MANITOBA	Order No. 179/01
THE PUBLIC UTILITIES BOARD ACT	
THE MANITOBA PUBLIC INSURANCE ACT	
THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT	November 16, 2001

Before: G. D. Forrest, Chairman
P. Britton, Member
D. Côté, Member
E. Jorgensen, Member

AN APPLICATION BY MANITOBA PUBLIC INSURANCE FOR AN ORDER APPROVING COMPULSORY DRIVER AND VEHICLE INSURANCE PREMIUMS FOR THE YEAR ENDED FEBRUARY 28, 2003

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Executive Summary

The Manitoba Public Insurance Corporation ("the Corporation") filed an application with The Public Utilities Board ("the Board") on June 6, 2001 for approval of premiums to be charged for compulsory driver and vehicle insurance ("Basic insurance") for the insurance year commencing March 1, 2002 and ending February 28, 2003 ("fiscal 2003"), in which it requested a 1.2% decrease in overall vehicle insurance premium revenue. The Corporation subsequently revised its application on October 3, 2001 amending the request from a 1.2% decrease to no change in overall vehicle insurance premium revenue. The primary reason for this change was a higher than initially forecasted claims costs in the first half of the current fiscal year ending February 28, 2002 ("fiscal 2002"), primarily due to increases in collision, theft, hailstorm damage, and glass replacement claims. Additionally, forecasted investment income in fiscal 2002 was decreased because of lower returns on the Corporation's investment portfolio. These decreases to net income in fiscal 2002 were offset in part by increased earned motor vehicle premiums due to increases in the number of vehicles insured, and the total value of the insured vehicle fleet. The requested revenue adjustments recognized last year's one-time 16.6% surplus dividend that will be rebated to Manitoba motorists during the March 1, 2001 to February 28, 2002 insurance year.

The Corporation's initial application forecasted a net income of $15.9 million for fiscal 2002 and projected a net operating income of $9.8 million for fiscal 2003. The rate stabilization reserve ("RSR") was forecasted to be $81.8 million at February 28, 2002, after the surplus dividend rebate of $77.1 million, and projected to be $91.5 million at February 28, 2003 with an outlook for an RSR balance of $115.5 million at February 28, 2006.

The revised application forecasted a net operating loss of $14.3 million for fiscal 2002. The revised application projected program costs for fiscal 2003 to be $583.7 million, and if approved as filed, total earned revenue would be $519.3 million, leaving an underwriting loss of $64.4 million. With projected investment income of $66.7 million, the projected operating

income for fiscal 2003 is $2.2 million. The RSR balances as revised were forecasted to be $50.0 million at the end of fiscal 2002, and projected to be $52.2 million at the end of fiscal 2003, with an outlook of $68.9 million at February 28, 2006.

The Corporation did not request any changes in drivers' premiums, service and transaction fees, or permits and certificate fees.

In response to Order 151/00, the Corporation refiled an updated operational and investment Risk Analysis to incorporate criteria specified by the Board. The Corporation complied with the Order, but also reiterated its position with respect to the RSR, that the appropriate RSR target range was between $80 million and $100 million. The Board heard the positions of other parties regarding this matter, and decided that the criteria, which it had previously stipulated in setting the RSR target range, were valid. The Board decided that the appropriate RSR target range for rate setting purposes was between $50 million and $80 million. The Board also stated that a Risk Analysis need not be filed in subsequent applications, until requested by the Board or unless circumstances change significantly. The Board continues to consider the overall financial strength of the Corporation for rate setting purposes.

The Corporation has actively and successfully pursued the settlement of outstanding third party bodily injury claims, which arose under the tort system before the implementation of the no-fault Personal Injury Protection Plan ("PIPP") on March 1, 1994. At September 2001, there were 207 remaining pre-PIPP tort claims. The Corporation previously obtained reinsurance coverage to provide a $20 million layer of protection for incurred losses in excess of $97 million on the pre-PIPP tort claims then pending, the ultimate cost of which is currently estimated by the Corporation at $95 million. If, as expected, there is no need to call on this reinsurance, the Corporation would receive a refund of $1 million of the one-time premium of $4 million, which it had previously paid.

