

MPI 2014/15 General Rate Application

Book of documents

October 2, 2013



Public Interest Law Centre
of Legal Aid Manitoba
3rd floor – 287 Broadway
Winnipeg, MB R3C 0R9

Manitoba Public Insurance						
Multi-year Statements						
<i>For the Years Ended February,</i>						
(C\$ 000s, except where noted)	Forecast	Projected				
	2014F	2015P	2016P	2017P	2018P	
BASIC						
Motor Vehicles	757,933	805,344	840,485	877,096	915,225	
Drivers	42,144	47,548	51,748	56,158	56,158	
Reinsurance Ceded	(13,422)	(14,183)	(14,989)	(15,849)	(16,765)	
Total Net Premiums Written	786,655	838,709	877,244	917,405	954,618	
Net Premiums Earned						
Motor Vehicles	741,742	783,511	824,302	860,236	897,666	
Drivers	37,398	44,846	49,648	53,953	56,159	
Reinsurance Ceded	(13,422)	(14,183)	(14,989)	(15,849)	(16,765)	
Total Net Premiums Earned	765,718	814,174	858,961	898,340	937,060	
Service Fees & Other Revenues	20,905	20,546	22,066	23,795	25,826	
Total Earned Revenues	786,623	834,720	881,027	922,135	962,886	
Net Claims Incurred						
Claims Expense	647,199	644,705	659,848	667,171	683,734	
Road Safety/Loss Prevention	110,675	118,414	120,568	122,832	136,432	
Total Claims Costs	770,299	774,706	791,050	800,632	830,780	
Expenses						
Operating	66,772	69,942	69,862	72,163	75,052	
Commissions	31,996	32,430	34,138	35,660	37,107	
Premium Taxes	23,374	24,851	26,219	27,426	28,615	
Regulatory/Appeal	3,257	3,312	3,368	3,423	3,481	
Total Expenses	125,399	130,535	133,586	138,672	144,255	
Underwriting Income (Loss)	(109,075)	(70,521)	(43,609)	(17,169)	(12,149)	
Investment Income	114,547	63,027	45,787	37,668	36,389	
Net Income (Loss) from Operations	5,472	(7,494)	2,178	20,500	24,240	

June 14, 2013

2014 RATE APPLICATION
Investment Income

Ending Values and Allocations

	2008/09	2009/10	2010/11 Actual	2011/12	2012/13	2013/14	2014/15	2015/16 Forecast	2016/17	2017/18
Ending Asset Values (C\$ 000,000's)										
Cash/Short Term Investments	225	76	47	107	158	86	81	76	80	84
Canadian Fixed Income	1,068	1,269	1,231	898	813	847	893	881	903	938
MUSH	430	461	491	521	565	568	598	621	613	617
Canadian Equities	216	315	399	369	401	426	371	402	452	510
US Equities	56	72	130	133	162	119	123	131	144	159
Real Estate	0	38	124	205	224	236	250	265	281	298
Infrastructure	0	0	0	12	22	76	121	170	183	183
Venture Capital	8	8	7	7	4	0	0	0	0	0
Total Assets	2,003.2	2,238.7	2,429.5	2,251.4	2,349.7	2,358.3	2,438.3	2,545.0	2,654.7	2,789.6
Ending Rebalanced Allocations (%)										
Cash/Short Term Investments	11.2%	3.4%	1.9%	4.7%	6.7%	3.6%	3.3%	3.0%	3.0%	3.0%
Canadian Fixed Income	53.3%	56.7%	50.7%	39.9%	34.6%	35.9%	36.6%	34.6%	34.0%	33.6%
MUSH	21.5%	20.6%	20.2%	23.1%	24.1%	24.1%	24.5%	24.4%	23.1%	22.1%
Canadian Equities	10.8%	14.1%	16.4%	16.4%	17.1%	18.1%	15.2%	15.8%	17.0%	18.3%
US Equities	2.8%	3.2%	5.3%	5.9%	6.9%	5.0%	5.1%	5.1%	5.4%	5.7%
Real Estate	0.0%	1.7%	5.1%	9.1%	9.5%	10.0%	10.3%	10.4%	10.6%	10.7%
Infrastructure	0.0%	0.0%	0.0%	0.5%	1.0%	3.2%	5.0%	6.7%	6.9%	6.6%
Venture Capital	0.4%	0.3%	0.3%	0.3%	0.2%	-	-	-	-	-
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

June 14, 2013

2014 RATE APPLICATION
Investment Income

Summary of Investment Income

	Reference Section #	2008/09	2009/10	2010/11 Actual	2011/12	2012/13	2013/14	2014/15 Forecasted	2015/16	2016/17	2017/18
Interest Income During Period											
Cash/Short Term Investments	Section 2	4,173	34	381	1,075	1,132	1,139	963	1,469	2,188	2,824
Marketable Bonds	Section 3	51,979	51,995	50,997	40,704	35,370	30,676	29,381	29,033	29,716	33,634
MUSH	Section 4	27,478	26,612	27,661	28,516	29,091	28,626	28,876	29,679	29,992	30,031
Total		83,630	78,641	79,039	70,295	65,594	60,442	59,220	60,182	61,896	66,489
Dividend and other Income											
Canadian Equities	Section 5	8,374	8,267	8,806	9,449	11,058	12,964	12,524	12,133	13,257	14,973
US Equities	Section 6	1,708	1,313	1,388	2,995	0	1,693	2,867	3,005	3,209	3,551
Infrastructure	Section 8	-	0	0	1,164	1,725	2,932	6,339	9,463	12,243	12,468
Total		10,082	9,580	10,194	13,608	12,783	17,589	21,730	24,601	28,710	30,993
Gains During Period - Profit & Loss											
Marketable Bonds (Unrealized Gains/(Loss))	Section 3	(5,533)	14,575	3,208	26,122	(9,075)	(14,997)	(29,452)	(28,226)	(36,102)	(37,381)
Marketable Bonds Realized Gains/(Loss)	Section 3	15,294	16,942	14,822	39,704	17,054	16,868	940	(11,110)	(19,144)	(27,081)
MUSH	Section 4	-	0	0	0	0	0	0	0	0	0
Canadian Equities Realized Gains	Section 5	(22,654)	(12,627)	14,288	2,127	5,337	12,689	22,834	10,440	10,733	11,236
US Equities Realized Gains	Section 6	(32,040)	10,356	3,625	0	0	45,072	0	0	0	0
Real Estate	Section 7	-	670	4,187	17,133	20,666	11,874	14,155	15,004	15,904	16,859
Infrastructure	Section 8	-	0	0	0	0	0	0	0	0	0
Total		(44,933)	29,917	40,130	85,086	33,982	71,505	8,478	(13,892)	(28,609)	(36,367)
Other											
Investment Fees Paid	Section 9	(2,902)	(2,715)	(3,123)	(3,091)	(4,280)	(4,168)	(4,121)	(4,216)	(4,300)	(4,373)
Pension Expense	Section 9	(11,804)	(12,336)	(20,342)	(27,470)	(17,118)	(11,385)	(11,592)	(13,122)	(13,640)	(14,182)
Amortization of Bond Premium/Discount	Section 9	(3,731)	(3,744)	(4,939)	(4,911)	(5,872)	-	-	-	-	-
Venture Capital Income	Section 9	3	0	519	0	2,037	-	-	-	-	-
Investment Write-Down		(25,712)	(3,061)	(736)	(14,540)	(3,957)	-	-	-	-	-
Total		(44,147)	(21,855)	(28,621)	(50,012)	(29,190)	(15,563)	(15,713)	(17,338)	(17,940)	(18,555)
Total Investment Income		4,532	96,283	100,742	118,976	83,169	133,973	73,715	53,552	44,057	42,580
Basic Allocation Investment Income (85.5%)	Section 9	3,696	84,145	83,808	101,243	68,094	114,547	63,027	45,787	37,668	36,399

CAC (MPI) 1-25**Reference:** Volume III AI.6 Part 2 - Corporate Strategic Plan 2013-2017**Preamble:** Page 12 "To use investment income to reduce the average premium paid by Manitobans".

Please calculate the amount of investment income per policy for fiscal years 2011/12, 2012/13 and forecasted for 2013/14 and 2014/15 for basic insurance and file a copy of the detailed analysis.

RESPONSE:

BASIC	2011/12	2012/13	2013/14	2014/15
Investment Income	101,243,192	68,094,066	114,547,000	63,027,000
Policies in Force	995,682	1,026,164	1,038,250	1,059,015
Investment Income Per Policy	101.68	66.36	110.33	59.51

Sustained Low Interest Rates Scenario with Management and Regulatory Actions (in millions)

	2013/14	2014/15	2015/16	2016/17	2017/18
Rate Changes	0.00%	1.80%	1.00%	2.00%	0.00%
Rate Surcharges	0.00%	0.00%	0.00%	2.00%	4.00%
Earned Revenues	\$787	\$835	\$886	\$950	\$1,019
Total Claims Costs	\$787	\$821	\$839	\$877	\$919
Expenses	\$125	\$131	\$134	\$141	\$148
Investment Income	\$123	\$85	\$69	\$68	\$67
Net Income	(\$4)	(\$31)	(\$18)	(\$0)	\$18
Retained Earnings	\$138	\$106	\$88	\$88	\$106

Difference from Base Forecast (in millions) – Sustained Low Interest Rates Scenario with Management and Regulatory Actions

	2013/14	2014/15	2015/16	2016/17	2017/18
Earned Revenues	\$0	\$0	\$5	\$28	\$56
Total Claims Costs	\$17	\$46	\$48	\$77	\$89
Expenses	\$0	\$0	\$0	\$2	\$4
Investment Income	\$8	\$22	\$23	\$30	\$30
Net Income	(\$9)	(\$24)	(\$20)	(\$21)	(\$6)
Retained Earnings	(\$9)	(\$33)	(\$53)	(\$74)	(\$80)

Recommendation

We recommend a minimum retained earnings of \$80 million as of February 28, 2013 to withstand a Sustained Low Interest Rate adverse scenario including management and regulatory action.

Reconciliation

Exhibits 5a through 5f provide detailed financial model results for the Sustained Low Interest Rate scenario with and without management action.

issues reduced the concentration of interest rate refinance risk by subdividing the retired debt issues into smaller maturity segments with different maturity dates which resulted in a reduction of interest rates by 45 basis point and 20 basis points, respectively.

Currently, a large portion of Centra's debt that is to be refinanced in the future will mature within a relatively short timeframe. Mr. McCormick has indicated that Centra has \$80 million in debt or 24.6% of its portfolio maturing in 2037 and \$60 million or 18.5% of its debt maturing in 2034-2035. The use of longer term debt provides interest rate stability but at a higher cost than short or medium term debt. Furthermore, the high concentration of debt maturities exposes future Centra ratepayers to refinancing risk.

Centra has adopted a policy to have no more than 15% of the long-term debt portfolio maturing within a fiscal year to address refinancing risk. Mr. McCormick indicated that the policy could be improved by implementing shorter term and staggered debt maturities financing, as well as sequential five-year financings as an alternative to the 10 year fixed rate financing preferred by Centra. Centra ratepayers would benefit from the lower rates for shorter term debt.

In addition to establishing a policy to setting a limit on maturities, in a 12-month period, Centra should also place a concentration limit on some longer period of 4 to 6 years. CAC recommended that the Board require Centra bring forward a broader debt concentration policy at the next General Rate Application. Centra believes this proposed strategy to seek near-term cost savings by maintaining a higher weighting of short-term debt in the capital structure is both risky and ill-timed given the expectation of rising interest rates.

5.2.3 Interest Rate Forecast Methodology

In Order 128/09, which is the order arising out of Centra's last General Rate Application, the Board directed changes to Centra's interest rate forecasting methodology to better reflect a robust methodology. The Board stated:

"The revised methodology for rate setting purposes should include:

- The use of all forecasts based on comparable average period data basis;*
- The use and alignment of current date forecasts, excluding stale dated and superseded forecasts;*

- *Utilization of forecasted long term interest rates which align with the period in which Centra intends on issuing new or refinancing existing long term debt;*
- *A process to retrospectively test the accuracy of forecasters to assess their inclusion in future forecasts;*
- *The use of only statistically independent forecasts; and*
- *A proposed process to update the forecast in advance of the hearing if warranted. "*

The Board will also expect Centra to propose a methodology to be used for rate setting purposes to update the interest rate forecast during the hearing process. The Board understands that an update is already required for the cost of gas, and that an updated interest rate forecast should also be provided. Centra may choose to update its interest rate forecast coincident with its cost of gas update."

Centra did not implement a process to retrospectively test interest rate forecasters as directed by the Board, citing among other reasons that forecaster modeling algorithms have been evolving since the financial crisis and that sufficient time has not transpired to appropriately test the accuracy of these algorithms. Centra also believes that a retrospective testing process with the aim of pruning or weighting forecaster opinions could potentially weaken or bias the Corporation's viewpoints in terms of understanding the spectrum of possibilities and mitigating the risk.

Mr. McCormick stated that a process to retrospectively test the accuracy of the interest rate forecasts is timely, beneficial and central to the function of determining fair and reasonable rates. Mr. McCormick also suggested that Centra should use interest rates forecasted in known quarters where Centra will be refinancing or issuing debt rather than a forecast for the entire year, unless there is uncertainty on when financing will be undertaken. CAC recommended the Board order Centra to have retrospective testing performed by an outside consultant for the next General Rate Application so that the Board can establish some parameters around what type of routine testing should be implemented going forward.

5.2.4 *Interest Rate Forecast Update*

Centra filed its current application based on its 2012 economic outlook, utilizing forecasts prepared in September and October 2012. The forecasts utilized were from select financial institutions that provide near-term publicly available forecasts and macro-economic forecasters which provide both near and longer term forecasts. Centra provided an update to both short and long term interest rates based on the 2013 economic outlook, which indicates a \$200,000 reduction in forecast Finance Expense for the test year. Centra has not updated its Application to reflect the changed interest rate forecast. Mr. McCormick suggested updated forecasts should be utilized in establishing revenue requirements in the normal course and that an update to interest rate forecast need not be tied to the economic outlook. CAC recommended that an update to the interest rate forecast should be provided during the hearing so the Board and interveners can assess whether or not an update to the Application is warranted.

CAC requested that the Board adjust the forecast of long-term and short-term rates to a more representative number that is less than forecast by Centra, and no greater than forecast by Mr. McCormick.

5.2.5 *Board Findings*

The Board is of the view that Finance Expense has declined to the benefit of ratepayers. The forecasting of interest rates in this changing environment has been a challenge and the Board believes that, in general, a consensus-based approach using forecasters is appropriate. The Board also believes that the most current information should be utilized; accordingly Centra should update the interest rate forecast based on its 2013 Economic Outlook and reflect the direction provided by the Board in this Order. While Centra's evidence suggested such an interest rate forecast update would yield approximately \$200,000 of reduced finance expense, such an amount is material and needs to be reflected in revised rates.

The Board agrees with Mr. McCormick that there is an upward bias demonstrated in the growth forecasts projected by the forecasters used by Manitoba Hydro. The Board further believes that it is reasonable to correct an upward bias by removing the highest forecaster for both long and short-term rates for setting the interest rates used in the test year. Accordingly, the Board will direct Centra to re-file its 2013 interest rate forecast removing the highest forecast interest rates used in the determination of interest rates for 2013/14 and incorporate this change in the revenue requirement.

