His evidence was that replacement of legacy technologies was necessary for the Corporation's survival.

2024 GRA Update

In this Application, MPI provided an update on Project Nova, noting Project Nova is $16.6 million over the $224.1 million base budget. The actual level of contingency has yet to be confirmed. Formal use of contingency has not yet been approved but is expected to be submitted for approval in early 2024.

Project Nova continues to include several new IT delivery processes centered on the SAFe. A key element of SAFe is the decomposition of large work effort into smaller components under a time horizon coined a Program Increment (PI). For Project Nova, MPI has grouped the PIs into four major releases. This schedule was developed as a result of the 2022 re-baseline, which focused on flattening, or reduction in parallel work activity, extending the estimated completion of Project Nova to 2025, an extended timeline from 40 months to 60 months from the original LSM business case.

MPI advised that Release 1 (Commercial Insurance) was delivered, but was not completed successfully due to complications or misunderstood requirements. Release 2, scheduled to be completed in 2023/24, was partially released resulting in the deferral of delivery of functional components and missed requirements. The overall Project Nova schedule has been updated to account for parallel work on completion of Release 2 while the planned work for Release 3 commences. MPI noted that several foundational technology components were delivered during Release 2, which can be leveraged for future releases.

Pre-discovery of Release 3 was completed in May 2023. The discovery phase of Release 3, deemed a critical phase to finalize the overall project timeline and budget for the Project, was originally planned to complete during the summer of 2023. However, the discovery phase was delayed and has been replanned to commence in January 2024. Due to the labour interruption, discovery will be further delayed and MPI has not yet set a new date. This delay will also affect Release 4 resulting in uncertainty of when Project Nova will be delivered and what the final budget will be. MPI has stated that it is confident that it will deliver Project Nova within the re-baseline budget of $290 million (inclusive of a 40% contingency).

The delivery of Project Nova includes a set of dependent IT projects. These projects are managed outside of Project Nova but have a direct impact on its design and delivery plans. A fully integrated view of all the dependent projects and their impact on Project Nova does not yet exist. Due to the labour interruptions, these dependent projects are also delayed and will be further assessed as MPI IT shifts attention from clearing of the operational backlog back to IT project delivery.

The scope of Project Nova continues to be an area of review and discussion. MPI stressed that the scope of Project Nova has not changed since the inception of the initiative. At the same time, MPI has noted increased efforts on business transformation activities which were not noted in the original LSM business case.

From an overall governance perspective, the contract for PwC, the external governance provider, ended in October 2022. MPI issued an RFP for governance, and MNP was selected and began to ramp up on Project Nova in September 2023. As a result of the conclusion of the PwC contract and the start of the MNP engagement, Project Nova was without external governance for a total of 11 months.

In the 2022 GRA, MPI's then President and CEO referred to a plan to move beyond Project Nova to a new initiative, initially referred to as "Supernova", and later, "MPI 2.0", to achieve a new vision for the organization. McKinsey was contracted to review this

concept and provide a framework to achieve the vision of MPI 2.0. MPI has testified that the concept of MPI 2.0 was solely a vision from the CEO and was an often-misunderstood concept. MPI has indicated at this time there are no IT initiatives underway to achieve the vision of MPI 2.0.

7.6.3 Value Management / Enterprise Value Assurance

MPI's Value Management (VM) practices are heavily influenced by the evolution of Project Nova, and rely significantly on the SAFe methodology to deliver the project. For 2023/24, MPI has rebranded the Value Management Office, which was established in 2017, as Enterprise Value Assurance (EVA) and has established new leadership for this group. The EVA group is focused on ensuring best practices are established and leveraged in areas of Benefits, Portfolio, and Investment Management.

In 2023-24, EVA has prioritized the following tasks:

- Understand and evolve MPIs portfolio of work;
- Establish and seek approval for an Enterprise Value Assurance Framework;
- Document common definitions, nomenclature, and taxonomy; and
- Understand (and document) how MPI invests and Reports on strategic change initiatives.

EVA has also noted it will be establishing a long-term vision and roadmap beginning in 2025-26.

Many of MPI's VM practices continue to be in infancy adoption and usage. MPI has not assessed the maturity level of EVA practices. MPI has noted the process utilized to develop and manage funding envelopes is not fitting MPI’s needs and needs to be realigned to support strategy and portfolio management. A timeline for this realignment has not been established.

EVA will continue to report on cost levels and benefits (financial and otherwise) in the 2025 GRA and will continue to be responsible for managing the Capital Master Summary. MPI has noted a shift to lower the threshold of reporting included in the CMS from greater than $500K to greater than $50K due to the utilization of SAFe, which has moved MPI into smaller increments of work.

7.6.4 Cost Allocation Methodology For Project Nova

Cost allocations for improvement initiatives now follow a different methodology than MPI's ICAM approved by the Board. MPI allocates each project or initiative independently. Upon approval for implementation through the VM process, MPI assesses each project individually to determine relativity against each of its four lines of business. As Project Nova affects all four lines of business, the costs associated with this project will be spread accordingly across all four lines of business. If a project is specific to a single line of business, 100% of the costs associated to the project will be allocated directly to that line of business.

As of January 2022, based on business analysis and project management advice from Accenture, MPI uses "story points" as the basis of allocation. MPI has defined a story point as a unit of measure for estimating work effort in an Agile environment. This unit of measure translates to overall capacity, which MPI then uses to estimate time required for feature delivery. Together, this provides overall effort for each Project Nova release, which MPI can then quantify through budget and cost. The use of time demarcation is loose, not strict in adherence to Agile principles.

As part of Agile project delivery, all streams allocate story points to measure effort required to deliver epics and features for every sprint and program increment. Accenture was the first System Integrator (SI) to provide a story point breakdown to measure effort as it is delivering the first release. MPI has not sought a review by its external auditor as it indicates that measuring effort through story point methodology is an industry-proven method.

In the 2023 GRA, based on this approach, Basic was allocated $46 million (20.5%) of the $224.2 million Project Nova budget before contingency. In this Application, MPI provided an update to the allocation of Project Nova costs, in which Basic's share of the project cost increased from $46 million to $72.4 million, or over 31% of the cost of the project before contingency. The cost estimate including contingency is currently trending to $290 million. Basic's estimated share of the total project cost will be refined once MPI completes discovery related to Release 3, which MPI has stated will have the most significant impact on the Basic line of business.

7.7 Benchmarking

MPI uses benchmarking results to identify opportunities to reduce costs, measure effective management approaches, and measure efficient resource allocation. MPI indicated in the 2023 GRA that it would be developing a balanced scorecard that will highlight its performance with respect to areas of financial, customer internal processes and learning and growth. The balanced scorecard was produced in this Application.