The Board commends the Corporation in its attempts to control the cost of automobile repairs through the increased use of after market and recycled parts, where suitable, and in the continued training of its staff in current repair technology. The savings attributable to the use of after market and recycled parts is projected to be $16.1 million in fiscal 2003, up from the forecast savings of $15.0 million in fiscal 2002.

The Corporation continues the support of educational programs geared to increasing the use of occupant seat belt restraints and reducing impaired driving and speeding. The Board is encouraged by the 20% increased enrollment in the high school driver education program, which the Corporation attributes to a decrease in tuition fees and the implementation of the graduated drivers' licence program.

The Board considered that, on balance, having regard to the forecasted and projected program costs and revenues, and the RSR levels over the next several years, the Corporation's current revised application is reasonable. The Board therefore approved the Corporation's request for no change in overall vehicle insurance premium revenue in fiscal 2003.

In arriving at its decision, the Board noted that the total operating and claims expenses, except for employee compensation, had increased by less than 2% per year, over the past five years. The Board also noted that total Corporate claims and operating expenses for fiscal 2003 are expected to reach $125.5 million, an increase of 8.1% over fiscal 2002, of which $108 million is allocated to the Basic insurance program. Most of the increase is attributed to additional staff, greater number of claims, economic increases in collective bargaining agreements, and information technology expenditures largely driven by increased customer service and one-time special projects.

All major use classifications encounter different vehicle premium impacts under this application as follows:

Private passenger	0.0%
Commercial	+11.0%
Public	-6.1%
Motorcycle	+15.0%
Trailers	-15.7%
Off-road vehicles	-13.8%
Overall Vehicle Premium Revenue Change	**0.0%**

Experience-based adjustments vary by vehicle within a range from –15% to +15%, taking into account claims history based upon insurance use, territory, and type of vehicle. For those vehicle premiums that do not currently cover the expected full cost of insurance benefits and coverage, those owners will face experience adjustment charges which, incidentally are capped at 15%. The Board has approved all experienced-based adjustments as applied for by the Corporation.

Another component affecting the requested premium changes is the continued implementation of the Canadian Loss Experience Automobile Rating system ("CLEAR") for passenger vehicles and light trucks and the rate line or rate group differentials to establish premiums for each rate group reflective of their experience. The Corporation proposed a multi-year phase-in of this aspect of CLEAR, on a revenue neutral basis, and capped rate line differential dislocations for an individual vehicle level at 10%. The impact on vehicle premiums of these changes is reflected as follows:

CLEAR Impact	Number of Vehicles	Percent of Vehicles
Premium decreases	221,000	28%
No change	186,000	23%
Premium increases*	394,000	49%
	801,000	100%

* For vehicles with premium increases, 364,000 will have increases of $50 or less.

The Board also accepted the Corporation's requested changes in the definition of a farm passenger vehicle category, and the merger of the former farming all-purpose passenger vehicle category with the all-purpose passenger vehicle category. The Board also accepted the Corporation's position that U-Drive cars and trucks should remain in the public Major Classification rather than either the private passenger or commercial Major Classification.

The Board noted that motorcycle premiums continue to increase by 15%, as they have over the last number of years. The Board also noted that the loss experience of motorcyclists, as a class, according to the system in use in Manitoba, indicates a required premium increase of over 33%. Motorcyclists are significantly impacted because of the relatively small pool of insured units in that class that are required to carry all losses charged to motorcyclists.

The Board also encouraged the Corporation to study its internal claims review process to speed up the time required for the process to minimize hardship on claimants.