The Board also agrees with Mr. McCormick that interest rates assigned to debt issues should be based on similar debt terms as those prevailing in the market at the time of

issue. The Board accordingly will require the interest rates applied to CG-10 to be adjusted down by 20 basis points and those applied to CG-15 to be adjusted down by 38 basis points.

The Board requires current financial information in setting rates and will expect Centra to file an update to its interest rate forecast for the Board's consideration when Centra files its rebuttal evidence during any future General Rate Application. The Board can then be in a position to assess whether interest rates should be adjusted and reflected in an update to Finance Expense.

Given the recent volatility in the interest rate environment, the Board will not require Centra to undertake retrospective testing at this time. Notwithstanding this change to the Board's prior direction, the Board is concerned with Centra not responding adequately to Board directives. The Board will address this matter later in the Order. The Board may require retrospective testing of interest rate forecasters in the future. The Board expects Centra to comply with this and any directive in a timely manner.

The Board notes that Centra's policy of not having more than 15% of its debt maturing within a fiscal year does not address the concentration of debt maturing in a narrow time frame that straddles fiscal years. The Board believes Centra must amend the debt concentration policy after considering the recommendations of CAC to limit concentration in any 12-month period. The Board will require Centra to report its debt concentration policy at the next General Rate Application.

5.3.0 Depreciation and Amortization

Centra depreciates its investments in plant-in-service over the expected life of the plant, using a straight-line remaining life basis, and recovers the annual depreciation amounts from customers. The amortization of non-refundable customer contributions, regulated assets and intangible assets are also included. Periodically, Centra commissions depreciation studies to assess the proper rates of depreciation for different asset classes.

5.3.1 Depreciation Study

Centra filed a March 31, 2010 depreciation study prepared by Gannett Fleming. In this most recent study Gannett Fleming recommended extensions of assumed service lives for distribution plant, services, regulators, and measuring and regulatory equipment.

In addition, Gannett Fleming recommended the creation of new asset groupings for regulatory station electronic equipment in recognition of the increasing use of electronic

II.13 APPENDIX 1: INTEREST RATE and CPI FORECAST INFORMATION

II.13.1 Scenario Interest Rate Forecasts – Additional Information

Table 13.1.1

Government of Canada 10 Year Yield Forecast

	Forecasted Years: 2013/14, 2014/15, 2015/16		Forecasted Years: 2016/17, 2017/18	
	Sources	Methodology	Sources	Methodology
1. Standard Interest Rate Forecast	Median of 5 major banks ¹ , Global Insight	Normal ⁴	Median of 5 major banks, Global Insight	Normal
2. Lower Interest Rate Growth Forecast	Median of 5 major banks, Global Insight	Low Growth Methodology ³	Median of 5 major banks, Global Insight	Low Growth Methodology
3. CBOC Interest Rate Forecast	CBOC	Normal	CBOC	Normal
4. GRA Interest Rate Forecast	Median of 5 major banks, Global Insight, CBOC ²	Low Growth Methodology	CBOC	Normal

¹ **5 Major Banks:** BMO, CIBC, RBC, Scotia, TD

² **CBOC:** Conference Board of Canada

³ **Low Growth Methodology:**

For the Lower Interest Rate Growth Scenario, the median interest rates are applied over 10 years

Instead of 5 years. To calculate, the median forecast is applied to every first and third quarter for each fiscal year, with linear interpolation applied to every second and fourth quarter.

⁴ **Normal Methodology:** Forecasted median interest rates are applied to their respective fiscal quarter.

Table 13.1.2

GoC 10 Year Yield Forecast

Fiscal Year		1. Standard Forecast	2. Lower Interest Rate Growth	3. CBOC Interest Rate	4. GRA Interest Rate
2013/14	Q1	1.87%	1.87%	1.90%	1.87%
	Q2	1.92%	1.90%	1.86%	1.90%
	Q3	2.08%	1.92%	1.82%	1.92%
	Q4	2.22%	2.00%	1.79%	2.00%
2014/15	Q1	2.43%	2.08%	1.77%	2.08%
	Q2	2.62%	2.15%	1.85%	2.15%
	Q3	2.72%	2.22%	1.90%	2.22%
	Q4	2.83%	2.32%	1.99%	2.32%
2015/16	Q1	2.83%	2.43%	2.10%	2.43%
	Q2	2.85%	2.52%	2.24%	2.52%
	Q3	3.15%	2.62%	2.40%	2.62%
	Q4	3.37%	2.67%	2.57%	2.67%
2016/17	Q1	3.61%	2.72%	2.74%	2.74%
	Q2	3.78%	2.77%	2.93%	2.93%
	Q3	3.98%	2.83%	3.06%	3.06%
	Q4	4.24%	2.83%	3.21%	3.21%
2017/18	Q1	4.43%	2.83%	3.39%	3.39%
	Q2	4.67%	2.84%	3.53%	3.53%
	Q3	4.86%	2.85%	3.68%	3.68%
	Q4	4.87%	3.00%	3.86%	3.86%

Table 13.1.3

Cash Yield Forecast

	All Forecasted Years	
	Sources	Methodology
1. Standard Interest Rate Forecast	Median of 5 Major Banks, Global Insight	Normal
2. Lower Interest Rate Growth Forecast	Median of 5 major banks, Global Insight	Low Growth Methodology
3. CBOC Interest Rate Forecast	CBOC	Normal
4. GRA Interest Rate Forecast	CBOC	Normal

Table 13.1.4**Cash Yield
Forecast**

Fiscal Year		1. Standard Interest Rate Forecast	2. Lower Interest Rate Growth	3. CBOC Interest Rate Forecast	4. GRA Interest Rate Forecast
2013/14	Q1	0.96%	0.96%	0.95%	0.95%
	Q2	0.98%	0.97%	0.96%	0.96%
	Q3	0.99%	0.98%	0.94%	0.94%
	Q4	0.99%	0.98%	0.92%	0.92%
2014/15	Q1	0.99%	0.99%	0.91%	0.91%
	Q2	1.00%	0.99%	1.11%	1.11%
	Q3	1.14%	0.99%	1.22%	1.22%
	Q4	1.44%	0.99%	1.38%	1.38%
2015/16	Q1	1.58%	0.99%	1.58%	1.58%
	Q2	2.02%	0.99%	1.82%	1.82%
	Q3	2.24%	1.00%	2.07%	2.07%
	Q4	2.47%	1.07%	2.31%	2.31%
2016/17	Q1	2.83%	1.14%	2.56%	2.56%
	Q2	3.25%	1.29%	2.80%	2.80%
	Q3	3.50%	1.44%	2.92%	2.92%
	Q4	3.75%	1.51%	3.09%	3.09%
2017/18	Q1	4.00%	1.58%	3.30%	3.30%
	Q2	4.25%	1.80%	3.42%	3.42%
	Q3	4.50%	2.02%	3.59%	3.59%
	Q4	4.50%	2.13%	3.80%	3.80%

II.13.2 Source for Standard Interest Rate Forecast**Table 13.2.1****Forecasting Firm Date of Publication**

Forecasting firm	Date of Publication	Type of Forecast
BMO NB	April 19, 2013	Average Period
CIBC	April 3, 2013	End of Period
RBC Economics	April 2013	End of Period
Scotia Economics	March 27, 2013	End of Period
TD Bank	March 19, 2013	End of Period
Conference Board	April 3, 2013	Average Period
Global Insight	April 2013	Average Period

Table 13.2.2

Government of Canada 10 Year
Bond Rate

		<u>BMO NB</u>	<u>CIBC</u>	<u>Global</u>	<u>RBC</u>	<u>Scotia</u>	<u>TD</u>	<u>Median</u>
2013	Q1	1.92%	1.87%	1.87%	1.88%	1.75%	1.85%	1.87%
	Q2	1.89%	2.00%	1.95%	1.85%	1.65%	1.95%	1.92%
	Q3	2.07%	2.10%	2.08%	1.95%	1.95%	2.10%	2.08%
	Q4	2.24%	2.40%	2.26%	2.10%	2.10%	2.20%	2.22%
2014	Q1	2.47%	2.55%	2.40%	2.15%	2.45%	2.40%	2.43%
	Q2	2.73%	2.70%	2.54%	2.30%	2.75%	2.50%	2.62%
	Q3	2.99%	2.80%	2.64%	2.50%	3.10%	2.60%	2.72%
	Q4	3.26%	2.85%	2.67%	2.80%	3.35%	2.70%	2.83%
2015	Q1			2.71%				2.83%
	Q2			2.85%				2.85%
	Q3			3.15%				3.15%
	Q4			3.37%				3.37%
2016	Q1			3.61%				3.61%
	Q2			3.78%				3.78%
	Q3			3.98%				3.98%
	Q4			4.24%				4.24%
2017	Q1			4.43%				4.43%
	Q2			4.67%				4.67%
	Q3			4.86%				4.86%
	Q4			4.87%				4.87%

Table 13.2.3

T-Bill Canada

		<u>BMO NB</u>	<u>CIBC</u>	<u>Global</u>	<u>RBC</u>	<u>Scotia</u>	<u>TD</u>	<u>Median</u>
2013	Q1	0.95%	0.96%	0.96%	0.98%	0.97%	0.95%	0.96%
	Q2	0.98%	0.95%	0.98%	1.00%	1.00%	0.95%	0.98%
	Q3	0.98%	0.95%	0.99%	1.00%	1.00%	0.95%	0.99%
	Q4	0.98%	0.95%	0.99%	1.00%	1.00%	0.95%	0.99%
2014	Q1	0.98%	0.95%	0.99%	1.05%	1.00%	0.95%	0.99%
	Q2	0.98%	1.10%	0.99%	1.10%	1.00%	0.95%	1.00%
	Q3	1.23%	1.30%	1.00%	1.25%	1.00%	1.05%	1.14%
	Q4	1.48%	1.60%	1.32%	1.55%	1.10%	1.40%	1.44%
2015	Q1			1.58%				1.58%
	Q2			2.02%				2.02%
	Q3			2.24%				2.24%
	Q4			2.47%				2.47%
2016	Q1			2.83%				2.83%
	Q2			3.25%				3.25%
	Q3			3.50%				3.50%
	Q4			3.75%				3.75%
2017	Q1			4.00%				4.00%
	Q2			4.25%				4.25%
	Q3			4.50%				4.50%
	Q4			4.50%				4.50%

Table 13.2.2 and 13.2.3 shows the interest rate forecasts from the five major Canadian banks and Global Insight. Conference Board of Canada's forecast was included in Table 13.1.2. For the Standard interest rate forecast, which was based off of the median of the five major banks and Global Insight, the Corporation selected the median interest rates for 2013 and 2014 and applied these rates to their respective quarters in fiscal 2013/14 and 2014/15. The median rate is a neutral rate, as half the forecasts are above and half are below this number. Also, use of the median gives all forecasts equal credence and does not favour any one forecaster.

In the Standard interest rate forecast, Global Insight was used as the sole forecaster for 2015/16, 2016/17 and 2017/18. Since Global Insight's GoC ten year forecast in Q1 2015/16 (2.71%) is lower than the median rate as of Q4 2014/15 (2.83%), the Q1 2014/15 rate is held at 2.83% to maintain a rising interest rate forecast over the entire five year period.

PUB (MPI) 2-40**Reference: Investment Income - II.1
Interest Rate Scenarios –
Methodology**

"The Corporation's GRA interest rate forecast denoted by the line with the black squares in the graph above, mitigates the downside risk of the status quo method in the first three years by using the lower interest rate growth method but, in the last two years uses the higher CBOC forecasted rates. The combination of these forecasts predicts interest rates will increase from 1.87% to 3.86% over the next five years and from 2.08% to 2.72% (64 basis points) in 2014/15 to 2015/16."

- a) Please explain further the rationale for MPI's approach to forecasting interest rates, including specifically taking the standard interest rate forecast 5-year growth rate spread over a ten year period, the choice of three years for the lower interest rate growth method and the choice of 2 years based on a CBOC forecast.
- b) Please explain the merits of using CBOC for long-term interest rate forecasting.
- c) Please indicate the date of the CBOC forecast used in the application and how often it is updated.

RESPONSE:


- a) The forecasters that the Corporation used in previous rate applications (the five major Canadian banks and Global Insight) called for rising interest rates over the last few years. Their forecasts have not materialized as interest rates have continued their downward trend to historical lows. Because of the large impact of interest rates on this year's rate application, four interest rate scenarios were presented in Section 1 of the Investment Income document – the standard interest rate forecast; the low growth interest rate forecast; the Conference Board of Canada's interest rate forecast and the GRA interest rate forecast.

When the rate application was being prepared, out of the four scenarios, the GRA interest rate scenario was considered to be the most prudent forecast. The GRA interest

rate scenario balanced the risk of forecasting higher interest rates, which have not materialized historically, compared to forecasting flat or lower interest rates which would have dictated an even higher insurance premium rate increase.

- b) The Conference Board of Canada (CBOC) is a well-known and independent research organization, and they are experts in forecasting and economic analysis. Given the track record of the five major Canadian banks and Global Insight's interest rate forecasts over the last five years (see chart 1.1), the Corporation decided to incorporate the Conference Board of Canada's Government of Canada 10 year bond yield forecast into the scenario analysis. This scenario analysis was presented in section 1 of the Investment Income document.
- c) The date of the CBOC forecast used in the application was April 3, 2013 (see table 13.2.1), and the data series is updated on a quarterly basis. For the July 2013 updated interest rate forecasts presented in PUB (MPI) 2-10, 2-11 and 2-16, the date of the CBOC forecast was June 25, 2013.

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MPI Real Estate


at February 28, 2013

	Market Value (\$millions)	3 Month Performance	Benchmark *	Out/Under Perform
Direct	\$ 51.0	1.5%	4.7%	-3.2%
Manager F	\$ 173.0	1.7%	4.7%	-3.0%
Total	\$ 224.0	1.8%	4.7%	-3.1%

	Market Value (\$millions)	12 Month Performance	Benchmark *	Out/Under Perform
Direct	\$ 51.0	5.8%	14.2%	-8.6%
Manager F	\$ 173.0	12.9%	14.2%	-1.9%
Total	\$ 224.0	10.7%	14.2%	-8.5%

* Benchmark is the IPD Canadian A/I Property Index to December 31, 2012. Index returns are on a calendar basis only.

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Infrastructure

at February 28, 2013

	Market Value (\$ Millions)	12 Month Performance	Benchmark for Infrastructure CPI + 5%	Out/Under Perform
Fund *	\$ 9.9			
Direct	\$ 12.5			
Total	\$ 22.4	8.9%	6.2%	2.7%

* Infrastructure was added during the fiscal year with an investment of \$6.4 million and as a result does not yet have a full 12 months history.