MPI engaged a third-party vendor, the AON (formerly the Ward Group), which compared MPI to various private insurers on insurance industry metrics including operational, and some IT benchmarks. The AON study provided key performance metrics comparisons of MPI with a Canada personal auto benchmark, consisting of both private and Crown Corporations.

MPI does not plan to take any specific actions as a result of the findings within the AON study, as MPI stated that the findings generally support that MPI is operating within benchmark averages.

MPI also filed the results of its Crown benchmarking in this GRA. MPI relies on information from peers, Saskatchewan Government Insurance – Saskatchewan Auto Fund (SGI) and Insurance Corporation of British Columbia (ICBC). This is further supplemented by MPI leveraging third-party research. MPI met with ICBC and SGI to review strategic

differences, and although there are similarities among the corporations, there are also significant variations and different cost structures among the entities and offerings, such as differences in cost structures, organizational structures, IT infrastructure costs, and life cycle of technology refreshes. MPI's evidence was that SGI and ICBC are at different stages of maturity related to technology as well as in their approaches to timing and modernizing their systems and processes.

With respect to the benchmarking results, MPI does not compare favourably to the Crown peers on the number of FTEs per $100 million of gross premium written. MPI explained that this is partly a function of its unique business model, which provides end to end customer service performed by MPI employees. With respect to the ratio of staff to management, or "span of control analysis", MPI fares better than its peers. MPI's overall gross expenses per FTE are lower than those of its Crown peers, and attributed this to its lower operating costs relative to the FTE used to operate its service offerings.

MPI stated that it recognizes the importance of continued benchmarking in areas where data is available and applicable, and intends to continue with Crown benchmarking. The Corporation asked however that the Board consider moving away from an annual GRA analysis of benchmarking to intervals of every two to three years. Increasing the interval would likely add greater value to the process while also allowing internal resources to be focused on other business. The Corporation's stated goal is to ensure that benchmarking efforts and resources are meaningfully applied.

MPI also continues to engage Gartner to provide IT benchmarking services. Gartner provided a report covering MPI's 2021/22 period. Due to the timing of reviews, the Gartner assessments do not align with funding cycles because MPI's funding plan is one year ahead of the assessments from Gartner.

The report filed in this GRA was the second in which Gartner provided some commentary on Project Nova, although Gartner did not have complete information about that project. MPI's maturity level for strategy and execution and program and portfolio management

scored at a value of 1.0, the lowest possible score. MPI has explained that this score is an enterprise view and does not represent Project Nova. Project Nova has its own program and portfolio management which, according to MPI, is more mature than the enterprise as a whole.

Gartner found that MPI's IT spending is above its peers, even when excluding expenses for Project Nova. The Corporation pointed out that while the Gartner report covers fiscal year 2021/22, two key changes occurred during that year including a new Chief Information Technology Officer joining MPI and taking the lead to move the direction to cloud-based initiatives. During this period, MPI's enterprise maturity levels decreased, but it stressed that overall, it continues to compare fairly to its peer group.

Gartner found that MPI is investing significantly in digital transformation, resulting in an overall level of IT spending and staffing that is higher than peer groups. Excluding Project Nova investments, MPI's IT spending levels and IT staffing levels are within the normal range but remain higher than the peer average. MPI is allocating a significantly larger portion of its IT budget to support changes to meet business demands. MPI is allocating 85.5% of IT spending on changing its business, versus a peer average of 38.2%.

MPI advised that the 2022/23 fiscal year will be the final year in which Gartner is contractually bound to provide IT benchmarking services.

7.8 Interveners' Positions

CAC

CAC called Mr. Scott Greenlay as an expert witness and asked that he be qualified in information technology strategy and project planning, project execution, project management, and project rescue, including oversight of systems, transformation projects and technology business cases.

Mr. Greenlay holds a Bachelor of Science degree in computer science and a Master's in Business Administration. Since 1985, he has worked in information technology in management and in executive roles. From 1996 to 2011, he was a manager partner for Greenridge Business Systems, managing the firm from its inception and working in that capacity with public and private sector clients across North America. A significant amount of that work included many technology modernization initiatives, and using leading edge tools around Agile development. He also worked for a large private sector insurance company in modernization of their systems. From 2011 to 2019, he worked for MNP LLP including as National Director Technology Consulting. In that role, he was responsible for the delivery of technology consulting services to Canadian businesses and governments as well as organizations in the United States, Africa, and Europe.

MPI objected to having Mr. Greenlay qualified as an expert. In the course of cross-examination on his qualifications, Mr. Greenlay revealed that his company had bid on, and was unsuccessful, in obtaining contracts in relation to Project Nova. The Corporation raised a concern about Mr. Greenlay's ability to be non-partisan as a result and argued that this raised a reasonable apprehension of bias.

The Board deliberated on the issue in the course of the public hearings and found that Mr. Greenlay was qualified as an expert as requested by CAC. The Board noted that, as the Supreme Court of Canada held in *White Burgess Langille Inman v. Abbott and Haliburton Co.*,[4] once Mr. Greenlay confirmed his duty to be fair, impartial and objective, the burden was on MPI to establish, on a balance of probabilities, that there was a real concern that Mr. Greenlay would be unable to or unwilling to comply with that duty. MPI had failed to meet that burden.

Mr. Greenlay prepared a report titled *An Independent Commentary on Technology at Manitoba Public Insurance*, which was filed with the Board. The report made a number of

4 2015 SCC 23

recommendations regarding Project Nova, including that MPI should “pause, de-risk, and rescope” the initiative. Mr. Greenlay noted that the scope of Project Nova is vast and its complexities are overwhelming. MPI’s capacity to manage this large initiative is questionable, and, given indicators of system problems, to proceed on the current course would likely lead to additional cost overruns and questionable value to ratepayers.

Part of the “pause, de-risk and rescope” would include stopping work on Release 3 and beyond, for MPI consider separating the original LSM work from Project Nova, and to allow MPI leadership team to step back, evaluate organizational realities, and determine priorities considering the public sector mandate.

In Mr. Greenlay’s view, MPI could consider breaking Nova into smaller components with their own business value, defined benefits, and costs. This work would not be easy, and it might be prudent for MPI to engage a third party to assist in implementing such changes.

Mr. Greenlay also recommended reframing MPI as a public sector Crown corporation in the insurance business. Because it is not a private sector property and casualty insurer in a competitive marketplace, MPI’s benchmarks should include other Crowns in Canada offering similar services, provincial and federal governments, and private sector automobile insurance organizations. As a legislated monopoly in a no-fault jurisdiction, it is more fitting for the Corporation to frame decisions within a low-risk, low-cost service provider model than a leading-edge provider in a fiercely competitive industry. Benchmarks from the private property and casualty industry should be viewed as upper limits rather than direct comparables.

Lastly, Mr. Greenlay recommended MPI improve its processes in terms of governance, use of vendors, IT spending, and cyber security.