Sommaire

Le 6 juin 2001, la Société d'assurance publique du Manitoba (la « Société ») a soumis une demande à la Régie des services publics (la « Régie ») afin que soient approuvées ses primes d'assurance automobile obligatoire (l'« assurance de base ») pour l'année d'assurance commençant le 1er mars 2002 et se terminant le 18 février 2003 (« exercice 2003 »). La Société demandait l'autorisation de réduire de 1,2 % le montant des recettes provenant de l'ensemble des primes d'assurance automobile. Le 3 octobre 2001, la Société a soumis une demande modifiée afin que le montant des recettes provenant de l'ensemble des primes d'assurance automobile demeure inchangé au lieu d'être réduit de 1,2 %. Ce changement est principalement dû au fait que le coût des demandes d'indemnisation a dépassé les prévisions durant le premier semestre de l'exercice actuel qui a pris fin le 28 février 2002 (« exercice 2002 »). Cette hausse inattendue est essentiellement attribuable à l'augmentation des collisions, des vols, des dommages causés par la grêle et des remplacements de vitres. De plus, les revenus d'investissement ont été moins élevés que prévu durant l'exercice 2002, à cause de la baisse de rendement du portefeuille de placement de la Société. Cette diminution du bénéfice net en 2002 a été en partie compensée par l'accroissement des recettes provenant des primes d'assurance automobile, accroissement dû à l'augmentation du nombre de véhicules assurés et de la valeur totale de tous les véhicules assurés. L'ajustement de recettes demandé tient compte du dividende extraordinaire unique de 16,6 % enregistré l'année dernière, et qui sera distribué aux conducteurs manitobains sous forme de rabais entre le 1er mars 2001 et le 28 février 2002.

La demande initiale de la Société prévoyait un bénéfice net de 15,9 millions de dollars pour l'exercice 2002 et un bénéfice d'exploitation net de 9,8 millions de dollars pour l'exercice 2003. Les prévisions concernant la réserve de stabilisation des tarifs (la « RST ») étaient les suivantes : 81,8 millions de dollars au 28 février 2002 (après la distribution du dividende extraordinaire de 77,1 millions de dollars sous forme de rabais); 91,5 millions de dollars au 28 février 2003; et 115,5 millions de dollars au 28 février 2006.

La demande révisée prévoyait une perte d'exploitation nette de 14,3 millions de dollars durant l'exercice 2002. La demande révisée prévoyait que les coûts du programme durant l'exercice 2003 s'élèveraient à 583,7 millions de dollars, et que les recettes totales, si elles étaient acceptées sans changement, s'élèveraient à 519,3 millions de dollars, soit une perte technique de 64,4 millions de dollars. Si l'on s'en tient à la prévision de 66,7 millions de dollars en revenus d'investissement, le bénéfice d'exploitation net prévu durant l'exercice 2003 s'élève à 2,2 millions de dollars. Quant au solde du RST après révision, on prévoyait qu'il atteindrait 50 millions de dollars à la fin de l'exercice 2002, 52,2 millions à la fin de l'exercice 2003 et 68,9 millions au 28 février 2006.

La Société n'a demandé aucun changement en ce qui concerne le montant des primes et les frais de service, de transaction, de permis et de certificats.

À la suite de l'ordonnance 151/100, la Société a tenu compte des critères indiqués par la Régie et a procédé à une mise à jour de l'analyse de risque du fonctionnement et des investissements. Tout en se conformant à l'ordonnance, la Société a rappelé que, selon elle, la fourchette-cible de la RST devrait être de 80 à 100 millions de dollars. Après avoir écouté les positions des autres parties sur cette question, la Régie a jugé valable le critère qu'elle avait établi antérieurement pour déterminer la fourchette-cible appropriée de la RTS. La Régie a décidé que la fourchette-cible appropriée de la RTS dans le cadre de la tarification se situe entre 50 et 80 millions de dollars. La Régie a également précisé qu'il n'est pas nécessaire de présenter une analyse de risque avec les prochaines demandes, à moins que la Régie en fasse la demande ou que les circonstances l'exigent. La Régie continue à tenir compte de la situation financière générale de la Société pour déterminer le niveau approprié de la RST dans le cadre de la tarification.

La Société s'est occupé activement et avec succès du règlement des demandes d'indemnisation pour dommages corporels visant des sinistres de tierce partie, demandes soumises en vertu du système de responsabilité civile délictuelle antérieur à la mise en œuvre, le 1er mars 1994, du Régime de protection contre les préjudices personnels (RPPP) sans égard à la responsabilité. En

septembre 2001, il restait encore 207 réclamations en responsabilité civile délictuelle antérieures au RPPP. La Société avait préalablement obtenu une garantie de réassurance de 20 millions de dollars pour pertes subies au-delà de 97 millions de dollars en raison des réclamations en responsabilité civile délictuelle antérieures au RPPP et non encore réglées. La Société évalue maintenant le coût final à 95 millions de dollars. Si, tel que prévu, il n'est pas nécessaire d'utiliser la réassurance, la Société recevra un remboursement d'un million de dollars sur les primes d'un montant unique de quatre millions de dollars qu'elle avait payées précédemment.