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Table 4

Basic Operating Expenses \$000						
Year	Basic Earned Vehicle Units					
	Manitoba CPI %	Average Operating Expense per Unit	Number	CPI Operating Expense	MPI Operating Expense	Inc (Dec)
1	2	3	4=(col.4 Table 2)	5= (3 X 4)	6=(col.2 Table 2)	7= (6 - 5)
2007/08	2.0%	46.28	898,408	41,582	41,582	-
2008/09	2.3%	47.35	930,077	44,039	41,261	(2,778)
2009/10	0.6%	47.63	951,585	45,324	45,904	580
2010/11	0.8%	48.01	974,707	46,796	52,569	5,773
2011/12	3.0%	49.45	1,006,627	49,778	62,879	13,101
2012/13	1.6%	50.24	1,041,448	52,322	65,415	13,093
2013/14	1.6%	51.04	1,072,692	54,750	66,773	12,023
2014/15	1.9%	52.01	1,102,191	57,325	69,942	12,617
2015/16	2.0%	53.05	1,132,501	60,079	69,862	9,783
2016/17	2.0%	54.11	1,163,645	62,965	72,163	9,198
2017/18	2.0%	55.19	1,195,645	65,988	75,052	9,064

Table 3

Basic Claims Expenses \$000						
Year	Basic Earned Vehicle Units					
	Manitoba CPI %	Average Claims Expense per Unit	Number	CPI Claims Expense	MPI Claims Expense	Inc (Dec)
1	2	3	4=(col.4 Table 1)	5= (3 X 4)	6=(col.2 Table 1)	7= (6 - 5)
2007/08	2.0%	81.42	898,408	73,146	73,146	-
2008/09	2.3%	83.29	930,077	77,466	77,620	154
2009/10	0.6%	83.79	951,585	79,733	84,012	4,279
2010/11	0.8%	84.46	974,707	82,324	97,182	14,858
2011/12	3.0%	86.99	1,006,627	87,566	105,924	18,358
2012/13	1.6%	88.38	1,041,448	92,043	111,697	19,654
2013/14	1.6%	89.79	1,072,692	96,317	110,674	14,357
2014/15	1.9%	91.50	1,102,191	100,850	118,414	17,564
2015/16	2.0%	93.33	1,132,501	105,696	120,568	14,872
2016/17	2.0%	95.20	1,163,645	110,779	122,832	12,053
2017/18	2.0%	97.10	1,195,645	116,097	136,432	20,335

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Agreement with ATA/MMDA/MPI

We are pleased to announce that Manitoba Public Insurance, The Automotive Trades Association, and the Manitoba Motor Dealers Association have agreed to extend the term of the contract for one year and amend the current Labour Rate Agreement to accredited and non-accredited motor vehicle body shops in Manitoba. And, to help attract and retain a skilled collision repair workforce in Manitoba, the successful Tool Allowance and Apprenticeship Grant program will be extended.

The four year 2010 Agreement was based on, and addressed many of the issues identified in the Manitoba Collision Repair Industry Study (MCRIS). The study and Agreement was an important step in the development of a stronger working relationship between the trade and Manitoba Public Insurance. The recently completed update to the MCRIS concluded the labour rate increases and incentives under the 2010 Agreement achieved the intended objectives.

The 2010 Agreement is being extended for a one-year term with the details noted below. During this period, Manitoba Public Insurance will continue its Physical Damage Reengineering Program and a cooperative, collaborative approach will allow us to develop solutions to common issues. The Program's overall objectives are to improve the customer service experience for physical damage claims processing and maintain or reduce costs, while at the same time, strengthen the overall collision repair industry.

Key Highlights of the amended Agreement are as follows:

Term:

- The amended Agreement is effective August 1, 2013 and expires December 31, 2014.

Administration Fee:

- A \$15 administration fee will be paid on completed claims - where the vehicle is returned to the customer, with body, frame and/or mechanical labour.
- The administration fee will not be applied to glass-only claims.

Rates:

- Effective August 1, 2013, the Body Technician Labour rate will increase 2.2%.
- Effective January 1, 2014, the Glass Labour rate will increase 2.0%.
- Frame and Mechanical Labour rates stay in effect until a new agreement is confirmed for 2015 and beyond.
- The rates for shop materials, paint materials and tempered shop materials stay in effect until a new agreement is confirmed for 2015 and beyond.

Tool Allowance and Apprenticeship Grant Program:

- The Tool Allowance and Apprenticeship Grant Program will be extended to December 31, 2014.
- Manitoba Public Insurance will continue to provide the following financial assistance to Manitoba apprentices in the Motor Vehicle Body Repairer Program or the Motor Vehicle Body Painter Program:
 - A \$5,000 (maximum) Tool Allowance
 - A \$2,000 Apprenticeship Grant after successful completion of each level of the program (up to \$8,000 for apprentices in the four-level Motor Vehicle Body Repairer Program and up to \$4,000 for apprentices in the two-level Motor Vehicle Body Painter Program).

We look forward to continuing an era of cooperation and partnership that will herald a strong and vibrant collision repair industry in Manitoba now, and into the future.

If you have any questions, you can call the following representatives:

ATA	Michael Blackey	204-475-3235
	Eric Danberg	
MMDA	Steve Chipman	204-831-4201
MPI	Marnie Kacher	204-223-7450

Ryan Kehl
ATA



Marietta Rewucki
MMDA



Marilyn McLaren
MPI



June 15, 2012

2013/14

2013 RATE APPLICATION
Compensation Increases - TI.8

Compensation Increases - Basic Share
Fiscal Year Ending February 28/29,

Category	2009/10-2008/09		2010/11-2009/10		2011/12-2010/11		2012/13-2011/12		2013/14-2012/13		2014/15-2013/14	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Economic Increase	1,898	2.9%	2,055	2.9%	2,229	2.9%	2,334	2.9%	0	0.0%	0	0.0%
Incremental Increase	815	1.0%	1,038	1.5%	871	1.1%	912	1.1%	978	1.1%	972	1.1%
Staff Changes/Vacancies	2,458	2.3%	2,207	1.7%	659	-0.3%	1,428	0.3%	(2,248)	-2.3%	(862)	-1.0%
Sick Leave Provision (1)			0	0.0%	898	0.9%	(898)	-0.9%	0	0.0%	0	0.0%
Retirement/Severance Payout	(34)	0.0%	493	0.4%	(806)	-0.8%	190	0.2%	163	0.2%	8	0.0%
Vacation Accrued/Banked/Buyout	594	0.7%	(551)	-0.6%	159	0.2%	40	0.0%	(2)	0.0%	23	0.0%
Overtime	231	0.3%	704	0.8%	(127)	-0.1%	(595)	-0.5%	715	0.7%	31	0.0%
Benefits/Health & Education Tax (2)	1,046	1.3%	5,045	5.6%	4,327	4.3%	(6,033)	-5.5%	2,173	2.0%	1,219	1.1%
Total Increase	7,008	8.4%	10,991	12.2%	8,210	8.1%	(2,622)	-2.4%	1,780	1.7%	1,391	1.3%
Total Compensation balance previous year	83,450		90,458		101,449		109,659		107,037		108,817	
Total Compensation balance end of year	90,458	8.4%	101,449	12.2%	109,659	8.1%	107,037	-2.4%	108,817	1.7%	110,208	1.3%

(1) A provision for sick leave was calculated in 2011/12 under the reporting requirements of IFRS.

(2) The increase in 2011/12 was due to an actuarial adjustment to Superannuation, resulting in a decrease in Superannuation expense in 2012/13 due to a return to expected normal levels.

August 2, 2013

Compensation Increases - Basic Share
Fiscal Year Ending February 28/29,

PUB (MPI) 1-74(a) Attachment

Category	2010/11-2009/10		2011/12-2010/11		2012/13-2011/12		2013/14-2012/13		2014/15-2013/14		2015/16-2014/15	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Economic Increase	2,055	2.9%	2,229	2.9%	2,334	2.9%	0	0.0%	1,218	1.4%	2,532	2.75%
Incremental Increase	1,038	1.5%	871	1.1%	1,434	1.8%	1,473	1.8%	1,550	1.8%	1,611	1.8%
Staff Changes/Vacancies ⁽³⁾	2,207	1.6%	659	-0.3%	251	-1.0%	(1,139)	-1.5%	519	-0.1%	(554)	-1.3%
Sick Leave Provision ⁽¹⁾	0	0.0%	898	0.9%	(898)	-0.9%	643	0.6%	20	0.0%	30	0.0%
Retirement /Severance Payout	493	0.5%	(806)	-0.8%	770	0.7%	(364)	-0.3%	93	0.1%	98	0.1%
Vacation Accrued/Banked/Buyout	(551)	-0.6%	159	0.2%	(193)	-0.2%	279	0.2%	27	0.0%	29	0.0%
Overtime	704	0.8%	(127)	-0.1%	(339)	-0.3%	(187)	-0.2%	66	0.1%	70	0.1%
Benefits/Health & Education Tax ⁽²⁾	5,045	5.6%	4,327	4.3%	828	0.8%	(5,233)	-4.6%	912	0.8%	964	0.8%
Total Increase	10,991	12.2%	8,210	8.1%	4,188	3.8%	(4,528)	-4.0%	4,406	4.0%	4,780	4.2%

(1) A provision for sick leave was calculated in 2011/12 under the reporting requirements of IFRS. No entry required 2012/13 year end but forecast in future years.

(2) Provisions for Superannuation and Post Retirement Extended Health were higher in 2012/13 mainly due to year end valuations.

SUMMARY OF BASIC EXPENSES (NORMAL OPERATIONS) BY CATEGORY
For the Fiscal Years Ended February 28/29,

Expense Category	2014 GRA				
	12/13 Actual	13/14 Forecast	14/15 Projected	15/16 Projected	16/17 Projected
Compensation	112,842	109,002	113,640	116,525	122,838
Data Processing	13,132	11,986	12,326	12,484	12,907
Special Services	4,160	4,787	4,916	4,987	5,039
Building Expenses	7,316	9,479	9,748	9,883	9,978
Depreciation - Capital Assets	6,012	4,673	6,187	4,825	4,789
Amortization - Deferred Development	7,798	7,871	7,706	2,882	584
Safety/Loss Prevention Programs	4,429	3,991	2,922	2,882	2,689
Telephone/Telecommunications	2,280	2,263	2,321	2,362	2,374
Public Information/Advertising	2,302	2,226	2,293	2,326	2,346
Printing, Stationery, Supplies	1,483	1,544	1,760	1,774	1,792
Postage	2,515	2,452	2,523	2,569	2,582
Regulatory/Appeal	3,392	3,257	3,312	3,368	3,423
Travel and Vehicle Expense	1,047	1,076	1,253	1,270	1,283
Driver Education Program	3,103	3,367	3,407	3,454	3,485
Grants In Lieu of Taxes	1,282	1,486	1,529	1,560	1,564
Furniture & Equipment/DP Equipment	734	1,001	1,100	1,228	1,667
Merchant Fees	6,320	6,032	6,121	6,212	6,306
Other	5,176	5,209	5,366	5,441	5,488
Total	184,321	181,810	188,400	187,792	190,404

Expense Category	2013 GRA				
	12/13 Forecast	13/14 Projected	14/15 Projected	15/16 Projected	16/17 Projected
Compensation	105,188	108,817	110,208	113,441	117,143
Data Processing	16,381	17,238	19,208	19,551	19,903
Special Services	4,878	5,221	5,335	5,452	5,573
Building Expenses	8,040	8,380	8,571	8,759	8,933
Depreciation - Capital Assets	6,659	5,069	6,200	5,507	5,524
Amortization - Deferred Development	8,335	8,026	7,866	2,932	172
Safety/Loss Prevention Programs	4,747	3,840	3,542	3,319	3,253
Telephone/Telecommunications	2,878	2,730	2,790	2,951	2,914
Public Information/Advertising	2,234	2,272	2,320	2,369	2,418
Printing, Stationery, Supplies	2,109	2,189	2,204	2,253	2,303
Postage	1,950	1,999	2,032	2,073	2,122
Regulatory/Appeal	3,231	3,297	3,383	3,431	3,500
Travel and Vehicle Expense	1,531	1,575	1,610	1,645	1,682
Driver Education Program	3,698	3,761	3,828	3,907	3,967
Grants In Lieu of Taxes	1,351	1,391	1,420	1,452	1,484
Furniture & Equipment/DP Equipment	1,148	952	1,085	694	714
Merchant Fees	8,038	6,157	6,280	6,403	6,534
Other	5,598	6,735	5,881	6,990	6,121
Total	185,590	188,308	192,713	192,035	194,310

Expense Category	2014 GRA vs 2013 GRA				
	12/13 Forecast	13/14 Projected	14/15 Projected	15/16 Projected	16/17 Projected
Compensation	7,654	185	3,440	5,084	5,395
Data Processing	(3,249)	(5,273)	(6,882)	(7,067)	(7,298)
Special Services	(518)	(434)	(417)	(465)	(534)
Building Expenses	(724)	1,089	1,177	1,124	1,025
Depreciation - Capital Assets	(1,847)	(398)	957	(682)	(755)
Amortization - Deferred Development	(539)	(154)	(150)	(70)	382
Safety/Loss Prevention Programs	(318)	151	(320)	(637)	(834)
Telephone/Telecommunications	(388)	(477)	(469)	(498)	(540)
Public Information/Advertising	68	(46)	(27)	(43)	(72)
Printing, Stationery, Supplies	(826)	(618)	(464)	(479)	(511)
Postage	585	493	491	483	480
Regulatory/Appeal	161	(40)	(51)	(63)	(77)
Travel and Vehicle Expense	(484)	(499)	(357)	(375)	(399)
Driver Education Program	(593)	(444)	(421)	(453)	(502)
Grants In Lieu of Taxes	(89)	94	109	98	80
Furniture & Equipment/DP Equipment	(414)	349	15	534	953
Merchant Fees	284	(125)	(169)	(194)	(228)
Other	(422)	(626)	(485)	(549)	(633)
Total	(1,289)	(6,098)	(4,313)	(4,243)	(3,986)

CAC (MPI) 1-16

Reference: Secondment

Has the government seconded any of MPI's staff for whom MPI pays their salary and benefits? If yes, please quantify the operating expense relating to basic insurance.

RESPONSE:

There is currently one individual on secondment to the Province in the Department of Finance. The employee's compensation, as identified in the 2012 Public Sector Compensation Disclosure, was \$102,844.07. A portion of this would be allocated to Basic insurance.