CAC referred to the numerous concerns with MPI’s management of Project Nova raised by Mr. Greenlay. CAC also noted that the Board had warned MPI about unreasonable Project Nova costs in previous GRAs, but despite warnings, Project Nova is “full steam

ahead" with scope creep, organizational instability, a significantly increasing budget, and a negative NPV.

CAC submitted that the recommendations and observations from the Mr. Greenlay's report should be acted upon, and observed that MPI did not engage with the substance of Mr. Greenlay's evidence in its cross-examination.

Further, CAC argued, MPI erred in allowing an 11-month period of lapse in project governance, when the PwC contract concluded and MPI had no other consultant ready to resume the task. The prior risks noted with Project Nova have now been exacerbated with the lapse in governance and the continued risks to timeline and budgets.

CAC argued that MPI does not appear to be obtaining much value from its benchmarking exercises. Crown benchmarking does not provide insight into actions that MPI can take to improve its own metrics, and these metrics cannot be easily compared. There were no recommendations or actions from the AON report, and therefore no implementation plan from MPI.

CAC's position was that benchmarking should become a strategic and useful tool for MPI, the regulatory process, and Manitobans. The Corporation should be looking at recommendations and actions for improvement and comparable performance measures over time in order to track its progress. CAC therefore recommended that:

- The Board direct MPI to continue to undertake the Crown benchmarking exercise;
- MPI continue to retain a third-party vendor to conduct operational efficiency benchmarking and request that public sector organizations continue to be included in a peer group;
- The third party, or MPI, should identify areas of improvement and prepare an implementation plan;

- MPI should consider using some of its benchmarking performance measures as part of its work on linking key performance indicators (KPIs) and objectives and key results (OKRs) to budgeting practices, including to set objectives and stretch targets; and

- The Board should direct MPI to track and monitor its progress consistently and report back to the Board.

CAC submitted that once MPI has established consistent operational efficiency benchmarking that brings value to the GRA process, there can then be discussion about whether or not the issue should be moved to every two or three years for review.

CAC noted in its final submission that Gartner IT benchmarking only includes private sector firms in the peer group, and that MPI's reality is that of a monopoly Crown corporation. CAC noted that Gartner confirmed in responses to Information Requests that public sector organizations could be shown as a separate benchmark upon request, with an applicable scope change order from MPI. CAC submitted that MPI should be using Canadian Crown corporations and public sector organizations as benchmarks, although the Gartner benchmarking exercise does bring value to the organization. It also noted that MPI's FTE count is higher than peers both with and without Project Nova taken into consideration. The decreased maturity scores are concerning, and reflect instability in the organization.

7.9 Board Findings

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

Following the 2021 GRA, the Board had noted its concern in Order 1/21 with the budget overruns early in Project Nova. The Board stated at that time that "Project Nova remains the most significant, costly, ambitious, and risky initiative that MPI has undertaken."

In Order 134/21 following the 2022 GRA, the Board found that there was a significant risk that MPI's IT initiatives would increase in scope and cost. The re-baselined business case had increased the project budget, but the Board commented that the costs outlined in the 2021 re-baseline might not be a reliable indicator of future project costs.

Project Nova continues to be a central focus of the GRA. In the 2023 GRA, the Board's previously expressed concerns about the Project Nova budget were confirmed. The Project Nova budget is double that of the initial business case, and, notwithstanding that the base budget is $224.1 million, MPI appears to consider itself as remaining within the budget as long as it does not exceed $290 million.

The Board found in Order 4/23 that significant uncertainty remained with respect to the costs for Releases 3 and 4, and based on the evidence in this hearing, that remains the case. Further, there are issues that remain with Releases 1 and 2, and delays due to the labour interruption. All of this leads to the conclusion that Project Nova remains at high risk of significant budget overruns and delays. As of the 2023 GRA, NPV was no longer being used by the Corporation as a measure of the value of the project, whereas in prior hearings it had relied on a positive NPV as a justification for proceeding. The Board is concerned that MPI will overspend on IT initiatives until its funding envelope maturity increases.

The Board is also concerned that the evidence in this GRA was unclear as to which IT projects, not included within the $224.1 million budget, must be completed for Project Nova. This raises the question of whether the $290 million budget (including contingency) could be, in fact, higher as it does not include the costs of these projects, upon which Project Nova is fully or partially dependent.

Based on the history of the project and the evidence in this GRA, the Board does not have confidence in MPI's Project Nova budget. Ultimately, the amount may far exceed $290 million.

The Board had found in Order 4/23 that MPI should continue to engage a project governance consultant. Instead, the Corporation spent 11 months without any such guidance. This is of grave concern, given the status of the project at the time that the PwC contract concluded. The Board is further concerned that it will take many months for the new consultant to fully understand the complexities of Project Nova.

As well, since the 2023 GRA, there has been significant turnover in management and governance at MPI. The Chief Information Technology Officer has left, there is a new Chief Financial Officer, and during the hearing, all but one of members of the MPI Board of Directors was replaced. The new Board and Information Technology Committee, which is delegated oversight of Project Nova and all IT projects, does not have the experience to fully understand the complexities of Project Nova.

Given the history and current status of Project Nova, the Board finds that significant ongoing review is required, not only on Nova but across MPI's IT initiatives in order to review the Corporation's prudence going forward. Therefore, in the 2025 GRA, MPI shall file the following with respect to Project Nova:

- Full historical and forecasted budget allocations/estimates for Project Nova;
- A revised scope and related detailed strategy and plan to complete Project Nova within the 2022 IT Baseline estimated budget which minimizes usage of contingency;
- A firm and final estimate, inclusive of contingency and timelines to complete Project Nova; and
- A report on Project Nova addressing the following topics:

i. The funding envelopes for the project, including description and size of each;

ii. The lean business cases for the project and their status (e.g., approved, in review, rejected);

iii. Status of releases and program increments;

iv. Gate reports for each release;

v. Current risk assessment or matrix;

vi. The project expense to date;

vii. The project expense to date including details of costs allocated by line of business;

viii. Detail of the determination of budgeted expenses allocated by line of business; and

ix. Details of the internal and external resources working on the project, current to the date of the report and projected until final release completion, and information about the aspects of the project to which the resources are assigned.

Further, in order to be apprised on a timely basis of the status of Project Nova, the Board again directs an IT summit to take place no later than May 2024, to review progress on Project Nova and on IT projects beyond the scope of Project Nova. The IT Summit shall provide the following information and/or reporting:

- Project Nova, IT Benchmarking, Value Assurance, and IT Strategy and inclusive of all IT Projects/Epics that are underway related or non-related to Project Nova, with any supporting project outside of Project Nova to be identified as such;

- An interim governance report prepared by MNP covering all observations/recommendations/status to date;

- A Gannt chart, or equivalent, and supporting budget estimates and actuals noting all IT initiatives/releases, inclusive of Project Nova, for fiscal years 2022/23 and 2023/24. The Gantt chart must depict relationships between each Project/Epic; and

- A full list and report of all IT Projects/Epics related to Project Nova noting the specific relationship to Project Nova inclusive timeline, estimated and actual budget and summarized status reporting for each IT Project/Epic.