La Régie félicite la Société de ses initiatives concernant les réparations d'automobiles. D'une part, la Société forme continuellement son personnel aux plus récentes techniques de réparation. D'autre part, elle a davantage recours, lorsque cela est possible, aux pièces du marché secondaire et aux pièces recyclées. Grâce à cette pratique, la Société prévoit économiser 15 milions de dollars durant l'exercice 2002 et 16,1 millions de dollars durant l'exercice 2003.

La Société continuer à soutenir les programmes éducatifs qui visent à accroître le port de la ceinture de sécurité pour tous les passagers et à réduire les cas de conduite avec facultés affaiblies et les excès de vitesse. La Régie est encouragée par l'augmentation de 20 % des inscriptions au programme d'enseignement de la conduite automobile à l'école. La Société attribue cette hausse à la diminution de frais d'inscription et à la mise en œuvre du programme de permis de conduire par étapes.

Compte tenu des projections de coûts et recettes du programme et des niveaux prévus pour la RTS au cours des prochaines années, la Régie est d'avis que l'actuelle demande révisée de la Société est raisonnable. Par conséquent, la Régie accepte la demande de la Société de ne pas modifier le montant des recettes provenant de l'ensemble des primes d'assurance automobile durant l'exercice 2003.

La Régie a pris cette décision après avoir constaté que, si l'on ne tient pas compte de la rémunération des employés, les dépenses totales de fonctionnement et d'indemnisation ont

augmenté de moins de 2 % par an ces cinq dernières années. La Régie a également remarqué que, selon les prévisions, les dépenses d'indemnisation et de fonctionnement de la Société devraient augmenter de 8,1 % entre l'exercice 2002 et l'exercice 2003, pour atteindre 125,5 millions de dollars. Sur cette somme, 108 millions seront consacrés au programme d'assurance de base. Les principales causes de l'augmentation sont les suivantes : recrutement de nouveaux employés, hausse des demandes d'indemnisation, coûts supplémentaires liés aux ententes collectives, et enfin dépenses consacrées aux technologies de l'information, en grande partie à cause de la croissance du service à la clientèle et des projets spéciaux uniques.

L'approbation de la demande se traduit par les incidences suivantes sur les primes applicables aux principaux codes d'usage des véhicules :

Voitures de tourisme	0 %
Véhicules – tarif commercial	+11 %
Véhicules publics	-6,1 %
Motocyclettes	+15 %
Remorques	-15,7 %
Véhicules à caractère non routier	-13,8 %
Variation des recettes provenant de toutes les primes d'assurance automobile	**0 %**

Les rajustements de primes personnalisées varient selon les véhicules et selon une fourchette de –15 % à +15 %, compte tenu du dossier de sinistres du conducteur, du code d'usage du véhicule, du territoire et du genre de véhicule. Les véhicules dont les primes d'assurance ne couvrent pas le coût total prévu des garanties offertes font l'objet d'un rajustement personnalisé qui ne peut dépasser 15 %. La Régie a approuvé tous les rajustements personnalisés demandés par la Société. Un autre élément qui a des incidences sur la demande de modification des primes est la mise en œuvre continue du système de Tarification automobile selon la sinistralité canadienne (CLEAR) pour l'établissement des primes des voitures de tourisme et des camions légers. Les différentiels des groupes tarifaires doivent permettre d'établir le montant des primes pour chaque groupe tarifaire en fonction de son historique. La Société propose une mise en œuvre progressive pluriannuelle de cet aspect de CLEAR, sans incidences sur les recettes, en plafonnant à 10 %

pour tout véhicule les dislocations des différentiels des groupes tarifaires. Les conséquences de ces changements sur les primes d'assurance des véhicules sont les suivantes :

Conséquences de CLEAR	**Nombre de véhicules**	**Pourcentage de véhicules**
Réduction des primes	221 000	28 %
Pas de changement	186 000	23 %
Augmentation des primes*	394 000	49 %
	801 000	100 %

* L'augmentation des primes ne dépassera pas 50 $ pour 364 000 véhicules.