Information Technology Costs (Corporate)
For 2005/06 to 2017/18
(\$ in thousands)

	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Forecast	2014/15 Projected	2015/16 Projected	2016/17 Projected	2017/18 Projected	Compound Annual Growth Rate	
														05/06-12/13	12/13-17/18
Corporate Expenses															
CIT Departmental Expenses:															
Data processing:															
Computer Costs	852	831	1,316	1,387	1,202	1,399	1,416	1,435	410	417	423	430	437	7.7%	-21.2%
Licence Charges	2,251	1,989	2,445	3,099	3,228	3,524	5,312	5,607	8,147	8,883	8,815	8,950	9,086	13.9%	10.1%
Computer Maintenance	980	949	1,080	1,363	1,424	1,507	1,420	1,791	1,584	1,610	1,635	1,662	1,688	9.0%	-1.2%
Software	598	1,574	1,260	1,868	1,676	1,958	961	3,257	1,515	1,538	1,563	1,588	1,613	27.4%	-13.1%
IBM Data Centre								3,671	8,730	7,265	7,495	7,625	7,305		14.8%
External Labour															
AOL	1,570	1,567	3,493	2,486	2,507	3,999	2,564	3,045	813	826	840	853	867	9.9%	-22.2%
CARS	1,979	1,654	1,712	964	942	1,447	797	757	2,616	2,657	2,700	2,743	2,787	-12.8%	29.8%
Other	373	221	170	717	393	253	592	1,354	177	180	183	186	188	20.2%	-32.6%
Total Data Processing	8,603	8,765	11,476	11,884	11,372	14,087	13,082	20,917	23,992	23,176	23,654	24,037	23,971	13.5%	2.8%
Compensation	9,968	8,996	8,927	8,834	9,296	9,272	10,186	11,108	10,497	10,825	11,312	11,765	12,236	1.6%	2.0%
Training	181	169	209	274	122	125	80	130	80	82	83	84	86	-4.6%	-7.9%
Special Services	40	36	38	47	222	394	190	1,497	1,070	1,087	1,104	1,122	1,140	67.8%	-5.3%
Amortization - Data Processing Equipment	2,630	2,600	2,413	3,265	3,117	3,058	1,746	1,843	1,020	2,478	1,982	2,665	3,000	-5.0%	10.2%
Printing, Stationery and Supplies	521	354	863	482	421	200	292	268	297	302	307	312	317	-8.1%	3.4%
Telephone and Telecommunications	1,601	1,377	1,276	1,321	1,418	1,496	1,554	1,857	2,884	2,330	2,377	2,425	2,473	2.1%	5.9%
Computer Equipment Expense						742	1,828	340	642	765	910	1,483	2,080		43.7%
Miscellaneous	108	61	78	102	1,670	85	89	124	99	100	102	104	105	2.0%	-3.3%
Total CIT Departmental Expenses	23,652	22,358	25,278	26,209	27,638	29,459	29,037	38,084	40,581	41,145	41,811	43,997	45,408	7.0%	3.6%
Allocated Building Expenses	1,058	1,086	1,335	1,431	1,452	1,576	1,214	1,099	1,347	1,369	1,390	1,413	1,435	0.5%	5.5%
Allocated Corporate Benefits							2,260	2,011	2,637	2,719	2,842	2,955	3,074		8.9%
DP - Microfiche	57	51	85	85	72	60	63	34	64	65	66	68	70	-7.1%	15.5%
Amortization of Deferred Dev Costs	-	798	1,827	1,705	-	5,594	8,406	8,847	8,906	15,342	12,965	12,196	24,773		22.9%
Total IT Expenses	24,767	24,293	28,525	29,430	29,162	36,689	40,980	50,075	53,535	60,640	59,074	60,629	74,760	10.6%	8.3%

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Information Technology Costs (Corporate)
For 2005/06 to 2017/18
(\$ in thousands)

Summary	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Forecast	2014/15 Projected	2015/16 Projected	2016/17 Projected	2017/18 Projected	Compound Annual Growth Rate	
														05/06-11/12	12/13-15/16
Total IT Expenses	24,767	24,293	28,525	29,430	29,162	36,889	40,980	50,075	53,535	60,640	59,074	60,629	74,760	8.8%	9.6%
Deferred Development Costs	4,042	7,710	7,572	18,742	20,869	11,079	7,308	19,820	28,413	28,083	24,481	20,971	15,000	10.4%	35.3%
Data Processing Equipment	2,525	1,777	4,435	3,688	1,766	1,485	2,618	2,131	5,202	1,733	1,743	3,059	3,000	0.6%	-9.7%
Total Costs	31,334	33,780	40,532	51,860	51,797	49,253	50,906	72,026	87,150	90,456	85,298	84,659	92,760	8.4%	13.8%

**MANITOBA PUBLIC INSURANCE
VARIOUS STATS AS A PERCENTAGE OF 1993 STATS**

MPI - Basic

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
				12 MOS.							
NET CLAIMS INCURRED	100.0	91.2	111.1	111.1	106.9	93.0	96.7	100.4	109.9	119.8	122.6
CLAIMS EXPENSE	100.0	101.8	110.6	110.6	111.3	110.3	130.1	150.5	160.6	178.7	189.6
TOTAL CLAIMS COSTS	100.0	92.2	111.0	111.0	107.3	94.7	100.0	105.3	114.9	125.6	129.1
OPERATING EXPENSES (1)	100.0	103.3	139.4	139.4	128.0	160.0	161.1	166.1	147.2	142.5	147.6
# OF VEHICLES	100.0	102.0	100.6	100.6	102.3	104.6	105.3	105.4	107.5	109.3	111.3
CPI	100.0	101.4	104.1	104.1	106.4	108.6	110.0	112.2	115.0	118.1	119.9
CLAIMS COSTS PER VEHICLE	100.0	90.4	110.4	110.4	104.9	90.5	94.9	99.9	106.8	114.9	116.1
OPERATING EXPENSES PER VEHICLE	100.0	101.2	138.6	138.6	125.1	152.9	152.9	157.6	136.9	130.4	132.7

(2)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
NET CLAIMS INCURRED	127.1	132.7	138.6	156.3	169.2	150.8	160.4	167.9	166.3	175.7
CLAIMS EXPENSE	211.9	207.9	224.5	262.3	280.3	296.7	308.8	327.0	352.2	358.2
TOTAL CLAIMS COSTS	135.4	140.0	147.0	166.6	180.0	165.0	174.9	183.4	184.5	193.5
OPERATING EXPENSES (1)	148.2	140.7	149.8	152.0	164.9	164.3	185.7	231.1	226.8	256.3
# OF VEHICLES	112.8	115.0	117.6	120.0	123.8	128.1	131.1	134.3	138.7	143.5
MANITOBA CPI	122.0	124.4	127.8	130.2	132.8	135.9	136.7	137.8	141.9	144.2
CLAIMS COSTS PER VEHICLE	120.1	121.8	125.0	138.9	145.4	128.7	133.4	136.6	133.0	134.8
OPERATING EXPENSES PER VEHICLE	131.5	122.3	127.4	126.7	133.3	128.2	141.7	172.1	163.5	178.6

(3)

(1) includes Operating expenses and Regulatory/Appeal costs

(2) restated for change in accounting policy re: pension plan experience gains (losses)

(3) restated for adjustments due to change from Canadian GAAP to IFRS

CAC (MPI) 1-14**Reference: Consultants**

a) Please complete the following table, by fiscal year, for consultants engaged at MPI:

	2011/12 Actual	2012/13 Actual	2013/14 Budget
Number of Consultants			
Consulting fees incurred	\$	\$	\$
Divisional Area of Engagement			

b) Please provide a detailed analysis, by project, and area of engagement of the listed consultants.

RESPONSE:

a) for Basic

	2011/12 Actual	2012/13 Actual	2013/14 Budget
Number of Consultants	Refer to last year's response CAC (MPI) 1-155	114 - 147	100 - 130 annually over the year
Consulting fees incurred	Refer to last year's response CAC (MPI) 1-155	\$18,343,638	\$28,096,666
Divisional Area of Engagement	Refer to last year's response CAC (MPI) 1-155	Strategy & Innovation, Community & Corporate Communications, Service Operations	Strategy & Innovation, Community & Corporate Communications, Service Operations

- b) There are no changes to the Project Charter previously provided to the Board under AI.18 HRMS of the 2013 Rate Application. Please see the table below for the HRMS budget.

HRMS Budget by Phase	2012	2013
Phase 1	\$ 333,000	\$ 446,681
- Lawson Upgrade		
Phase 2	\$ 7,856,000	\$ 11,882,198
- Global HR		
- Human Resources		
- Personnel Admin		
- Payroll		
- Absence Reporting		
- Benefits Admin		
- Lawson Security 9.0 - HRMS / Financials		
- Self Service		
- Organizational Charts		
Phase 3 / 4	\$ 1,500,000	\$ 1,500,000
- Project & Activity Accounting		
- Talent Acquisition		
- Compensation		
- Performance and Goal Mgmt		
- Expense Management		
- Job Evaluation		
- Contingency Learning and Development		
- Succession Planning		
Contingency	\$ 311,000	\$ 2,171,121
Totals	\$ 10,000,000	\$ 16,000,000

- c) The DART initiative is to decommission the mainframe and, consistent with past testimony of Corporation witnesses, all costs are charged to the DVA line of business and not allocated to Basic; even though Basic benefited significantly from the old system and will also do so from DART.
- d) The IBM Managed Services engagement will result in IT staff being re-deployed. The majority of affected staff will be re-deployed into existing positions that have been held open in anticipation of this re-deployment.

June 28, 2013

SM.5.3 - Appendix 2 - Gartner CIO Scorecard

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Manitoba Public Insurance

A Presentation to the Manitoba Public Insurance Board of Directors
CIO Scorecard and IT Infrastructure Benchmark

June 2013

Prepared for



**Manitoba
Public Insurance**

GARTNER CONSULTING

Engagement: 33001063041

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Background

- MPI has retained Gartner to conduct an annual review of the IT service delivery capability (organization, processes, and infrastructure)
- This review includes three structured evaluation instruments
 - IT spend Analysis
 - CIO Scorecard
 - Infrastructure & Operations (I&O) Scorecard
- These three instruments provide the following outcomes
 - Evaluate the relative maturity of the IT organization in critical IT disciplines
 - Assess the IT organization's ability to react to rapidly changing business requirements and make calculated IT investments
 - Compare relative funding levels of IT at MPI and the distribution of those spend expenditures
 - Compare MPI's infrastructure and operations costs, staffing and service levels with those of similar enterprises and document findings.
 - Establish a baseline for infrastructure and operations spending, staffing and service levels, providing an indicator of where improvements are possible
- In fall 2010, the review utilized 2010/1 spend data. MPI repeated this analysis in 2011/2 and again in 2012/13 using actual spending and performance data

MPI's Mission and level of Project Investment required some additional normalizations and peer group modifications in the Gartner Analysis

Analysis Challenge	Analysis Risk	Analysis Mitigation
MPI is Hybrid organization – it is an insurer but its public mission is to serve Manitobans, not maximize revenues	If MPI is successful in its Mission – returning more benefits to Manitobans while driving down prices – it understates Revenue and overstates Expenses vs. Peers who focus on profit maximization	Added 3 Canadian State & Local Government Peers and one other Canadian non-profit Crown Corporation providing a similar function to MPI in another Province to the Peer group
2012/3 represents a heavy investment year – up 61.1% from 2011/2, representing both “catch up” and “forward looking” investments	<ul style="list-style-type: none"> Investments aimed at modernizing the environment drove \$19.6 MM or 22% of MPI's 2012/3 spend Investments aimed at better serving Manitobans drove \$18.1 MM or 21% of MPI's 2012/3 IT Spend This creates artificial increases in MPI's IT expenses vs. prior years, but it does reflect both its true cost and reflects the need for IT investments to reduce operational risk while improving service 	<ul style="list-style-type: none"> Clear indication where the 2012/3 investment is the source of cost variance The “one-time” investments related to modernizing the IT footprint, will expand the ongoing support environment and associated FTEs and costs, unless portfolio rationalization is undertaken

Key Takeaways from Scorecard Analysis

Key Observations

- MPI spent \$19.6 Million in 2012/3 modernizing the IT footprint to fix its "20 year roof" problem
- MPI spent an additional \$18.1 Million in 2012/3 on projects (e.g. HRMS) that added to its Base
- As MPI adds more customer convenience capabilities and conducts more business over digital channels, the IT footprint will expand, resulting in an higher steady-state IT expenses
- During 2012/3, MPI used 15% more Contractor resources than the Insurance industry average
- Because MPI is engaged in both Capability Enhancement and IT Modernization, IT personnel has spiked – ~1 out of every 5 MPI staff works in IT
- Cost Containment, Business Process Management and Innovation all saw increased maturity ratings from 2011/2
- MPI improved its overall Maturity rating to 3.03 in 2012/3 from 2.92 in 2011/2

Implications and Recommendations

- Improving MPI's long-term IT cost position is reliant on retiring and/or eliminating duplicate functionality on an ongoing basis, in addition to regularly investing in updates to avoid significant capital outlays in future years
- Therefore it is more critical to make modernization and rationalization of IT an ongoing part of MPI's governance process and investment strategies.
- As the Modernization effort ramps down; staffing plans should be developed to ensure key skills remain in-house to reduce contractor dependence, increase staff satisfaction, and maintain costs
- Greater process and architecture standardization will increase effectiveness of MPI's IT investments

MPI 2012/3 IT Investments and the Impact on Future Spending

- Today's Development projects increase the IT footprint
- On average, over a 15 year lifecycle, only 8% of application's lifetime cost occur during Development, so as you increase the footprint, you increase the support base
- Barring any retirement of applications, they increase the size of MPI's IT footprint, which will increase 2013/4 "run rate" costs
- In 2012 / 13 the IT spend was \$87.3 M
- Of that \$37.7 M, or 41%, was spent on Strategic Initiatives
- Of the Strategic Initiatives
 - \$18.1 M, or 21% of the IT spend, **will** have an ongoing impact on IT spend
 - \$19.6 M, or 22% of the IT spend, **will not** have an ongoing impact

	One Time	Ongoing
IT Optimization	\$7,734,911	
Data Centre Optimization	\$4,348,821	
Operating Initiatives		\$5,216,288
Driver Vehicle Act		\$1,068,183
Human Resource Management System		\$6,741,415
Driving Ahead in Real Time	\$5,780,854	
Broker Refresh	\$1,771,823	
Physical Damage Reengineering		\$3,788,044
Enterprise Data Masking		\$1,288,169
Total Initiatives	\$19,636,409	\$18,096,989
% of Total IT spend	22%	21%

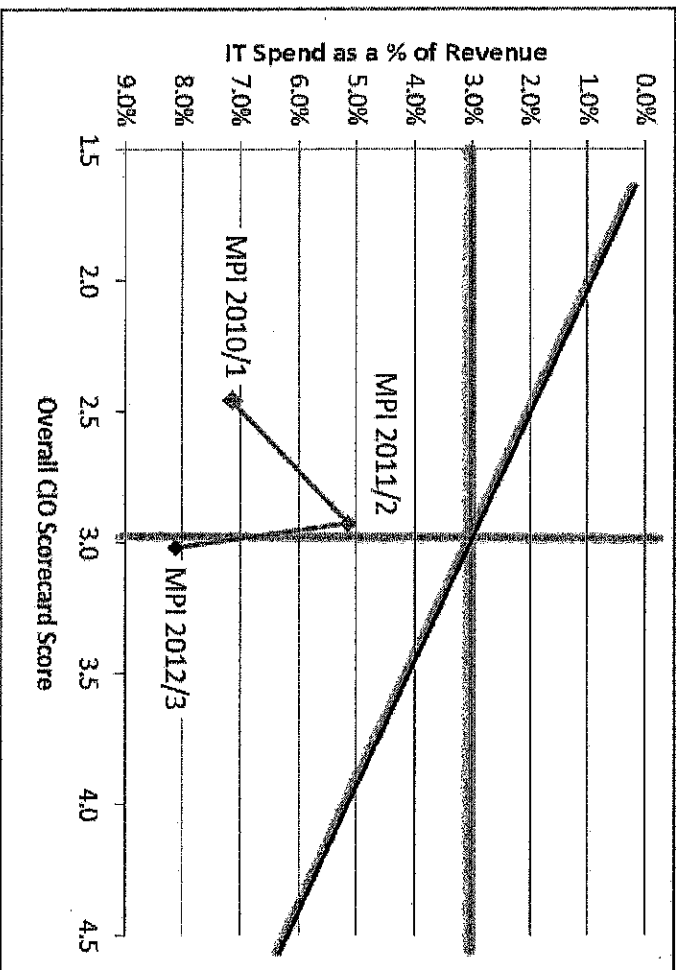
36
MPI's 2012/3 improvement in IT Maturity was offset by a period of heavy investments vs. 2011/2, which drove its IT as a % of Revenue up

Conclusion:

- MPI's 2012/3 IT Spend as a % of Revenue jumped from 5.1% to 8.1% due to \$19.6 MM of "one-time" investments to modernize its IT footprint and \$18.1 MM to provide additional capabilities to better serve Manitobans and retain employees.
- If these one-time investments are removed, then MPI's IT Spend as a % of Revenue drops from 8.1% to 6.3%
- The IT spend as a % of Revenue was 5.1% in 2011/2
- In addition, overall IT Maturity rose from 2.92 to 3.02 between 2011/2 and 2012/3, an increase of 3%.