In addition to the IT Summit, MPI shall meet with Board staff and advisors to review all aspects of Project Nova, including but not limited to project deliverables, timeline, budget, discount rate, and any new elements added to the initiative, within 30 days after funding envelopes have been presented to the MPI Board of Directors.

In the 2025 GRA, MPI shall file the following with respect to IT Value Management/Assurance:

- Documented guidelines denoting the strategy MPI utilizes to assign contingency percentages to Projects/Epics; and

- A report detailing polices, processes, and guidelines used by MPI to define Funding Envelopes/Focus Areas and allocating and re-allocating budgets from Funding Envelopes/Focus Areas to Project/Epics.

In the 2025 GRA, MPI shall file an IT Strategy that specifically addresses optimization and alignment of MPI internal and external resources for the next five years, inclusive of IT, Project Nova, legacy systems, and remaining corporate Departments, and an updated Business Capabilities Matrix similar the Matrix filed in GRA 2020 IT Strategy.

With respect to MPI's request that benchmarking intervals be increased to two or three years, the Board accepts the recommendation of CAC. Until MPI has finalized its benchmarking criteria, review of the issue will continue on an annual basis.

With respect to IT benchmarking, the Board directs that in the 2025 GRA, MPI shall file the following:

- An IT Benchmarking report aligned with the GRA timing, including Project Nova in its entirety, and including public sector organizations;
- Details of costs (planned and/or incurred) to address the Gartner IT Benchmarking Maturity activities;
- Details of the IT maturity goal target recommendations for MPI and associated spending targets to reach these goals;

Further, the Board directs MPI to use its best efforts to file an interim IT Benchmarking report in early 2024, prior to the next GRA filing.

Lastly, it is not yet clear to the Board what MPI is using as a measurement framework in its budgeting process. It is important that the Corporation be able to explain how it is performing and where it has or has not met its objectives. Accordingly, in the 2025 GRA, the Board directs MPI to file detailed information as to its budgeting process framework and what measurement it is using to assess performance, whether key performance indicators or objectives and key results.

8.0 INVESTMENTS

The Corporation's funds available for Investment are primarily the assets supporting the unearned premium reserves and unpaid claims reserves. The investment portfolio supports both the payment of accident claims as well as the pension obligations of the Corporation. MPI previously had a single, commingled investment portfolio that backed all liabilities and surplus. As a result of recommendations made by Mercer in a 2017 ALM Study, MPI separated its co-mingled investment portfolio into five unique portfolios including Basic Claims, Basic Rate Stabilization Reserve (RSR), Employee Future Benefits or Pension (EFB), Extension, and Special Risk Extension (SRE). Each has unique asset allocations and allows the Corporation to develop investment portfolios better reflecting associated liabilities and investment goals of each portfolio.

The Basic Claims portfolio at the 2023 GRA was invested in 100% fixed income assets, with 60% in Provincial bonds and the remainder (40%) invested in both corporate and nonmarketable MUSH bonds. The portfolios backing Extension, SRE and RSR are balanced portfolios with 50% growth assets and 50% fixed income assets, and the portfolio backing EFB has a higher allocation to growth assets, at 60%. MPI reported in the 2023 GRA that the asset investment allocations recommended in the 2017 Mercer ALM study had been fully funded with private debt investments made in May 2022.

Mercer provided an updated 2022 ALM Study on behalf of MPI, and it was examined in detail in the 2023 GRA. The MPI Board of Directors approved a new investment policy in February 2023 based on recommendations from the study. This policy included new investments for the Basic Claims portfolio in real estate and commercial mortgages, as well as the inclusion of inflation protection bonds through a bond overlay strategy, discussed below.

The Corporation revised its target asset mixes for the Basic Claims, Basic RSR, and Pension portfolios as of the commencement of the 2023/24 fiscal year as follows:

Targeted Weights	**Basic Claims**	**RSR**	**Employee Future Benefits**
Fixed Income			
Provincial Bonds	37.0%	22.0%	0.0%
Corporate Bonds	28.0%	0.0%	16.0%
MUSH Bonds	20.0%	0.0%	0.0%
Private Debt	0.0%	23.0%	17.0%
Commercial Mortgages	5.0%	0.0%	0.0%
Total Fixed Income	**90.0%**	**45.0%**	**33.0%**
Public Equities			
Canadian Equities Large Cap	0.0%	6.0%	7.0%
Canadian Equities Small Cap	0.0%	6.0%	7.0%
Global Equities	0.0%	8.0%	10.0%
Global Low Volatility	0.0%	8.0%	10.0%
Total Equities	**0.0%**	**28.0%**	**34.0%**
Alternatives			
Canadian Real Estate	10.0%	16.0%	10.0%
Infrastructure	0.0%	11.0%	23.0%
Total Alternatives	**10.0%**	**27.0%**	**33.0%**
	100%	**100%**	**100%**
Overlay			
Real Return Bonds/TIPS	**34.0%**		
Federal Canada/US Treasuries	**-34.0%**		
Net Overlay Exposure	**0.0%**		

8.1 Investment Income

With over $3.5 billion in investment assets, the Investment Income forecast is a major component of the financial forecast of the Corporation. The size of the Basic portfolio, including Basic Claims, RSR, and EFB, is $2.98 billion for 2022/23, is forecast to be $2.9 billion in 2023/24, and projected to grow to $3.0 billion for 2024/25.

MPI forecasts eleven asset classes in the financial model. These asset classes include cash, provincial bonds, corporate bonds, MUSH bonds, commercial mortgages, Canadian equities, global equities, low volatility global equities, real estate (Cityplace and a pooled fund), infrastructure, and private debt. The forecast also includes the impact of investment fees and pension expenses.

One legacy of the COVID-19 pandemic is stubbornly high inflation. This resulted in the largest and quickest increase in interest rates by the Bank of Canada in history (from 0.50% to 4.50%) to contain inflation expectations. These increases in the overnight rate have been effective, as the Consumer Price Index fell to 4.3% in March 2023 after reaching the highest level in 40 years. However, there is fear that the rapid rise in rates may lead to a recession, which has weighed on equity markets.

The yields on corporate bonds rose between 120 to 121 basis points over the twelve months ended March 31, 2023, while Provincial bonds increased by 79 basis points and the Government of Canada's ten-year bond increased by 49 basis points. As a result, the Corporation reported within the total return for the Basic claims portfolio was -1.8% while the RSR and EFB portfolios returns were only 0.2% for 2022/23.