La Régie a également accepté les changements demandés par la Société concernant la définition de la catégorie « voiture agricole », et la disparition de la catégorie « voiture agricole à tarif universel » qui fait désormais partie de la catégorie « voiture à tarif universel ». La Régie partage également l'opinion de la Société selon laquelle les voitures et camions sans chauffeur devraient conserver le code d'usage « véhicules publics » plutôt que celui de « véhicules de tourisme » ou « véhicules commerciaux ».

La Régie a constaté que les primes d'assurance des motocyclettes ont continué d'augmenter de 15 %, comme c'est le cas depuis plusieurs années. La Régie a également remarqué que les pertes associées à la catégorie des motocyclistes, selon le système en vigueur au Manitoba, exigent une augmentation des primes de plus de 33 %. Les motocyclistes subissent les conséquences du nombre relativement petit de personnes assurées dans cette catégorie et qui doivent néanmoins assumer les pertes imputées aux motocyclistes.

La Régie encourage également la Société à réviser son processus de traitement interne des demandes d'indemnisation afin d'accélérer le processus au bénéfice des demandeurs.

1.0 Appearances

W. S. Saranchuk, Q.C. K. L. Kalinowsky	Counsel for The Manitoba Public Utilities Board (“the Board”)
K. McCulloch	Counsel for Manitoba Public Insurance Corporation (“the Corporation”)
J. E. Foran, Q.C. A. Foran	Counsel for Manitoba Car and Truck Rental Association (“MCTRA”)
B. Steinfeld	Counsel for Canadian Bar Association - Manitoba Branch (“CBA”)
G. Corrigal	President, Insurance Brokers Association of Manitoba (“IBAM”)
M. Scurfield	Executive Director, Insurance Brokers Association of Manitoba
R. P. Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups (“CMMG”)
D. Wankling	Canadian Automobile Association (Manitoba Division) (“CAA”)
B. Williams	Counsel for Consumers Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors (“CAC/MSOS”)
R. Fontaine	Delivery Drivers Alliance of Manitoba (“DDAM”)

2.0 Witnesses

2.1 Witnesses for the Corporation

J. W. Zacharias	President and Chief Executive Officer
M. J. McLaren	Vice-President, Insurance Operations
B. W. Galenzoski	Vice-President, Finance, Chief Financial Officer and Chief Administrative Officer
W. Bedard	Vice-President, Claims

2.2 Witness for CAC/MSOS

J. G. Todd	President, Econalysis Consulting Services Inc.

2.3 Witnesses for MCTRA

G. Cross S. Devlin	Manitoba Car and Truck Rental Association

3.0 Intervenors

Canadian Automobile Association

Canadian Bar Association – Manitoba Branch

Coalition of Manitoba Motorcycle Groups

Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors

Delivery Drivers Alliance of Manitoba

Insurance Brokers Association of Manitoba

Manitoba Car and Truck Rental Association

4.0 Application

The Corporation applied to the Board on June 6, 2001 for approval of premiums to be charged for compulsory driver and vehicle insurance ("Basic insurance") for the fiscal year commencing March 1, 2002 and ending February 28, 2003 ("fiscal 2003") pursuant to *The Crown Corporations Public Review and Accountability Act*, *The Public Utilities Board Act*, and *The Manitoba Public Insurance Corporation Act*. On October 3, 2001, the Corporation filed amendments to its original application.