Implication:

- MPI should ensure IT Governance efforts are focused on capturing benefits realization from its IT investments in the form of lower OpEx or Revenue Growth
- MPI should hold business stakeholders and IT accountable for these outcomes, including
 - Formalizing and ensuring compliance with the Enterprise Architecture
 - Ensuring duplicative functionality is removed at the portfolio level and applications are retired
- Otherwise, Run the Business IT costs will grow and crowd out future Grow and Transform investments



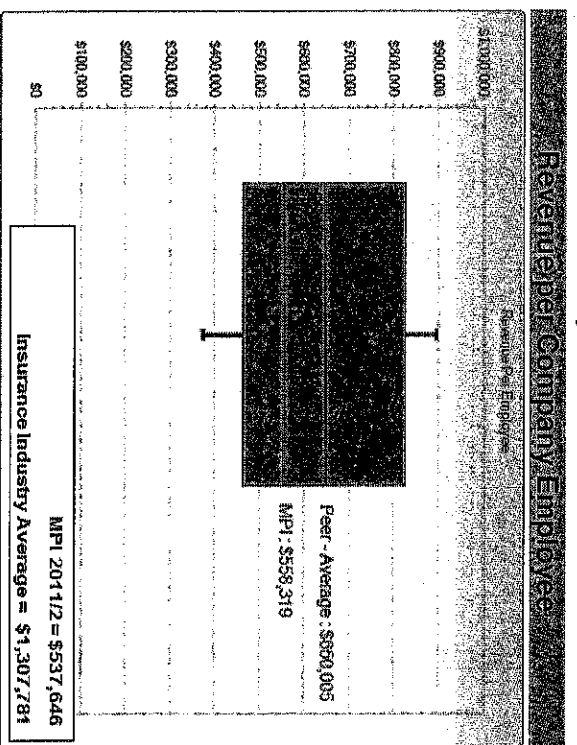
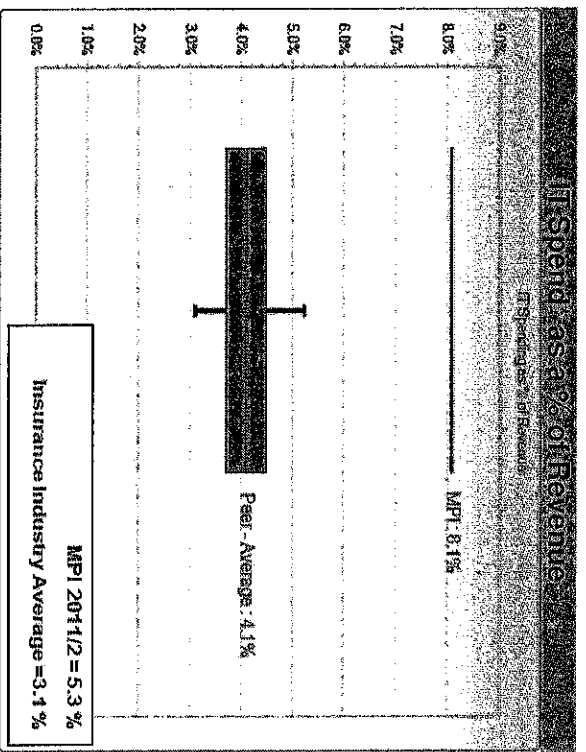
On a Normalized basis, MPI's IT Spend as a % of Revenue is 29.7% higher than Peers, but 82% of that variance can be attributed to 2012/3 investment spending

- MPI's Revenue is lower and their IT spend as a % of revenue is higher because its mission is not based on maximizing revenue
- MPI's "Change the Business" IT Spend is ~\$43 Million or 50% higher than its Peers
- This represents a combination of "catch up" and "forward looking" investments to bring MPI further in-line with industry standard technology platforms
- As MPI's offering and customer service capabilities become more technology dependent, the number of IT FTEs will increase to support a larger IT footprint
- MPI's current IT Run the Business spending is only \$4.6 Million or 10.3% higher than Peers
- However, Gartner anticipates MPI's future run-rate IT Spend to increase as "Change the Business" investments have increased the IT footprint

	MPI 2012/3	Peer	Variance
Revenue	\$ 1,077,556,000	\$ 1,498,359,872	-39.1%
Expenses	\$ 1,125,644,000	\$ 1,375,734,608	-22.2%
IT Budget	\$ 87,331,090	\$ 61,432,755	29.7%
"Run the Business" IT Budget	\$ 44,538,856	\$ 39,931,291	10.3%
"Change the Business" IT Budget	\$ 42,792,234	\$ 21,501,464	49.8%
IT as a % of Revenue	8.1%	4.1%	49.4%
Peer IT as a % of Revenue normalized to MPI Revenue Base	8.1%	5.7%	29.7%
MPI IT as a % of Revenue normalized to Peer Revenue Base	5.8%	4.1%	29.7%
IT FTE to Company Employee	18.4%	7.5%	59.2%
IT Spend per Company Employee	\$ 43,243	\$ 21,248	50.9%
MPI IT Spend on Investment Projects	\$ 37,733,398		

MPI's IT Spend as a % of Revenue, on a non-normalized basis, is 8.1% vs. 4.1% for the Peers, in part due to premiums returned to Manitobans.

Evaluation: Compare MPI's IT spend to comparable organizations in the same industry:



Observation: MPI's IT spend as a percent of revenue is higher than that of Peer organizations as well as the overall industry average. It is important to note that MPI's IT spending was increased 61.1% between 2011/12 and 2012/3 and 2012/3 was a year of significant project activity. MPI's Revenue per Company Employee is considerably lower, which aligns with MPI's mission to return premium dollars to Manitobans.

MPI's IT as % of Revenue is 49.4% higher than the Peers, but its Revenue is 36% lower. If Gartner were to move the peer's IT spend to MPI's revenue base, then MPI's IT as a % of Revenue goes from being 49.4% to 29.7% higher.

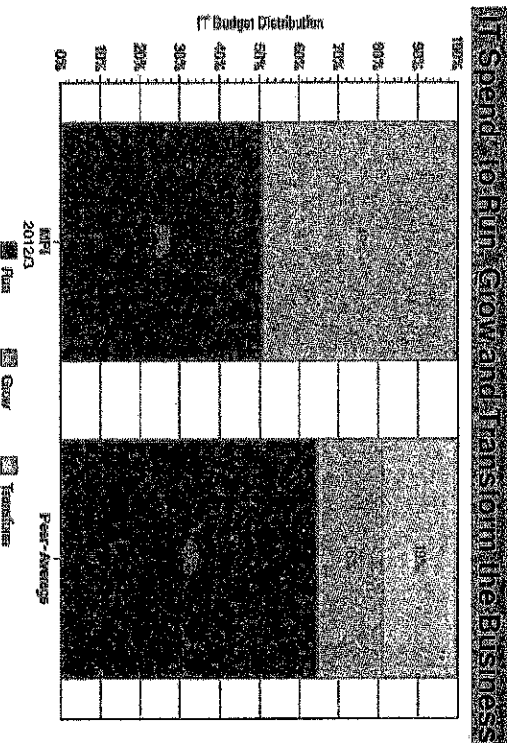
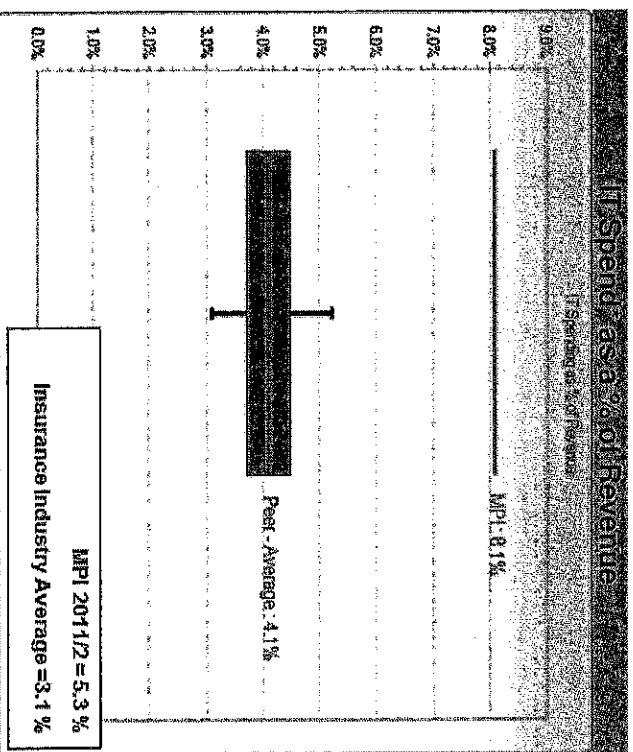
Conclusion: MPI has a higher IT Spend as a % of Revenue, but is linked to generating less revenue, which aligns with MPI's mission of returning premium dollars to Manitobans.

June 28, 2013

SM.5.3 - Appendix 2 - Gartner CIO Scorecard

MPI's significant investments in "Grow the Business", increased its 2012/3 IT spending by 61% from 2011/2 (\$87.3 M vs. \$54.2 M). Higher IT spending combined with flat Revenue led to an jump in IT as a % of Revenue.

Evaluation: Compare MPI's IT spend to comparable organizations in the same industry:



MPI 2011/2:
Run = 60%
Grow = 40%
Transform = 0%

Insurance Industry Averages:
Run = 61%
Grow = 23%
Transform = 16%

Observation: MPI's IT spend as a percent of revenue is higher than that of Peer organizations as well as the overall industry average. It is important to note that MPI's IT spending was increased by nearly 61% between 2011/2 and 2012/3 and 2012/3 had even more significant project activity. The relative proportion of IT spend on activities that are focused running the business (vs. growing and transforming) is lower than peer group and industry average, as MPI makes IT related investments to "catch up" to its industry peers.

Conclusion: While MPI makes its investments, it should focus on proper execution of these investments maximize benefits realization. MPI still has opportunities for "run the business" cost reductions by deploying cost containment strategies. MPI needs to ensure it is retiring IT assets in the near future to reduce complexity and lower the impact of "technical debt" on strategic execution for Manitobans.

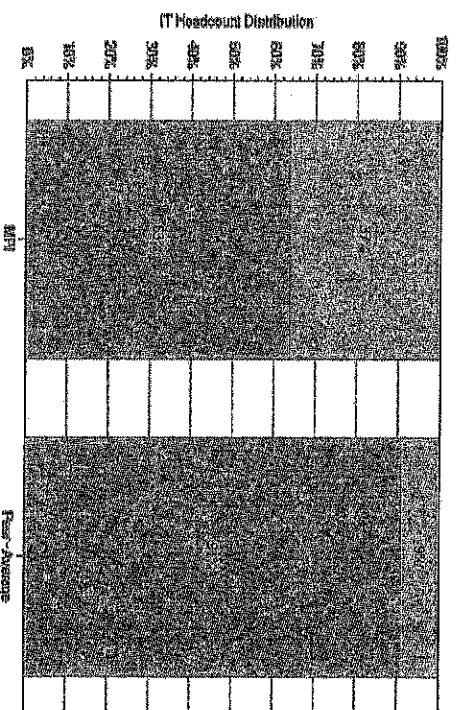
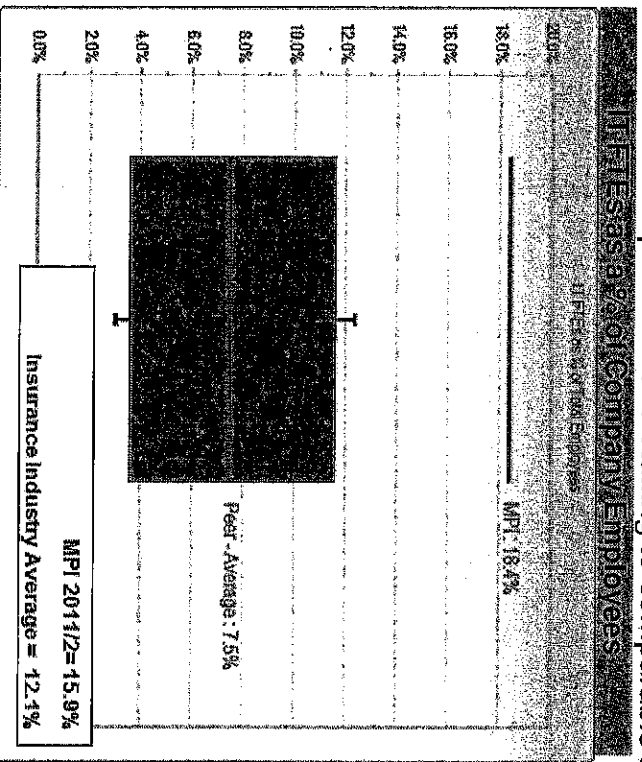
* Based on total of Capital and Operational IT spends

June 28, 2013

SM.5.3 - Appendix 2 - Gartner CIO Scorecard

MPI's staffing ratios are out of range, but improving processes can increase FTE productivity. Higher contractor usage may reflect staffing needs for current initiatives.

Evaluation: Compare MPI's IT staffing to comparable organizations in the same industry:

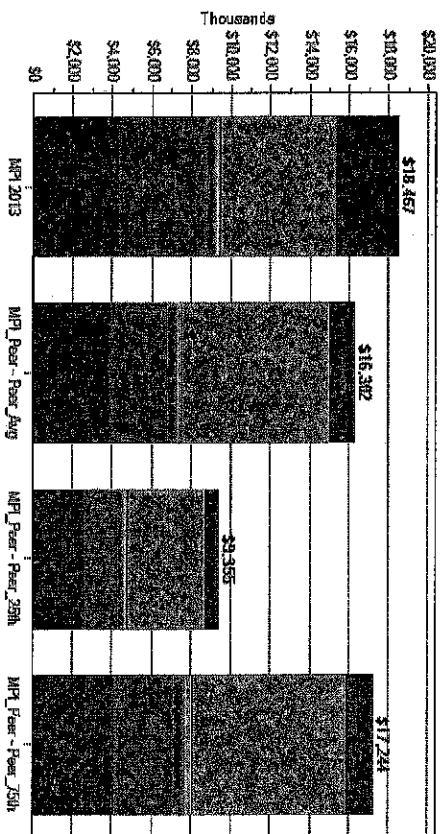


Observation: With a 61.1% increase in IT spending, the number of IT FTEs returned to a 2010/1 level of 356 from a low of 313 in 2011/2. Further, MPI is using a higher percentage of contractors than either its peers or the Insurance industry as a whole.

Conclusion: Based on the Infrastructure and Operations (I&O) and IT spend results, MPI's Cost per FTE is lower, so having more staff does not necessarily translate into higher costs. MPI should monitor its outsourcing and contractor usage levels and take extra precautions to ensure appropriate knowledge transfer takes place so internal resources could be used once its environment stabilizes.

June 28, 2013
At CDN \$18.5M, MPI's overall I&O Spend is \$2.2 M or 13.5% higher than Workload Peer (\$16.3M). Lower Personnel costs are offset by higher Software and Bandwidth/Transmission expenses.

- IT Spending 13.5% higher than Workload Peers, but MPI is outperforming the peers in terms of Availability across the Compute and Network environments.
- Software and Transmission/Bandwidth provide the most immediate areas for cost savings.