Basic reported an investment loss of $17.4 million in 2022/23, after recording marketable bond unrealized losses of $45.5 million, and realized bond losses of $70 million in the year. Also contributing to the investment loss was an impairment write down of $26.1 million in corporate bonds, private debt, and venture capital investments. Basic’s share of this write-down was $18.8 million.

MPI has elected to classify all investments under IFRS 9 as FVTPL. This means that there will be no need for any future impairment write downs of the investments, as FVTPL designated investments will be adjusted to their market value for financial reporting purposes, and any changes will be reflected in the net income.

MPI forecasts its investment income using a Naïve interest rate forecast. The Application was based on the March 31, 2023, Government of Canada ten-year bond interest rate of 2.90% and this rate forms the basis for all interest rate forecasts in the Application. A spread is added to the Government of Canada 10-year rate to arrive at an absolute yield for the fixed income assets. Based on the relative holdings of investments in provincial bonds, corporate bonds and mortgages (net of investment management fees), the new money yield, based on the methodology proposed by the Corporation, was 4.22%.

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 projected to be $125.6 million in 2023/24, $127.2 million for 2024/25, and $131.9 million for 2025/26.

MPI's forecast of investment income is sensitive to changes in interest rates. Based on the October 4, 2023, update, the new money yield rate increased (from 4.22% in the original Application to 5.04%) based on MPI's proposed approach to the setting of the new money yield, an increase of 82 basis points. The Government of Canada's ten-year bond increased by 66 basis points to a yield of 3.56%, which influenced increases in MPI's fixed income investments. The 2023/24 budget revision was due to a continuation of increases in the yields on provincial and corporate bonds and mortgages since March 31, 2023. On August 31, 2023, the yields on corporate bonds held by the Corporation increased by between 52 and 56 basis points and the yield on provincial bonds increased by 59 basis points.

This increase in interest rates in the last eight months has resulted in a devaluation of the Corporation's fixed-income holdings. The forecast Basic investment income for 2023/24

decreased from $125.6 million to $10.4 million. The Corporation's update projected a Basic investment income of $134.7 million for 2024/25 and $142.2 million for 2025/26.

As of March 31, 2023, the Basic Claims portfolio had a return of -1.8%, which was better than the benchmark's performance of -2.4%. Additionally, the EFB portfolio returned 0.2%, outperforming the benchmark return of -0.6%. However, the RSR portfolio returned only 0.2%, which was lower than the benchmark return of 0.7%.

MPI provided a 2023 Investment Performance Report prepared by Ellement Consulting. MPI's four-year performance of the Canadian fixed income comparison was in the bottom quartile of peers at the 89th percentile. The EFB portfolio was at the 53rd percentile, and the total fixed income fund was at the bottom of performance against peers at the 100th percentile. MPI attributed the poor performance relative to the benchmark due to the duration of the bond portfolio versus that used in the benchmarks.

8.2 Asset Liability Management (ALM) Strategy

Historically, MPI has commissioned ALM studies in four-year intervals.

In the 2022 GRA, MPI indicated that it would require a new ALM study as the Corporation needed to review its investment strategies before adopting IFRS 9 and IFRS 17, which were to take effect April 1, 2023. In Order 134/21, the Board directed MPI to file the new ALM study in the 2023 GRA.

MPI engaged Mercer to conduct the 2022 ALM study. Mercer's ALM study covered issues including the implications of adopting IFRS 9 and IFRS 17 and the impact on investment strategy, consideration of adding new fixed-income asset classes, merits of adding non-fixed income asset classes for long-tail Basic liabilities, asset class optimization and review of new assets classes such as real return bonds (RRBs), commercial mortgages, real estate, three times levered long provincial bonds, three times levered real return bonds and Canadian and global equities. The study considered the impact of various inflation scenarios on MPI assets and liabilities using a real liability benchmark. Mercer's

analysis indicated that real return bonds improved returns and lowered risk related to inflation scenarios evaluated.

In February 2023, the MPI Board approved a new investment policy which included investments for the Basic claims portfolio in commercial mortgages and real estate, and to incorporate inflation protection using a bond overlay strategy using purchase and repurchase agreements with counterparties. The goal of the overlay strategy is to create a synthetic provincial real return bond. In the public hearings, the Board heard evidence from John Stilo and Christian Robert of Addenda Capital about the design and implementation of the bond overlay strategy.

The strategy allows MPI to maintain the current bond portfolio and the increased yield that provincial and corporate bonds offer, with no impact to the discount rate, and avoid having to purchase RRBs on a cash basis, affecting the interest rate risk management strategy.

MPI is currently developing an inflation hedging policy and considering the appropriate level of inflation protection by establishing an inflation hedge ratio. MPI's forecast assumed a 50% inflation hedge ratio which provides $600 million in inflation protection.

The new investment policy for MPI does not propose a split between short-term and long-term claims. During the 2023 GRA, Mercer had recommended that MPI establish a Basic Short-Term portfolio, which would be carved out from the current Basic Claims portfolio. This portfolio would have backed short-term claims, representing around 9.0% of total Basic Claims assets. However, MPI rejected Mercer's proposal, stating that a short-term claims portfolio would offer little benefit and increase administrative costs.

ALM Strategy Effectiveness

In June 2021 MPI implemented a new ALM strategy with the assistance of Addenda Capital. The strategy is a hybrid methodology comprised of cash flow matching and "moment matching" to manage the interest rate risk associated with the Basic Claims

liabilities. The strategy matches the duration and convexity between the Basic claims portfolio and claims liabilities. Duration measures the sensitivity of bond prices to changes in interest rates, while convexity measures the curvature of the relationship between bond prices and interest rates. The duration and convexity are monitored daily by Addenda Capital and re-balanced as necessary.

The strategy was revised in April 2023, as MUSH bonds were classified as FVTPL due to the adoption of IFRS 9 and as a result are now reported at market value. Therefore, cash flow matching is no longer necessary and MUSH bonds are to be included with the marketable bonds in the moment matching strategy.

MPI claims the strategy continues to be effective, with a year-to-date net impact of interest rates of $15.5 million on a Corporate basis ($7.7 million for Basic Claims) at March 31, 2023. In a year when interest rates increased sharply, causing significant stress for financial institutions and two regional U.S. banks and Credit Suisse to collapse, this was a significant achievement.

Effective April 1, 2023, IFRS 17 required MPI to change the discount rate used to calculate the present value of Basic claims liabilities. MPI has elected to determine the discount rate under the new standard based on a yield curve instead of a single rate, which will be based upon a reference portfolio adjusted to remove credit risk, duration mismatches and other identified risks that are not relevant to the insurance contract liabilities. The result is a rate that reflects the characteristics of the liabilities, and any characteristics that are only relevant to the reference portfolio are adjusted out.