The Corporation's June 6, 2001 application requested a decrease in overall premium revenue of 1.2% effective March 1, 2002. The application reflected a forecasted net income for the year ending February 28, 2002 ("fiscal 2002") of $15.9 million and a projected net income in fiscal 2003 of $9.8 million. The October 3, 2001 revised application requested no change in overall vehicle premium revenue. The revised application resulted from an update in the fiscal 2002 forecast, based on the experience in the first six months. The Corporation indicated

that forecasted claims cost experience had increased from the original application by $24.2 million due to increases in collision costs and comprehensive claims in addition to an $8.4 million decrease in anticipated investment income. Other changes in the revised application impacting fiscal 2002 and fiscal 2003 related to the Corporation's assumptions for upgrade, volume and rate volatility factors, as well as the allocation of operating expenses among the Major Classifications of vehicles. As a result of these changes, the Corporation is now forecasting a loss of $14.3 million in fiscal 2002, and has lowered its projected net income for fiscal 2003 to $2.2 million.

The Board held a pre-hearing conference on June 25, 2001 to consider the procedures and other issues relating to the application. Subsequent to the pre-hearing conference, the Board issued Orders 104/01 and 113/01 regarding applications for intervenor status and establishing a timetable for the orderly exchange of information and procedures to be followed.

The public hearing was held from October 15 to October 19, 2001. Closing remarks were heard on October 29, 2001.

5.0 Program Revenue

5.1 Forecasted/Projected Operating Results

The Corporation derives revenue to fund its total program costs and to provide a net contribution to the Rate Stabilization Reserve ("RSR") from motor vehicle premiums, drivers' premiums, investment income, service fees and other income. The Corporation's latest forecast of operating results for fiscal 2002 based on existing rates and projection for fiscal 2003 based on requested rates are as follows:

Statement of Operations ($ millions) **For Years Ending February 28**	**Forecast** **Fiscal 2002** **at Existing Rates**	**Projection** **Fiscal 2003** **at Requested Rates**
Net Premiums Earned		
Motor Vehicle Premiums	$462.1	$484.4
Drivers' Premiums	29.9	32.3
Reinsurance Ceded	(12.7)	(11.6)
Total Net Premiums Earned	479.3	505.1
Service Fees and Other Revenues	14.2	14.2
Total Earned Revenue	493.5	519.3
Net Claims Incurred	433.2	440.8
Claims Expense	56.1	59.3
Total Claims Costs	489.3	500.1
Operating Expenses	36.9	40.4
Commissions	19.3	20.5
Premium Taxes	13.5	14.4
Other	8.5	8.3
Total Claims and Expenses	567.5	583.7
Underwriting Income (Loss)	(74.0)	(64.4)
Investment Income	59.7	66.7
Net Income (Loss)	$(14.3)	$2.2

5.2 Motor Vehicle Premiums

Motor vehicle premiums are based upon rating territory, use, rate group, and individual owner's driving record, and comprise over 83% of the total program revenue for the Basic insurance program. The Corporation has not requested any change in overall vehicle premiums in its revised application, although the Corporation had originally sought a 1.2% overall vehicle premium decrease. The projection for motor vehicle premiums for fiscal 2002 at the last general rate application ("GRA") in November 2000 was $448.5 million, which was increased to a forecast of $456.5 million in this year's original filing, and then again increased in the October 3 revision to $462.1 million. Motor vehicle premiums are projected to be $484.4 million in fiscal 2003. Much of the increase in motor vehicle premiums has been driven by a change in the vehicle upgrade factor. In Order 151/00 the Board stated:

> "While being mindful of the difficulties of precisely forecasting the future, the Board finds the historic trend in understating forecasted vehicle premiums of some concern, and urges the Corporation to focus its attention in this area. In all other material respects, the Board believes that the Corporation's forecasting methodologies and results are reasonable."

The Corporation undertook significant effort in preparing the vehicle upgrade factor for this application. An analysis was conducted of the historic results compared to projection, using the traditional methodology, plus a methodology that considers more directly the underlying influences such as vehicle sales, the economy, and average upgrade. In the past several years, older vehicles have been replaced, upgrading has occurred, the average age of the fleet decreased, and the average cost of vehicles has increased, particularly with the increasing popularity of high-end sport utility vehicles.