	MPI 2013	MPI Peer - Peer Avg	MPI Peer - Peer 25th	MPI Peer - Peer 75th
Hardware	\$4,364	\$3,883	\$2,624	\$4,082
Software	\$8,339	\$2,840	\$1,639	\$2,996
Occupancy	\$562	\$589	\$338	\$837
Disaster Recovery	\$170	\$322	\$181	\$376
Personnel	\$6,914	\$7,446	\$3,933	\$7,830
Transmission	\$3,128	\$1,322	\$636	\$1,353

- Higher IT FTEs than Workload Peer, but lower Cost per FTE

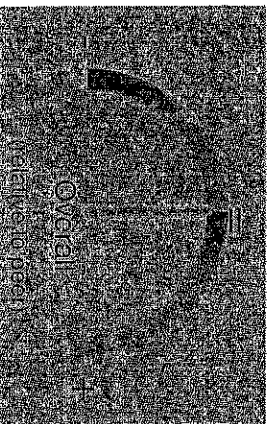
Metric	MPI	Peer
Total Cost	\$18.5M	\$16.3M
Personnel Cost	\$ 5.9M	\$ 7.4M
Total FTEs	69.6	63.3
Cost per FTE	\$ 85K	\$ 117K

June 28, 2013

SM.5.3 - Appendix 2 - Gartner CIO Scorecard
MPI saw some improvements to overall IT Maturity, especially in the area of Cost Containment. Key areas needing improvement are Enterprise Architecture impact and process and technology Standardization.

Evaluation: MPI was benchmarked against seven key criteria that evaluate the effectiveness of the IT organization to deliver to the needs of the business. MPI was compared to a peer group of organizations that are "Team Players" and the overall database average.

Conclusion: MPI has improved over 2011, especially in Cost Containment, but opportunities still remain to improve over Team Player and Insurance peers.

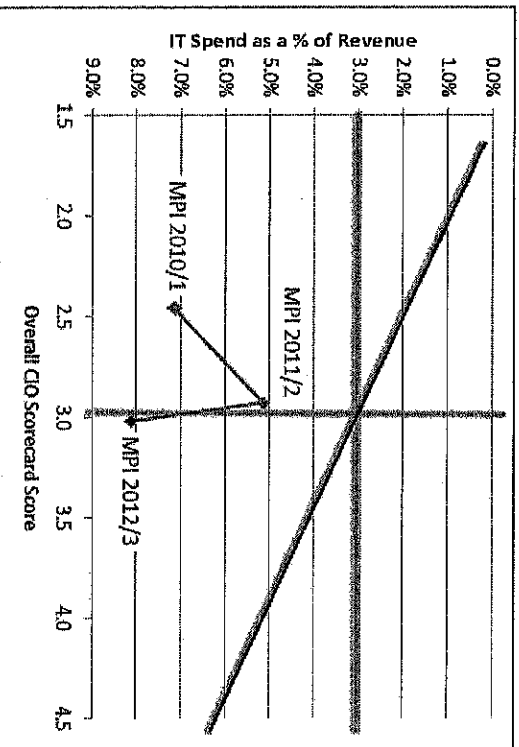


	MPI 2013	Team Player	Insurance	MPI 2012
Evaluation Component*				
Infrastructure & Operations	2.32	2.50	2.20	2.32
Cost Containment	2.38	2.49	2.51	2.15
Applications Organization	2.66	2.57	2.76	2.70
Business Process Management	1.40	1.50	1.76	1.20
Enterprise Architecture	2.84	2.79	2.53	2.73
Open Innovation Readiness	2.51	3.10	2.46	3.63
Effectiveness/Innovation Enterprise Viewpoint	4.00	3.79	3.23	4.00
Effectiveness/Innovation IT Organization Viewpoint	3.67	3.81	3.17	3.44
Overall Score	3.02	3.03	2.82	2.93

Implication: MPI has increased its Maturity across the board, but can still improve in areas such as Cost Containment and Business Process Management. Increasing Maturity in these areas will improve the efficiency and effectiveness of both IT and MPI overall.

*Rating based upon 1 to 5 scoring with 5 as most mature
Color coding is based upon comparison to Team Player

Questions?



	One Time	Ongoing
IT Optimization	\$7,734,911	
Data Centre Optimization	\$4,348,821	
Operating Initiatives		\$5,216,238
Driver Vehicle Act		\$1,063,183
Human Resource Management System		\$6,741,415
Driving Ahead in Real Time	\$5,780,854	
Broker Refresh	\$1,771,823	
Physical Damage Reengineering		\$3,788,044
Enterprise Data Masking		\$1,288,109
Total Initiatives	\$19,636,409	\$18,096,989
% of Total IT spend	22%	21%

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Peer IT as a % of Revenue normalized to MPI Revenue Base	8.1%	5.7%	29.7%
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MPI IT Spend on Investment Projects	\$37,733,398		

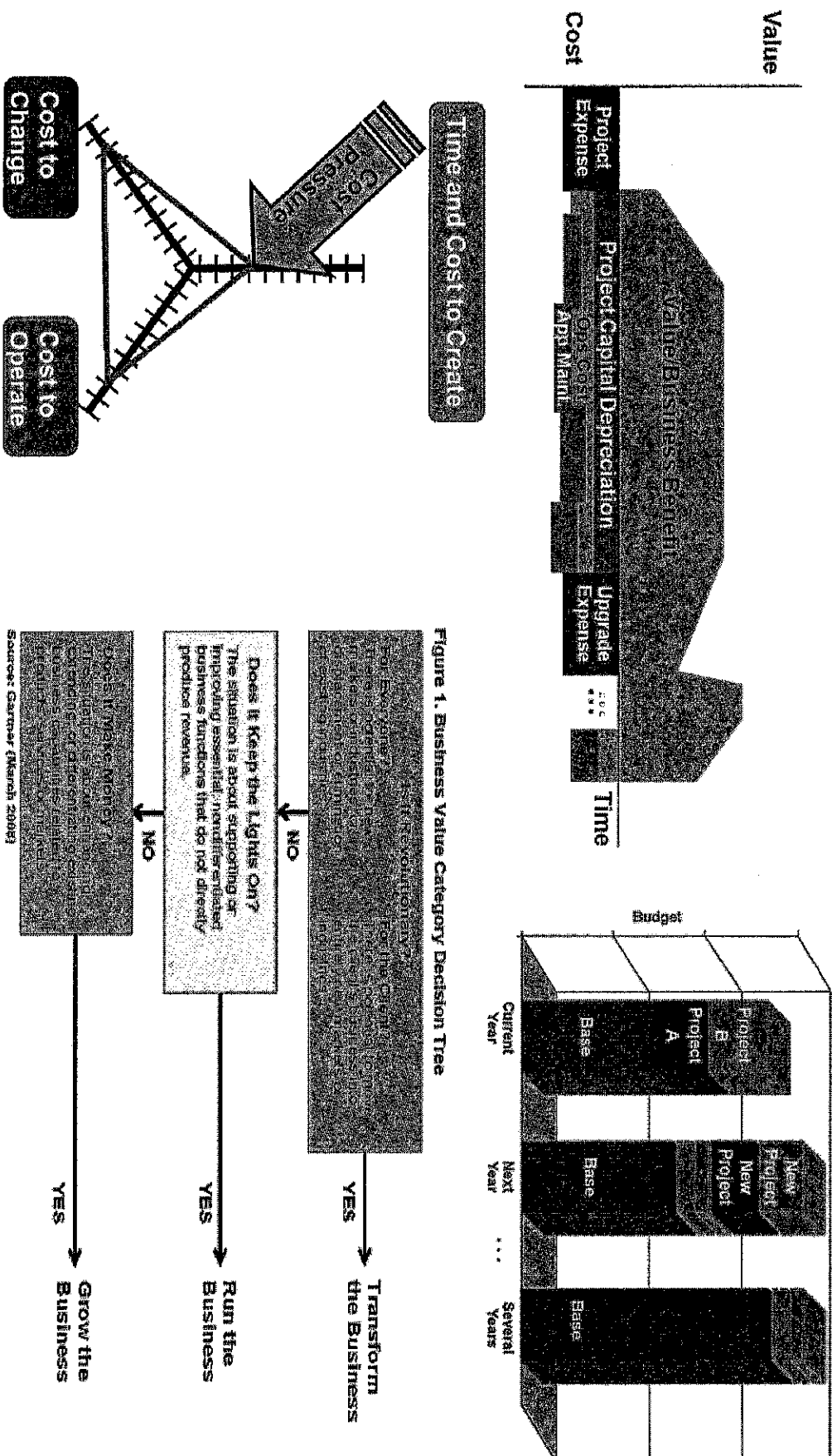
Evaluation Component*	MPI 2013	Team Player	Insurance	MPI 2012
Infrastructure & Operations	2.32	2.50	2.20	2.32
Cost Containment	2.36	2.49	2.51	2.15
Applications Organization	2.61	2.57	2.76	2.70
Business Process Management	1.40	1.50	1.76	1.20
Enterprise Architecture	2.84	2.79	2.53	2.73
Open Innovation Readiness		3.10	2.46	3.63
Effectiveness/Innovation				
Enterprise Viewpoint	3.00	3.79	3.23	4.00
Effectiveness/Innovation IT	3.67	3.81	3.17	3.44
Organization Viewpoint	3.02	3.03	2.82	2.93
Overall Score				

Engagement: 330010630

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Appendix: Models of IT Value/Spending for Discussion Purposes



Source: Gartner (March 2008)

EXECUTIVE SUMMARY

The Public Utilities Board (Board or PUB) approves the application of Manitoba Public Insurance Corporation (MPI or the Corporation) for no overall rate level change in compulsory Motor Vehicle Premiums for the 2013/14 insurance year, effective March 1, 2013. The Board also approves MPI's request that there be no change in Vehicle Premium Discounts, Fleet Rebates or Surcharges, Service and Transaction Fees, Permit and Certificate rates or the discount provided to customers with approved, installed anti-theft devices.

The Board approves MPI's requested changes to the Driver's License Premiums on the Driver Safety Rating (DSR) scale, at demerit levels -1 to -20, to a maximum of \$2,500.

With respect to operating and claims expenses, the Board orders that the Corporation develop productivity factors to enable the assessment of the cost containment measures.

The Board also approves for rate making purposes the adoption of the new Cost Allocation Methodology as proposed by MPI, including the use of Net Claims Incurred as an allocator and the use of four year rolling averages.

The Board believes that the Dynamic Capital Adequacy Testing (DCAT) methodology is an improved approach for determining the target for the Basic Rate Stabilization Reserve (RSR) over the current methodology, however, further analysis and discussion is needed, particularly in relation to the adverse scenarios used in the DCAT and the methodology construct, before such an approach should be utilized for rate-setting purposes. The Board orders MPI to hold a technical conference in early 2013 to discuss, as between the parties to the GRA, the adverse scenarios and methodology construct being utilized currently by the Corporation within the DCAT, with a view to refining the adverse scenarios and gaining a better understanding of the DCAT modeling process. For 2013/14 the RSR target range will continue to be calculated on the basis of the Percentage of Premium approach, though the Board is not ordering any premium rebate to the extent that the RSR balance exceeds the upper limit of the Board's range as at February 28, 2012.

The Board orders that a Road Safety Research Technical Conference take place to discuss Road Safety matters, involving interveners and community partners, to be held on or before

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The Corporation has advised that there are three cost-savings initiatives underway in the Injury Claims Management area. The first is Practitioner Education and Liaison, which involves symposiums and/or presentations arranged by the Corporation about better, more efficient health care for all Manitobans, through the promotion of resumption of normal activity and self-management of any residual symptoms, avoidance of chronicity and close monitoring of recovery.

The second is Negotiated Fee Arrangements, which the Corporation has in place with physiotherapists, athletic therapists, chiropractors and physicians.

The third is the Business and Injury Improvement Initiative, which involved the implementation of new software in September 2010 as part of a new vision for PIPP. In particular, use of the software, which has led to paperless files, will allow the Corporation to accurately benchmark its outcomes with other similar national and international organizations through the use of coding standards. In addition, the Corporation can mine its data sources for insight and ultimately reduce disability durations to optimize claimants' recovery times and achieve program cost savings.

3.4 Cost Savings Initiatives - All Perils

The Corporation has advised that there are a number of cost-savings initiatives underway in the Physical Damage area. The Corporation has continued its recycled and aftermarket parts program such that it had an estimated net savings of \$14.2 million in 2011 from the use of aftermarket parts and an estimated savings of \$15.3 million in 2011/12 from the use of recycled parts.

In addition, the Corporation has negotiated discounts with respect to glass replacement costs, and claimants are able to report a glass claim directly to a repair facility rather than the Corporation, enabling repair facilities to automatically validate coverage, prepare and submit invoices electronically and receive payment electronically. This process has enhanced

CAC (MPI) 2-20

Reference: CAC (MPI) 1-3

Preamble: SM.5.3 Benchmarking, Productivity and Cost Effectiveness. The response to CAC (MPI) 1-3 indicates that MPI has not formalized the "key performance indicator framework" nor has set productivity targets for future years for Injury Claims Management, Contact Centre, Physical Damage and any other division within MPI.

Please advise when the Public Utilities Board can expect a formal written "key performance indicator framework" and productivity targets for current and forecasting years for at least Injury Claims Management (BI3 investment), Contact Centre and Physical Damage.

RESPONSE:

Development of a key performance indicator framework is underway. The framework is evolving as historical data is collected and analytics are conducted. The Corporation will continue to develop these indicators, benchmarks and targets in the upcoming year.

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CAC (MPI) 2-21**Reference: CAC (MPI) 1-3, PUB (MPI) 1-72****Preamble:** Ward Group benchmark data

- a) Please provide the cost of the Ward Group benchmark data.
- b) As per the response to CAC (MPI) 1-3 c), MPI appears to dismiss or not use the benchmark targets provided by the Ward Group. Does MPI agree with this characterization of its treatment of the Ward Group Benchmark data? If not, please explain your answer.

RESPONSE:

- a) The annual fee charged by the Ward Group is \$42,500 (excludes expenses).
- b) The Corporation does not agree with this characterization of its treatment of the Ward Group Benchmark data.

The Ward Group benchmarking is a third party comparison to national averages amongst auto insurers. The benchmarking exercise compares the Corporation's operations to the operations of other similar companies. In addition to understanding performance relative to industry peers, the benchmarking provides an objective analysis of the cost structure of the Corporation that can be used as an analytical tool to identify potential differences in resources as compared to the benchmark. The goal of the benchmarking exercise is not to establish benchmark targets for the Corporation.

The Ward Group Benchmarking forms part of the Corporation's approach to benchmarking and productivity measures as noted in Volume I SM.5.3 - Benchmarking, Productivity and Cost Effectiveness.