Addenda calculates the IFRS discount curves every month and is used by MPI to calculate the present value of the claim liabilities. MPI projects the future yield curve using the forward curve, which means that it assumes that interest rates will change over time when forecasting claim liabilities. However, MPI uses a Naive interest rate forecast to determine the new money yield for valuing fixed-income investments, which means that

it assumes that interest rates will not change over time when forecasting investment returns.

Based on the October 4, 2023 update, MPI forecasts a $45.6 million negative overall or net financial impact in 2023/24 due to changes in interest rates. The significant level of financial impact challenges the future effectiveness of the existing ALM strategy managed by Addenda.

During this period, the weighted average interest rates rose by approximately 82 basis points, causing the market value of the bond portfolio to fall by $103.5 million and the net present value of the basic claims liabilities to drop by $57.9 million, creating a net negative impact of $45.6 million.

MPI acknowledges a disconnect between the protection intended to be generated from the ALM approach and indicated the Corporation is in early-stage discussions on how to revise the ALM strategy including adjusting the proxy for the MUSH portfolio and to try to better align the assets with the liabilities to mitigate this emerging risk.

8.3 Interveners' Positions

CAC

CAC submitted that MPI’s reactionary adoption of a real liability benchmark led to the implementation of an inflation hedge in Basic Claims, but not before significant losses were incurred in 2021/22 and 2022/23. It noted that MPI’s Investment Committee’s decision to mitigate inflation risk with inflation-linked bonds came in March 2023, after two years of concerning performance and that the lack of inflation hedge in Basic Claims persists, and continues to cost ratepayers.

MPI’s investment risk tolerance is materially unchanged through the two most recent ALM studies and consistent choices to reduce risk to see material reductions in surplus volatility from 2017 to 2024. CAC was critical of MPI’s Investment Policy Statement

continuing to prohibit equities in Basic Claims and recommended that the Board find that MPI's continual reduction of risk in the absence of heightened risk sensitivity is not prudent, and has cost customers. Further, the Board should recommend that MPI's continued development of its asset/liability management should more closely reflect the recommendations of Mr. Valter Viola, which were adopted by the Board in Order 162/16 in the 2017 GRA.

CMMG

In recent years, CMMG had examined the efficient frontiers of various asset mixes provided in the ALM study. In the previous GRA and in this Application, the Corporation confirmed that an optimal asset mix that falls on the efficient frontier can include a small number of equities with little to no impact on the risk of the portfolio. CMMG argued that Manitobans are incurring a cost for what it characterized as MPI's poor investment decisions and lack of foresight, which can be seen in the Corporation's position on equities. A more diversified portfolio could address the concerns raised by the Corporation, while also drawing the benefits of modest incremental returns in line with the stated objective of the Basic Claims portfolio.

CMMG recommended that the Board find that the Corporation's decision to exclude equities from the Basic Claims portfolio is not supported by the evidence and that the inclusion of equities would not be in conflict with the stated objective of the portfolio.

8.4 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. Nevertheless, the review of MPI's investment portfolios is critical to the Board's examination of MPI's overall financial position and for the Board to assess the reasonableness of the rate request.

Based on the evidence in this hearing, the Board finds that the ALM is not as effective as anticipated by MPI in protecting against changes in interest rates, as demonstrated by

the $45.5 million unrealized marketable bond loss noted above. The current ALM strategy should be adjusted so to better protect against changes in interest rates. The Board notes that it recommended that MPI consider RRBs after the 2017 GRA, but the Corporation did not pursue this.

MPI is still in the bottom quartile of peers, including Crowns, when it comes to investment returns. Taking this into account, the Board is of the view that the Corporation ought to be reconsidering its current investment strategy. Poor investment performance leads to reduced income which must then be made up by charging ratepayers more premium. The Board therefore directs MPI to file, in the 2025 GRA:

- An Investment Committee Working Group analysis of and commentary on the Ellement investment report, including recommendations for changes to improve the performance of the investment portfolio;
- An update to its ALM to better match the impact of changes in interest rates, including an analysis and recommendations from Addenda to address differences in movement in assets versus claims liabilities to address this disconnect; and
- An update to its inflation hedging strategy.

Further, now that MPI will be employing the bond overlay strategy, the Board expects that MPI will be in a position to report on its effectiveness at least on a preliminary basis. Accordingly, the Board also directs MPI to file, in the 2025 GRA, a report on the effectiveness of the ALM strategy and the cost and effectiveness to date of the bond overlay strategy.

9.0 PRESENTERS

The Board received submissions from a series of presenters in the public hearings. 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 presentations is not evidence, the Board, MPI and the Interveners received the information presented for consideration. As always, MPI will respond to the presenters in writing with respect to the presentation made to the Board and file a copy of the responses with the Board.

Faculty of Law Robson Hall Rights Clinic, University of Manitoba,

The Board heard from Anna Evans-Boudreau and Lewis Lee from the Rights Clinic at Robson Hall, the University of Manitoba Faculty of Law. The Rights Clinic focuses on assisting Manitobans with rights-advancing issues in the areas of environmental rights, Charter rights, Indigenous rights, disability rights, and privacy rights.

The presenters raised two issues with respect to the GRA on behalf of the Rights Clinic: (1) the inaccessibility of the GRA document; and (2) MPI's misleading cross-Canada premium comparisons with comments on the Primary Driver Model.

Inaccessibility

The presenters raised issues regarding the manner in which the GRA is presented for public access and proposed measures to reduce barriers.

In particular, the presenters noted that the GRA was not sufficiently navigable and recommended that the master table of contents at the beginning be improved by including:

- All items contained in the document (including the detailed tables of contents throughout with subheadings);
- Page numbers; and
- Hyperlinks.

The presenters also recommended that an executive summary document be submitted alongside the GRA that specifically caters to the general public. The document would be shorter in length and would use language that the average concerns citizen could understand.

Cross Country Comparisons/Primary Driver Model

The second issue discussed by the presenters was the cross-country rate comparisons provided by MPI in 2024 GRA as well as challenges with the Registered Owner Model.

The presenters pointed to the difficulty in drawing comparisons to other jurisdictions for several reasons, including, among others: the fact that other jurisdictions allow for the purchase of insurance in a bundle; that different insurance plans across the country come with differing mandatory benefits for the most basic plan; and that Manitoba is one of only two jurisdictions with a strictly no-fault system. As a result, the presenters posit that no single model or average was determinative of which province has the cheapest insurance.

The presenters also noted that the Registered Owner Model is flawed in that fewer dangerous drivers are paying the monetary price for their dangerous driving.

The presenters therefore recommended that a more holistic approach with more accurate data be provided when comparing jurisdictions. They also recommend educating the

public on the benefits of the Primary Driver Model to allow for an easier transition to this system.