The following summarizes the differences between the projected and actual premium upgrades over the last five fiscal years:

Fiscal Year	% Pure Upgrade Embedded in Projection	Actual % Pure Upgrade Including Volume Factor
1997	1.5%	3.5%
1998	1.5	4.7
1999	1.5	4.6
2000	3.5	4.6
2001	3.0	5.8

The revised application increased the upgrade factor from 3.5% to 4.5% for both fiscal 2002 and fiscal 2003, due to forecasts/projections of vehicle sales and the economy. However, the long-term premium upgrade would revert to 3.5% in future years since the higher rate would unlikely be sustainable over the long-term outlook.

Another factor contributing to the variance between projection and actual was the Corporation's practice to assume no volume increase in the overall number of vehicles insured. Every year the fleet has increased. In the revised application the volume factor was increased to 1.4% for fiscal 2002 and reverted to 0.4% for fiscal 2003 and beyond.

When questioned why the volume factor would decrease by 1% in fiscal 2003, although the premium upgrade factor remained at 4.5% in the same year, witnesses for the Corporation stated the upgrade factor has been higher consistently for a longer period of time and the volume growth is an unprecedented, much shorter term phenomenon than premium upgrade.

5.3 Drivers' Premiums

All Manitoba motorists are assessed a Basic premium on their drivers' licences based on the principle that all drivers should contribute premiums to the insurance fund, regardless of whether they own and insure a vehicle. The drivers' licence premiums are $45. Motorists can reduce this premium by up to $25 under the merit point assessment system. Drivers' licence premiums are projected to be $21.4 million for fiscal 2003.

Additional premiums are assessed against motorists who have accumulated six or more demerit points on their driver's licence, since conviction-prone drivers represent a higher level of risk. Drivers' premiums in fiscal 2003 include revenues from these additional premiums of $2.4 million.

Accident surcharges are intended to deter accidents and to require accident-prone drivers to pay a larger share of overall insurance costs. Accident surcharges of $200 are assessed on the first at-fault accident. The surcharge increases with the number of accidents. Accident surcharges are projected to be $9.1 million in fiscal 2003. There are no changes to drivers' licence premiums in this application.

5.4 Service Fees and Other Revenues

The Basic insurance program is forecasted/projected to earn $14.2 million from service fees and other revenue in each of fiscal 2002 and fiscal 2003. This revenue consists mainly of income from the time payment plan, late fees, dishonoured payment fees and miscellaneous fees. There are no changes requested in the current application related to service fees and other revenue.

5.5 Investment Income

The Corporation has short and long-term investments in excess of $1.2 billion related to the Basic compulsory insurance program and the Corporation's extension and Special Risk Extension ("SRE") programs. Funds available for investment are primarily related to unearned premiums, unpaid claims, and reserves. The Department of Finance acts as the Corporation's investment manager, administering the Corporation's investment portfolio. Of the $83.5 million in total investment income projected in fiscal 2003, $66.7 million is allocated to Basic insurance which reduces the revenue the Corporation is required to collect through premiums.

Investment income is forecast to decrease for fiscal 2002, as well as for fiscal 2003, from what was originally projected at last year's GRA. At that time, investment income for fiscal 2002 was projected to be $67.6 million and the outlook for fiscal 2003 was $69.3 million. In the revised application, the forecast for fiscal 2002 is now $59.6 million and the fiscal 2003 projection is $66.7 million. The Corporation attributed the changes to a decline in the US equity markets and lower than expected interest rates that adversely affect returns on the Corporation's investments.

6.0 Program Costs

The Corporation projects that the costs of providing Basic insurance to Manitoba motorists for fiscal 2003 will be as follows:

	Total Estimated Expense Fiscal 2003 ($ millions)	Percentage of Total
Claims Incurred	$440.8	75.5%
Claims Expenses	59.3	10.1
Operating Expenses	40.4	6.9
Commission and Premium Taxes	34.9	5.9
Regulatory/Appeal Expenses	1.6	0.4
Road Safety Expenses	6.7	1.2
Total Claims Costs and Expenses	$583.7	100.0%

6.1 Claims Incurred

Claims incurred is the largest component of total Basic costs representing over 75% of the Corporation's Basic annual program costs. Claims incurred represent costs that are paid or expected to be paid by the Corporation on account of claims under the Basic insurance program. Claims incurred for the fiscal years 1999 to 2003 for the major coverages are as follows:

Claims Incurred ($ millions)