June 14, 2013

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2014 RATE APPLICATION
PUB Orders – SM.5 Benchmarking, Productivity and Cost Effectiveness

Appendix 1



11500 Northlake Drive
Suite 305
Cincinnati, OH 45249-1662

T +1 513 7910303
F +1 513 985 3442
www.wardinc.com

May 24, 2013

Mr. Dan Guimond
Vice President, Strategy and Innovation and Chief Information Officer
Manitoba Public Insurance
970-234 Donald
Box 6300
Winnipeg, Manitoba R3C 4A4

Dear Mr. Guimond,

Ward Group has been commissioned by Manitoba Public Insurance to provide benchmark data relative to our Canadian Auto Group Benchmark Group.
Below, please find the fiscal year 2011/12 benchmark data for the requested measurements:

	MPI*	Canadian Auto Group**
Premiums written per FTE	\$658,410	\$884,929
Total Operating Expenses		
As a percentage of premiums written	32.13%	36.56%
Per policy in force	\$306	\$371
Adjusting and Appraising		
Expense per reported claim	\$186	\$362
FTEs per 1,000 reported claims	2.08	2.49
Support Expenses (expressed as a % of premiums written)		
Finance	0.42%	0.97%
Sales	8.00%	13.63%
Marketing	0.39%	0.58%
Personal Underwriting	0.01%	1.00%
Broker Management	0.04%	0.42%
Human Resources	0.51%	0.43%
Actuarial	0.12%	0.21%
Information Technology	5.05%	3.43%
Information Technology (IT)		
Expense as a % of GPW	5.05%	3.43%
Expense as a % of total gross expenses	15.71%	9.38%
Total personnel expense per IT FTE	\$95,337	\$93,645
Personnel expense as a % of GPW	1.76%	1.53%

FACT-BASED ADVICE FOR INSURERS

June 14, 2013

2014 RATE APPLICATION
PUB Orders – SM.5 Benchmarking, Productivity and Cost Effectiveness

Mr. Dan Guimond
May 24, 2013
Page 2



	MPI*	Canadian Auto Group**
Information Technology (IT) (continued)		
Expense per policy in force	\$48	\$35
Expense per IT FTE	\$273,429	\$223,046
Expense per total FTE	\$38,220	\$30,360
Equipment and other expenses as a % of GPW	2.22%	1.42%
Voice communications expense per total FTE	\$2,039	\$1,472

* Fiscal Year March 2011 to February 2012

** The Canadian Auto Benchmark Group includes the average of:

- Alberta Motor Association
- Aviva Canada
- CAA Insurance Company (Ontario)
- Economical – Personal Division
- Gore Mutual Insurance Company – Personal Lines Division
- Insurance Corporation of British Columbia
- Intact Insurance – Personal Lines Division
- RSA – Personal Lines Division
- SGI Canada

Please see Attachment A for more detail regarding definitions for the above measurements.

June 14, 2013

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2014 RATE APPLICATION

PUB Orders – SM.5 Benchmarking, Productivity and Cost Effectiveness

Mr. Dan Guimond
May 24, 2013
Page 3



ATTACHMENT A

GPW per FTE:	Gross premiums written divided by Full-time equivalents (FTEs)
Operating Expenses:	Operating expenses include all underwriting, loss adjusting and investment expenses. Excludes reserve change for loss adjusting expenses
Policy In Force:	Average of beginning and end of fiscal year policies in force.
Reported Claim:	Number of fiscal year claims reported. Claims are evaluated at the occurrence level.
Adjusting and Appraising:	Responsibilities include efforts for the following functions: Verify policy coverages and limits Set and maintain reserves Review vendor estimates Negotiate and settle claims Pay claims
Information Systems:	Responsibilities include efforts for the following functions: Operate hardware Maintain current applications systems Define required changes to application programs Test application program changes Maintain hardware Develop new systems Design new systems Administer disaster recovery plan Enhance current systems Maintain phone systems Project Management Office (except business only projects) Note: Includes data communication and software package maintenance fees/amortization costs. Normally would include Local Area Network costs. Note: Includes business analysts and requirements gathering. Subject matter experts and user acceptance testing activities remain in the business function.

I hope these measurements are helpful. If you have any questions, please contact me at (513) 746-2406.

Sincerely,

Charlie Gall
Associate Partner



PUB (MPI) 1-32**Reference: II.12 Investment Income
Model Testing**

- a) Please provide an electronic copy of the investment income model to facilitate the review.
- b) Please indicate whether there was an independent peer review of the model and if so file the results of that review.
- c) Please provide a copy of the testing results, in support of the evaluation results detailed II.12.
- d) Please provide a full listing of assumptions used in the model and the process for testing and updating model assumptions.
- e) Please indicate who is responsible for maintaining the model.
- f) Please file any training manuals or user documentation.

RESPONSE:

- a) The investment/financial model is still a work in progress. As indicated in other IRs a balance sheet forecast will be added to the model in the coming year. Therefore, the Corporation declines to provide an electronic copy of the model in these proceedings.
- b) This new tool was built by a consultant under direction of the Corporate Controller, Chief Actuary, acting Investment Manager, and their teams.
- c) The testing of the investment part of the model, as outlined in II.12, was done by the consultant and the Investment Department while the model was being developed. After the consultant was finished with the model, the model was further tested by the Investment Department. While no written testing results were created during this testing process, there is confidence that the model is highly reliable. Leading up to the determination of the specifics of the GRA, dozens of scenarios were run. In all scenarios

PUB (MPI) 2-14**Reference: PUB (MPI) 1-32(a)**

Given the importance of forecasting investment income for rate-setting purposes and the fundamental change in the investment forecast approach being proposed:

- a) Please file in Excel the "new investment model" used for rate-setting purposes in electronic format with any accompanying notes and user documentation.
- b) Provide all available documentation of testing undertaken by the consultant/developer of the model.

RESPONSE:

- a) The Corporation uses various models to support the overall rate indication. The models used by the Corporation are large and complex. The Corporation expects that an independent analyst, untrained with the Corporation's models, would need to invest a significant amount of time and effort to be capable of operating the model correctly. Allowing other parties to work in and modify spreadsheets and pose questions in Information Requests and on cross-examination based on the modified schedules, will also require the Corporation to invest a significant amount of time analyzing the changes made to the spreadsheets and to understanding their potential impacts. This approach is inefficient, would require additional time to be provided within the regulatory process and would make the regulatory process more cumbersome. The Corporation has not provided the full versions (e.g. all underlying Excel files with formulas) of these models to the Public Utilities Board and interveners in past General Rate Applications (GRAs). The Corporation has provided very detailed support for all of the models, including the investment income model, as part of the GRA, interrogatory and rate hearing processes. As per the response in PUB (MPI) 1-32 (a), the Corporation declines to provide an electronic copy of the model in these proceedings.
- b) The developer of the model did extensive testing of the model, in conjunction with Manitoba Public Insurance staff; however, there is no formal documentation of testing that can be provided at this time. See CAC (MPI) 2-45

b) The requested tables are shown below.

Combined with Sustained Low Interest Rates Scenario with Management Action (in millions) using the 1-in-20, 4 year Scenario

	2013/14	2014/15	2015/16	2016/17	2017/18
Rate Changes	0.00%	1.80%	1.00%	2.59%	2.07%
Rate Surcharges	0.00%	0.00%	0.00%	2.00%	4.00%
Earned Revenues	\$787	\$835	\$886	\$953	\$1,036
Total Claims Costs	\$787	\$837	\$884	\$859	\$938
Expenses	\$125	\$131	\$134	\$141	\$149
Investment Income	\$122	\$83	\$66	\$63	\$61
Net Income	(\$4)	(\$50)	(\$67)	\$16	\$9
Retained Earnings	\$138	\$88	\$21	\$37	\$46
Unrealized Gain/(Loss)	\$52	\$36	\$31	\$27	\$24

Combined with Sustained Low Interest Rates Scenario with Management Action Difference from Base Forecast (in millions) using the 1-in-20, 4 Year Scenario

	2013/14	2014/15	2015/16	2016/17	2017/18
Earned Revenues	\$0	\$0	\$5	\$31	\$73
Total Claims Costs	\$17	\$62	\$93	\$58	\$107
Expenses	\$0	\$0	\$0	\$2	\$5
Investment Income	\$8	\$20	\$20	\$25	\$24
Net Income	(\$9)	(\$42)	(\$69)	(\$4)	(\$15)
Retained Earnings	(\$9)	(\$51)	(\$120)	(\$125)	(\$140)
Unrealized Gain/(Loss)	(\$0)	(\$11)	(\$21)	(\$31)	(\$41)

- c) The Corporation is proposing a minimum RSR of \$172 million, which would be expected to withstand (i.e. maintain RSR above zero) all adverse events that have a probability of occurrence of 2.5% or greater over the forecast period.
- d) The existing level of the RSR was funded by the net income generated from policies (i.e. insureds) in prior fiscal years. The Corporation is not proposing that additional funds be collected from current insureds as part of the 2014 Rate Application. That said, the Corporation is proposing a minimum RSR *target* of \$172 million to protect current insureds from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors (i.e. the purpose of the RSR). This amount, which was selected based on a 1-in-40 adverse event (i.e. an event that would be expected to occur once every 40 years), would be expected to keep Basic RSR above zero over the forecast period for all adverse events with a probability of occurrence of 2.5% or higher. However, this minimum amount would not protect motorists from significant rate increases due to a 1-in-40 year adverse event.

CAC (MPI) Pre-Ask 1

Please give the formula for the derivation of the figure 26,780 on Exhibit 1, Page 3 of the Claims Incurred forecast - Insurance accident year 17/18 at 12 months of development.

RESPONSE:

The 2013/14 incurred at 12 months development for Weekly Indemnity is calculated by using a weighted average severity and growing it by an upgrade factor multiplied by forecasted covers. A four year average of covers per 100 claims is used for cover counts.

For each claim cover group in Weekly Indemnity the following is performed and summed.

[A] = The two year weighted average severity (0.70 for 2012/13 and 0.30 for 2011/12)

[B] = 2012/13 Upgrade Factor for Weekly Indemnity of 1.60%

[C] = The four year average of cover counts per 100 claims

[D] = Forecasted claim count of 17,095

Revised 2013/14 Forecast = $[A] * (1 + [B]) * [C] * [D] / 100$

See the following page for the breakdown by claim cover group.

Claim Cover Group	2 Year Weighted Average (0.70 for 2012 and 0.30 for 2011)			Ratios - four year average	Revised 2013/14 Forecast		
	Cover Count	Incurred	Severity		Cover Count	Incurred	Severity

**WEEKLY
INDEMNITY**

Catastrophic Injury IRI	1	12,558	\$12,558	0.01	1	\$12,759	\$12,758
Full Time	1,302	13,835,923	\$10,627	7.59	1,298	\$14,010,539	\$10,796
IRI-Student	35	944,882	\$26,997	0.3	51	\$1,389,051	\$27,428
Minor	6	1,478,785	\$246,464	0.05	9	\$2,145,689	\$250,407
Non-Earner	42	831,706	\$19,803	0.28	49	\$978,465	\$20,119
Other	446	1,670,909	\$3,746	2.57	440	\$1,673,494	\$3,806
Part-Time	606	4,877,552	\$7,719	3.76	643	\$5,043,089	\$7,842
Pre-Pipp	3	20,721	\$6,907	0.05	8	\$58,647	\$7,017
Retirement Income	18	852,834	\$47,380	0.14	24	\$1,160,040	\$48,137
Senior	0	18,000	-	0.01	1	-	-
Student Indemnity	17	204,257	\$12,015	0.14	24	\$289,926	\$12,207
Top-Up	11	16,720	\$1,520	0.07	12	\$18,364	\$1,544
Total	2,486	\$24,564,846	\$9,881	14.96	2,558	\$26,780,064	\$10,467

CAC (MPI) 1-103**Reference: Page 20 of RM.4, Table 1**

Please reconcile the ultimate incurred claims for 2014/15 (57,182) and 2015/16 (53,642) for Income Replacement Indemnity to the ultimates given in CI.3 page 8 for 2014/15 (55,996) and 2015/16 (56,871).

RESPONSE:

The ultimate incurred claims from the two sections cited are not comparable as one is on an accident year basis (CI.3) and the other is on a fiscal year basis (RM.4).

The table below shows the derivation of the figures as presented in Page 20 of RM.4. As stated in Page 19 of RM.4, from the list of Improvements to PIPP Benefits, improvement (i) is added to Income Replacement Indemnity.

Fiscal Year Claims Incurred		
	2014/15	2015/16
Income Replacement Indemnity (CI.3, page 9)	55,399	52,043
PIPP Benefits Improvement: IAW Increase (CI, Exhibit Page 17 + CI, Exhibit Page 21)	1,783	1,599
Total Income Replacement Indemnity (RM.4, page 20)	57,182	53,642

CAC (MPI) 1-104**Reference: Page 20 of RM.4, Table 1**

Please reconcile the ultimate incurred claims for 2014/15 (95,424) and 2015/16 (94,001) for Accident Benefits – Other (Indexed) to the ultimates given in CI.3 page 11 for 2014/15 (61,113) and 2015/16 (62,007).

RESPONSE:

The ultimate incurred claims from the two sections cited are not comparable as one is on an accident year basis (CI.3) and the other is on a fiscal year basis (RM.4).

The table below shows the derivation of the figures as presented in Page 20 of RM.4. As stated in Page 19 of RM.4, from the list of Improvements to PIPP Benefits, improvements (ii) to (v) are added to Accident Benefits – Other (Indexed). In addition, the figures presented in Page 20 of RM.4 also include the portion of Unallocated Loss Adjustment Expense attributable to Accident Benefits – Other (Indexed).

Fiscal Year Claims Incurred		
	2014/15	2015/16
Accident Benefits – Other (Indexed) (CI.3, page 9)	62,525	59,880
Unallocated Loss Adjustment Expense	29,274	30,853
PIPP Benefits Improvement: Max PC Increase (CI, Exhibit Page 41 + CI, Exhibit Page 45)	1,446	1,299
PIPP Benefits Improvement: Change to Vehicle Purchase Policy (CI, Exhibit Page 53 + CI, Exhibit Page 57)	1,187	1,076
PIPP Benefits Improvement: Annual Spending Allowance (CI, Exhibit Page 77 + CI, Exhibit Page 81)	445	399
PIPP Benefits Improvement: Section 138 (CI, Exhibit Page 65 + CI, Exhibit Page 69)	548	493
Total Accident Benefits – Other (Indexed) (RM.4, page 20)	95,424	94,001

Casualty
Actuarial
Society



Basic Ratemaking

Geoff Werner, FCAS, MAAA
Claudine Modlin, FCAS, MAAA
EMB

With significant contributions by other EMB associates: Alice Gannon, FCAS, MAAA; Serhat Guven, FCAS, MAAA; Christine Gennett, ACAS, MAAA; Jeff Kucera, FCAS, MAAA; Brett Nunes, ASA, MAAA; and Dave Otto, FCAS, MAAA

Fourth Edition, October 2010

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Underwriting expenses are expenses incurred in the acquisition and servicing of the policies. These expenses include general expenses, other acquisition expenses, commissions and brokerage, and taxes, licenses, and fees. While it may be possible to assign some of these expenses —like commissions—to specific policies, most of these expenses cannot be assigned. For example, general expenses include some of the costs associated with the company's buildings, and other acquisition expenses include items like advertising costs.

Loss adjustment expenses (LAE) are expenses incurred in the process of settling claims.

Allocated loss adjustment expenses (ALAE) are directly attributable to a specific claim and are, therefore, captured on the claim extract.

Unallocated loss adjustment expenses (ULAE), on the other hand, cannot be assigned to a specific claim. ULAE include items like the cost of a claim center or salaries of employees responsible for maintaining claims records. Since ULAE cannot be assigned to a specific claim, these too are tracked at the aggregate level.

Generally speaking, companies track the underwriting and unallocated loss adjustment expenses paid by calendar year. Further subdivision to items such as line of business and state may also be approximated. These aggregate figures can be used to determine expense provisions that will be used in the ratemaking process.

DATA AGGREGATION

The aforementioned policy, claim, and accounting databases must be aggregated for use in the ratemaking analysis. By maintaining data at a detailed level, the data can be aggregated in a variety of ways to support the different types of analyses described within this text. This section is intended to provide some basics of aggregating data. More detailed descriptions will be provided in later chapters.