Doug Houghton

Mr. Houghton is a motorcyclist and currently a director of CMMG. He has previously served as Vice-President and President of CMMG; however, he made clear that he appeared before the Board in his personal capacity, and not as a representative of CMMG and that the views expressed did not necessarily reflect those of the CMMG.

Mr. Houghton expressed support for the DSR for the purposes of determining premium rates for vehicles. More directly, Mr. Houghton expressed concerns about the current rating model, Registered Owner, which he views as open to abuse and not reflective of the real risks created by drivers. His primary concern was that the current model encourages drivers with negative DSR rates to transfer ownership of their vehicles to another person or family member with a higher DSR rate.

In addition to the loss of income from higher premiums, Mr. Houghton noted that there was little incentive for registered owners to discontinue allowing use of their vehicles by others and correspondingly, no incentive for drivers to improve their driving habits.

Mr. Houghton proposed that if the Registered Owner model remains in place, there should be a premium or surcharge on the owner's vehicle should it be involved in an accident.

In discussing the Primary Driver model, Mr. Houghton indicated that there are pitfalls with this approach as there may still be one or more secondary drivers with poor driving records driving the registered vehicle. If implemented, Mr. Houghton proposed that detailed parameters be required to determine what constitutes a primary versus secondary driver. There are, as Mr. Houghton pointed out, challenges with obtaining data to support such parameters.

Finally, Mr. Houghton proposed that penalty costs associated with poor driving records ought to be applied to drivers' licences rather than a vehicle.

Fred Dugdale

Mr. Dugdale is a member of the public who raised concerns regarding difficulties encountered by individuals who have experienced brain injuries. In particular, Mr. Dugdale spoke to issues with being properly assessed in MPI's claims process. He pointed to research on traumatic brain injuries being funded by MPI and University of Manitoba and a study in which he had participated and expressed frustration that too many individuals who have suffered brain injuries continue to be denied in the claims process.

Bike Winnipeg

Bike Winnipeg is a non-profit organization dedicated to improving bicycling conditions in Winnipeg and encouraging more Winnipeggers to cycle more often. Bike Winnipeg did not present this year as road safety has been deferred from the 2024 GRA but opted to provide written submissions instead.

The primary issue raised by Bike Winnipeg was the lack of a channel for information generated at technical conferences to reach the PUB to assist in its hearing process. In order to derive value from future Road Safety Technical Conferences (RSTC), Bike Winnipeg recommended:

- That a report be provided to the PUB by an independent expert chair of the conference prior to the first round of interrogatories to assist the PUB panel in understanding current road safety program issues. This would include a summary of road safety program matters agreed upon by RSTC participants and those matters where there remains disagreement between MPI and stakeholders; and/or

- That the PUB engage a road safety expert consultant to attend the RSTC on the PUB's behalf to assist the panel during the GRA hearing process to understand road safety programming issues.

10.0 IT IS THEREFORE ORDERED THAT:

1. There shall be an overall rate decrease of 5.0% for the 2024/25 insurance year, effective April 1, 2024, 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, 2023, and is a combination of the -1.48% rate indication as filed by MPI, along with the additional impact on the AAP rate indication of the following items:

   a. The Naïve interest rate forecast is to be determined in a manner consistent with prior GRAs, and based on the duration of the invested assets supporting the Basic claims portfolio. This is a new money yield of 5.06%. The new money yield of 5.06% is to be reduced by 19 basis points for investment management expense, resulting in a final new money yield of 4.87%, a decrease of 0.17% from the 5.04% proposed by MPI;

   b. The claims forecast for 2024/25 and 2025/26 is to be adjusted, using a 20% weight for each of the most recent five accident years (2018/19 through 2022/23);

   c. The claims forecast for 2024/25 and 2025/26 is to be adjusted, using a contiguous single model for each of Collision and Property Damage Third Party Loss of Use severity, rather than two misaligned models; and

   d. The claims expense forecast for 2024/25 and 2025/26 for rate-setting purposes is to be set at 16% of the claims costs, excluding PIPP enhancements and claims incurred expenses.

2. MPI shall, with respect to serious loss loadings used in its ratemaking, continue to use the methodology as set out in Order 4/23, Directive 12.2.

3. MPI shall revert to the 2023 GRA approach for the fleet rebate allocation for the three Major Classes (Private Passenger, Commercial, and Public), allocating $21.18 per vehicle.

4. MPI shall file a revised analysis and proposal for modifications to the fleet program to better reflect cost causation in the 2025 GRA.

5. In the 2025 GRA, MPI shall report on whether the 10% minimum credibility used in the classification ratemaking process remains appropriate or whether it should be changed.

6. In the 2025 GRA, MPI shall file, in a form suitable for filing on the public record, an updated opinion from Deloitte LLP, on the application of the interim standard IFRS 14, considering MPI's past accounting treatment of the RSR.

7. The Board hereby dismisses MPI's request for approval of the CMP as presented in this Application.

8. The Board hereby dismisses MPI's request for a prospective directive permitting Uber to file its kilometre data confidentially in the 2025 GRA restricting access to the Board and its advisors.

9. The Board hereby dismisses MPI's request for approval of the Blanket Policy framework. MPI shall:

   a. Expand the DSR scale from DSR +17 to DSR +18 in the 2024/25 policy year forward. Drivers will still require an incident-free year before moving to the new top merit level; and

b. Implement the following increases to the vehicle insurance premium discounts:

DSR Level	Current Discount	Increase	2023/24 Discount
18	40%	6%	46%
17	40%	5%	45%
16	40%	4%	44%
15	40%	3%	43%
14	34%	4%	38%
13	33%	2%	36%
12	32%	3%	35%
11	31%	2%	33%
10	29%	2%	31%
9	27%	1%	28%
8	26%	0%	26%
7	26%	0%	26%
6	21%	0%	21%
5	16%	0%	16%
4	16%	0%	16%
3	11%	0%	11%
2	10%	0%	10%
1	5%	0%	5%

10. In the 2025 GRA, MPI shall file the following with respect to Project Nova:

a. Full historical and forecasted budget allocations/estimates for Project Nova;

b. A revised scope and related detailed strategy and plan to complete Project Nova within the 2022 IT Baseline estimated budget which minimizes usage of contingency;

c. A firm and final estimate, inclusive of contingency and timelines to complete Project Nova; and

d. A report on Project Nova addressing the following topics:

i. The funding envelopes for the project, including description and size of each;

ii. The lean business cases for the project and their status (e.g., approved, in review, rejected);

iii. Status of releases and program increments;

iv. Gate reports for each release;

v. Current risk assessment or matrix;

vi. The project expense to date including details of costs allocated by line of business;

vii. Detail of the determination of budgeted expenses allocated by line of business; and

viii. Details of the internal and external resources working on the project, current to the date of the report and projected until final release completion, and information about the aspects of the project to which the resources are assigned.