When aggregating data for ratemaking purposes, three general objectives apply:

- Accurately match losses and premium for the policy
- Use the most recent data available
- Minimize the cost of data collection and retrieval.

Four common methods of data aggregation are calendar year, accident year, policy year, and report year. Each method differs in how well it achieves the objectives outlined above. Note that the methods will be discussed in terms of annual accounting periods though other periods (e.g., monthly, quarterly) can be used, too. Also, with the exception of calendar year aggregation, the annual period does not need to be a calendar year (e.g., January 1 to December 31) but could be a fiscal year (e.g., July 1 to June 30) as well.

Calendar year aggregation considers all premium and loss transactions that occur during the twelve-month calendar year without regard to the date of policy issuance, the accident date, or the report date of the claim. Calendar year earned premium and earned exposure implies all premium and exposures earned during that twelve month period. Hence, at the end of the calendar year, all premium and exposures are fixed. Calendar year paid losses consider all loss paid during the calendar year regardless of occurrence

A/

date or report date. Reported losses for the calendar year are equal to paid losses plus the change in case reserves during that twelve-month calendar year. At the end of the calendar year, all reported losses are fixed. A

The advantage of calendar year aggregation is that data is available quickly once the calendar year ends. This information is typically collected for other financial reporting so it represents no additional expense to aggregate the data this way for ratemaking purposes. The main disadvantage of calendar year aggregation is the mismatch in timing between premium and losses. Premium earned during the calendar year come from policies in force during the year (written either in the previous calendar year or the current calendar year). Losses, however, may include payments and reserve changes on claims from policies issued years ago. Calendar year aggregation for ratemaking analysis may be most appropriate for lines of business or individual coverages in which losses are reported and settled relatively quickly, such as homeowners.

Accident year aggregation of premium and exposures follow the same precept as calendar year premium and exposures—and in fact, the method is often referred to as calendar-accident year or fiscal-accident year. Accident year aggregation of losses considers losses for accidents that have occurred during a twelve-month period, regardless of when the policy was issued or the claim was reported. Accident year paid losses include loss payments only for those claims that occurred during the year. Similarly, reported losses for accident year consist of loss payments made plus case reserves only for those claims that occurred during the year. At the end of the accident year, reported losses can and often do change as additional claims are reported, claims are paid, or reserves are changed. B

① Accident year aggregation represents a better match of premium and losses than calendar year aggregation. Losses on accidents occurring during the year are compared to premium earned on policies during the same year. Since accident year is not closed (fixed) at the end of the year, however, future development on those known losses needs to be estimated. Selecting a valuation date several months after the end of the year allows the emergence of some development in the data and therefore may improve estimation of ultimate losses.

Policy year aggregation, which is sometimes referred to as underwriting year, considers all premium and loss transactions on policies that were written during a twelve-month period, regardless of when the claim occurred or when it was reported, reserved, or paid. All premium and exposures earned on policies written during the year are considered part of that policy year's earned premium and earned exposures. Premium and exposures are not fixed until after the expiration date of all policies written during the year. Policy year paid losses include payments made on those claims covered by policies written during the year. Similarly, reported losses for the policy year consist of payments made plus case reserves only for those claims covered by policies written during the year. At the end of the policy year, losses can and often do change as additional claims occur, claims are paid, or reserves are changed. C

Policy year aggregation represents the best match between losses and premium. Losses on policies written during the year are compared with premium earned on those same policies. Given that policy year exposures are not fully earned until after the end of the year (e.g., policy year exposures for a product with an annual policy term are not fully earned until 24 months after the start of the policy year), data takes longer to develop than both calendar year and accident year.

CHAPTER 5: PREMIUM

The goal of ratemaking is to determine rates that will produce premium for a future policy period equivalent to the sum of the expected costs (i.e., losses and expenses) and the target underwriting profit. In other words, the goal is to balance the fundamental insurance equation:

$$\text{Premium} = \text{Losses} + \text{LAE} + \text{UW Expenses} + \text{UW Profit}.$$

This chapter covers the premium component of the fundamental insurance equation. Premium is the price the insured pays for the insurance product. The ratemaking process requires estimation of premium for a future policy period. This process generally begins with historical premium and applies a series of adjustments. The first adjustment is to bring the historical premium to the rate level currently in effect. Without this adjustment, any rate changes during or after the historical period will not be fully reflected in the historical premium and will distort the projection. A second adjustment is to develop premium to ultimate levels if the premium is still changing. A third adjustment is to project the historical premium to the premium level expected in the future. This accounts for changes in the mix of business that have occurred or are expected to occur after the historical experience period. These concepts are explained in detail in this chapter; in addition, Appendices A, C, and D provide realistic numeric examples from various lines of business of the premium adjustments made in ratemaking analysis.

As will be discussed in depth in the chapter on overall rate level indication, there are two general approaches to evaluate whether the rates underlying the company's premium adequately cover expected losses, expenses, and target underwriting profit: the pure premium approach and the loss ratio approach. Only the loss ratio approach requires the actuary to estimate the premium to be collected during the future time period; therefore, if the actuary plans to utilize the pure premium approach, the adjustments included within this chapter are not required.¹⁰

This chapter covers in detail:

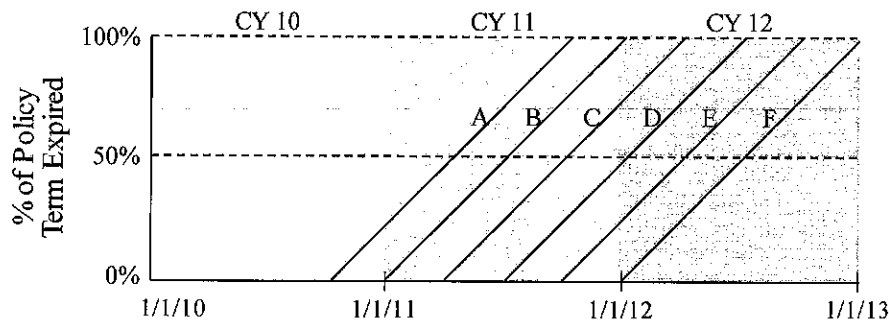
- The different ways to define and aggregate premium
- Standard techniques used to adjust historical premium to current rate level
- Standard techniques used to develop historical premium to ultimate level
- Standard techniques used to measure and apply premium trend

PREMIUM AGGREGATION

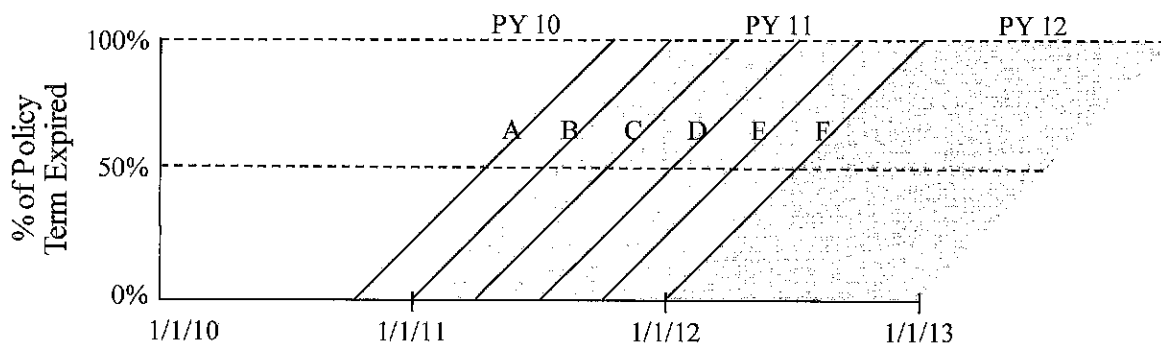
Methods of Aggregation for Annual Terms

The methods for aggregating and defining premium are the same as discussed in the last chapter on exposures. For completeness, the following simple example is included to demonstrate these concepts:

¹⁰ However, the actuary may wish to calculate the expected premium underlying current rates to compare it to the needed premium output from the pure premium approach. The reasons for this should be clearer in the chapter discussing implementation issues.

5.3 Calendar Year Aggregation

Policy year aggregation, which is sometimes referred to as underwriting year, considers all premium transactions on policies with effective dates during the year. Thus, this is represented graphically using a parallelogram starting with a policy written on the first day of the policy year and ending with a policy written on the last day of the policy year:

5.4 Policy Year Aggregation

As can be seen clearly in the graph, the policy year assuming annual policies takes 24 months to complete. In contrast, the calendar year premium is fixed after 12 months. For that reason, most ratemaking analysis focuses on premium data aggregated by calendar year (and losses are generally aggregated on an accident year basis).

In addition to aggregating by calendar or policy year, premium can be defined in four basic ways: written premium, earned premium, unearned premium, and in-force premium.

Written premium is the total amount of premium for all policies written during the specified period. In other words, the key in determining written premium is the inception date of the policy (i.e., the base of each line in the figure). For example, the written premium for Calendar Year 2011 is the sum of the premium for all policies that had an effective date in 2011. As can be seen in Figure 5.5, Policies B, C, D, and E all have effective dates in 2011 (shown as large circles on the horizontal axis), and their entire premium contributes to Calendar Year 2011 written premium. In contrast, Policies A and F have effective dates in years 2010 and 2012, respectively, and do not contribute to Calendar Year 2011 written premium.

Case reserve is the aggregate of all individual file estimates or tabular reserves as determined by the Corporation.

Deferred policy acquisition expense (DPAE)

For a policy that has unearned premium at the valuation date, part of the paid expenses in acquiring the policy (e.g. commissions, premium tax, and investigation expense) may be deferred to reflect the unearned portion of that policy.

IBNR is the difference between unpaid and case reserve. It is a provision for incurred but not reported claims and deficiency in case reserve, and allocated loss adjustment expense.

Expenses incurred during the processing of claims that cannot be attributed to a specific claim are known as internal loss adjustment expense (ILAE). The sources of ILAE may be administrative expenses, in-house legal expenses or staffing costs.

Provision for adverse deviations (PFAD) is future payment provision that takes into account future adverse changes, such as claims development, uncollectible reinsurance, and investment return rate.

Unpaid is the difference between ultimate value and payments.

Insurance years (policy years) are used in lieu of accident years. For MPI, the fiscal insurance year ends February 28 (February 29 in leap years). Therefore each insurance year is spread over two consecutive calendar years.

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CAC (MPI) Pre-Ask 4

- a) Please confirm the figures in Attachment A.
- b) With the figures in Attachment A confirmed does the Corporation agree that the discrepancy between the IBNR estimates resulting from the Incurred Bornhuetter Ferguson method and the Paid Bornhuetter Ferguson method became evident at least by the time the October 31, 2011 Actuarial report was completed?
- c) Please give the amount that the case reserves were underestimated for Accident Benefits – Weekly Indemnity and Accident Benefits – Other (Indexed) separately by accident year.
- d) Please give the number of claims that were underestimated for Accident Benefits – Weekly Indemnity and Accident Benefits – Other (Indexed) separately by accident year.
- e) Was the underestimation of case reserves due to a failure to comply with policy, a lack of information or another reason? Please give details of the reason for the underestimation.
- f) Was the underestimation found during a normal review process, a special examination of case reserves or during the work required to complete the Actuary's report?
- g) Please produce Exhibit 4, Page 5 and Exhibit 4, Page 6 of the Actuary's report as at February 28, 2013 with the values recalculated with the corrected case reserves for Accident Benefits – Weekly Indemnity and Accident Benefits – Other (Indexed).

RESPONSE:

- a) Confirmed.
- b) The Corporation agrees that the figures per the October 31, 2011 Actuarial Report indicated some significant discrepancy between the indicated IBNR using the Incurred



Bornheutter-Ferguson (BF) method and Paid BF method especially for the latest three prior years.

The discrepancy for the 'Latest Year - 2' and the 'Latest Year - 1' were anticipated. As stated in the response to CAC (MPI) 1-102 (d), *"this discrepancy would have corrected itself after three years i.e. we would observe the discrepancy only for the three most recent years"*. As such, we prudently selected the "higher of" method for the three most recent years.

The discrepancy for the 'Latest Year - 3' however was expected to be significantly smaller. In that review, we did not attempt to reconcile the large discrepancy, attributing it solely to a difference between the two methods used. In aggregate, the discrepancy between the Indicated IBNR using the two methods for the 'Latest Year - 3' and prior was only \$1.9 million higher using the Paid BF method.

- c) The Corporation is unable to quantify the insufficiency in the reserve levels by accident year due to the difference in the composition of claimants by accident year as well as the difference in the recovery potential of each claimant.

However, as mentioned in the response to CAC (MPI) 2-5 (d), *"the Claims department completed a review of the reserves for all claims with the potential for lifetime reserves (in March 2013)." The following table presents the difference between the budgeted reported for fiscal year 2013 and actual reported as of August 31, 2013 for Accident Benefits – Weekly Indemnity and Accident Benefits – Other (Indexed).*



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Loss Year	Accident Benefits					
	Weekly Indemnity			Other (Indexed)		
	Budget	Actual	Variance	Budget	Actual	Variance
1994	0	572	572	136	-468	-604
1995	0	713	713	153	644	491
1996	0	73	73	107	203	96
1997	0	752	752	112	156	44
1998	0	309	309	102	172	70
1999	-113	1,691	1,804	104	-461	-566
2000	-138	283	420	-272	-97	174
2001	-564	141	705	-307	131	438
2002	-592	-387	205	163	477	314
2003	-264	2,079	2,343	85	460	375
2004	72	351	279	157	-178	-334
2005	262	833	571	215	-1,142	-1,357
2006	274	5,164	4,890	359	1,799	1,440
2007	471	4,936	4,465	444	1,782	1,339
2008	2,841	7,750	4,909	901	2,504	1,603
2009	5,609	6,430	822	1,019	365	-654
2010	9,452	13,674	4,223	1,394	924	-471
2011	15,400	11,195	-4,205	2,352	4,475	2,123
2012	10,741	6,656	-4,086	3,203	6,299	3,096
Total	43,452	63,214	19,763	10,428	18,045	7,617

Note that the variance presented in the table above includes the strengthening of reserves to address the insufficiency, as well as unexpected development on certain claims e.g. the reversal of prior decisions on claimants' entitlement to certain benefits and relapses.

- d) Refer to the response to (c) above.
- e) The problem was a failure to comply with policy, precipitated by an increase in workload and decrease in productivity in the first eighteen months of the new system implementation.
- f) The insufficiency in the reserve levels became evident to the Corporation during the process of completing the October 2012 Review of Policy Liabilities. Further details are provided in the response to CAC (MPI) 1-102 (d), CAC (MPI) 2-5 and CAC (MPI) 2-6.

September 24, 2013

CAC (MPI) Pre-Ask 4 Attachment A

[illegible]

CAC (MPI) 2-15**Reference: CI.3 page 23**

Please give the impact on the required rate increase if the incurred at 12 months forecast for 2013/14 was 302,145 (the 5 year trend), for 2014/15 was 316,799 and for 2015/16 was 332,164.

RESPONSE:

The reductions in the claims costs resulting from this adjustment are \$5,649,000 and \$5,906,000 for fiscal year 2014/15 and 2015/16 respectively. This reduces the required rate change from 1.80% to 1.10%. The Corporation's incurred at 12 months collision forecast is based on the selected covers per unit and severity forecasts on page 22 of CI.3. In the Corporation's opinion, using the five year trend would imply frequency and severity assumptions lower than a best estimate forecast.