11. An IT summit shall take place no later than May 2024, to review progress on Project Nova and on IT projects beyond the scope of Project Nova. The IT Summit shall provide the following information and/or reporting:

a. Project Nova, IT Benchmarking, Value Assurance, and IT Strategy and inclusive of all IT Projects/Epics that are underway related or unrelated to Project Nova, with any projects that support Project Nova to be identified as such;

b. An interim governance report prepared by MNP covering all observations/recommendations/status to date;

c. A Gantt chart, or equivalent, and supporting budget estimates and actuals noting all IT initiatives/releases, inclusive of Project Nova, for fiscal years 2022/23 and 2023/24. The Gantt chart must depict relationships between each Project/Epic; and

d. A full list and report of all IT Projects/Epics related to Project Nova noting the specific relationship to Project Nova inclusive timeline, estimated and actual budget and summarized status reporting for each IT Project/Epic.

12. MPI shall meet with Board staff and advisors to review all aspects of Project Nova, including but not limited to project deliverables, timeline, budget, discount rate, and any new elements added to the initiative, within 30 days after funding envelopes have been presented to the MPI Board of Directors.

13. In the 2025 GRA, MPI shall file the following with respect to IT Value Management/Assurance:

a. Documented guidelines denoting the strategy MPI utilizes to assign contingency percentages to Projects/Epics; and

b. A report detailing polices, processes, and guidelines used by MPI to define Funding Envelopes/Focus Areas and allocating and re-allocating budgets from Funding Envelopes/Focus Areas to Project/Epics.

14. In the 2025 GRA, MPI shall file an IT Strategy that specifically addresses optimization and alignment of MPI internal and external resources for the next five years, inclusive of IT, Project Nova, legacy systems, and remaining corporate Departments, and an updated Business Capabilities Matrix similar the Matrix filed in GRA 2020 IT Strategy.

15. In the 2025 GRA, MPI shall file the following:

a. An IT Benchmarking report aligned with the GRA timing, including Project Nova in its entirety, and including public sector organizations;

b. Details of costs (planned and/or incurred) to address the Gartner IT Benchmarking Maturity activities; and

c. Details of the IT maturity goal target recommendations for MPI and associated spending targets to reach these goals.

16. MPI shall use its best efforts to file an interim IT Benchmarking report in early 2024, prior to the next GRA filing.

17. In the 2025 GRA, MPI shall file detailed information as to its budgeting process framework and what measurement it is using to assess performance, whether key performance indicators or objectives and key results.

18. MPI shall file, in the 2025 GRA:

a. An Investment Committee Working Group analysis of and commentary on the Ellement investment report, including recommendations for changes to improve the performance of the investment portfolio;

b. An update to its ALM to better match the impact of changes in interest rates, including an analysis and recommendations from Addenda to address differences in movement in assets versus claims liabilities to address this disconnect; and

c. An update to its inflation hedging strategy.

19. MPI shall file, in the 2025 GRA, a report on the effectiveness of the ALM strategy and the cost and effectiveness to date of the bond overlay strategy.

20. A technical conference shall be held on road safety and loss prevention in early 2024, which shall be initiated by the Board but held on such dates as are mutually agreed between the Board and MPI.

11.0 IT IS THEREFORE RECOMMENDED THAT:

1. Section 18 of *The Manitoba Public Insurance Corporation Act*, which sets capital targets for the Basic, Extension, and SRE RSRs, and grants MPI the discretion to apply for a rebate, should be repealed.

2. The Government of Manitoba work with MPI on a funding strategy for DVA, pursuant to which MPI would charge the Government for all costs for administering DVA.

3. The Government of Manitoba make legislative changes to permit MPI to collect the data it states it requires to proceed with changes to the Basic Insurance Model.

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, K.C."
Panel Chair

"Jennifer Dubois, CPA, CMA"
Assistant Associate Secretary

Certified a true copy of Order No. 145/23 issued by The Public Utilities Board

Assistant Associate Secretary

APPENDIX A

GLOSSARY OF ACRONYMS AND TERMS

AAP	Accepted Actuarial Practice in Canada
ALM	Asset Liability Management
Agile	A software development/integration methodology to continually iterate development within a software development lifecycle
Application	2024 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
EFB	Employee Future Benefits
Epic	A grouping of related solution deliverables under a common theme or initiative

Extension	MPI's non-compulsory automobile insurance
FCT	Financial Condition Testing
FTE	Full-Time Equivalent
FVTPL	Fair Value Through Profit or Loss
GRA	General Rate Application
GLM	Generalized Linear Model
HRMS	Human Resource Management System
ICAM	Integrated Cost Allocation Methodology
HTA	Highway Traffic Act
ICWG	Investment Committee Working Group (MPI)
IFRS	International Financial Reporting Standards
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
ORSA	Own Risk and Solvency Assessment
OSFI	Office of the Superintendent of Financial Institutions
PDR	Physical Damage Re-engineering
PIPP	Personal Injury Protection Plan
Program Increment	A timebox in which incremental value is delivered within an agile initiative
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
SAFe	Scaled Agile Framework
Sprint	A dedicated duration of work to complete delivery of value within an Agile project
TNC	Transportation Network Company
VFH	Vehicles for Hire
VA	Value Assurance

VMP	Value Management Process

APPENDIX B

APPEARANCES

K. McCandless / T. Andres	Counsel for the Public Utilities Board (the Board)
A. Guerra / S. Scarfone	Counsel for Manitoba Public Insurance Corporation (MPI / the Corporation)
K. Dilay / C. Klassen	Counsel for the Consumers' Association of Canada (Manitoba) Inc.
C. Meek	Counsel for the Coalition of Manitoba Motorcycle Groups
K. Wittman/S. Nelko	Taxi Coalition

APPENDIX C

WITNESSES

Witnesses for the Corporation

M. Kacher	Interim President and Chief Executive Officer
R. Kolaski	VP, Finance
C. Low	VP, Chief Actuary and Chief Risk Officer
S. Jatana	VP, Chief Customer Officer
S. Mitra	VP, Chief Transformation Officer
S. Campbell	Interim VP and Chief Information Technology Officer
K. Massud	Director, Pricing
C. Zhou	Director, Business Insights & Analytics
G. Dessler	Director, Nova Technical Solutions
R. Smithson	Director, Customer Value Proposition
L. Edwards	Director, Value Assurance
C. Muir	Director, Strategic Sourcing and Vendor Management
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
S. Mann	Customer Value Proposition Lead
J. Stilo	Addenda Capital
C. Robert	Addenda Capital

Witnesses for CAC

R. Sahasrabuddhe	Principal, Oliver Wyman

APPENDIX D

Interveners

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

Presenters

Anna Evans-Boudreau and Lewis Lee	Robson Hall Rights Clinic
Doug Houghton	
Fred Dugdale	