For Fiscal Years Ending February 28, 29	1999	2000	2001	2002	2003	Five Year Change $	Five Year Change %
Physical Damage							
Collision	$130.5	140.3	155.1	172.3	179.1	48.6	37%
Comprehensive	34.4	36.8	43.4	59.1	52.8	18.4	53
Property Damage	24.8	18.9	25.1	28.6	29.7	4.9	20
	189.7	196.[illegible]	223.6	260.0	261.6	71.9	38
No-Fault Accident Benefits	121.4	154.0	154.5	165.8	170.6	49.2	41
Public Liability	19.7	2.7	-	7.4	8.6	(11.1)	(56)
Total	$330.8	352.7	[illegible].1	433.2	440.8	110.0	33%

6.1.1 Forecasting/Projecting Claims Incurred

The Corporation prepares three different forecasts/projections for claims incurred and submitted that all result in rates that are actuarially based and statistically sound. The three methods prepared are the Financial, Linear, and Exponential Methods. The Linear Method and the Exponential Method utilize historic data to forecast/project cost growth assumptions by coverage, whereas the Financial Method uses assumptions based on forecasted/projected field, economic, and actuarial factors, as well as management judgment.

Claims incurred projections for fiscal 2003 flowing from each of the forecasting methods are as follows:

Linear Method	$412.6 million
Financial Method	$440.8 million
Exponential Method	$437.6 million

As in the past, the Corporation has adopted the Financial Method for its fiscal 2003 projection of claims incurred for revenue requirement purposes.

A comparison of the Corporation's recent projections of claims incurred to actual results is:

Claims Incurred ($ millions)

Fiscal Year	Initial Projection	Actual	Variance ($)	Variance (%)
1994	$323.4	$320.8	(2.6)	(0.8)
1995	290.2	297.8	7.6	2.6
1996	303.4	302.0*	(1.4)	(0.5)
1997	311.8	296.0	(15.8)	(5.1)
1998	322.6	340.8	18.2	5.6
1999	332.7	330.8	(1.9)	(0.6)
2000	365.3	352.7	(12.6)	(3.4)
2001	377.5	378.1	0.6	0.2

* A tort run-off adjustment increased the actual to $352.3 million.

On an overall basis the Corporation's claims projection methodology has resulted in a variance of less than 2% between projected and actual results since 1994. The variance includes several adjustments for tort run-off claims over this time period. In the Corporation's view, variances can be expected to be significant at times, given the very nature of being forward looking and the

fact that initial projections are prepared approximately 21 months prior to the end of the year for which premiums are approved. Numerous factors which are implicit in projecting claims incurred are variable and thus are difficult to predict. Some of these factors include effects of weather, prevailing economic conditions, financial markets, business trends, underwriting cycles, changing customer and societal attitudes. Factors that caused claims incurred forecasts to increase at the end of the second quarter of fiscal 2002 by more than $24 million were significant increases in automobile thefts and vehicle damage resulting from the hailstorm of August 2001.

6.1.2 Physical Damage – All Perils

Most of the physical damage claims costs arise under all perils coverage which is for any direct accidental loss of or damage to an insured vehicle arising out of such perils as collision, fire, theft and hailstorms and includes collision and comprehensive coverage. Total physical damage claims incurred over a five-year fiscal period are projected to increase 37.9% from $189.7 million in fiscal 1999 to $261.6 million for fiscal 2003. The most significant increase in Physical Damage claims occurred in fiscal 2002, accounting for more than half of the total five-year increase of $71.9 million.

Collision costs represent the costs incurred for the repair of motor vehicles damaged in accidents. Collision costs are projected to be $179.1 million in fiscal 2003, an increase of over $48 million or 37% over the five-year fiscal period commencing with fiscal 1999, despite the increased use of after market and recycled parts. The Corporation attributed the increase in collision costs to the higher associated repair costs for new vehicles, and a greater percentage of newer vehicles in the overall fleet. The Corporation cited the fact that the cost of original equipment manufacturer's ("OEM") repair parts have recently increased by more than 9% from January to August 2001. This also increases the cost of after market and recycled parts, as the price structure for these parts is determined as a percentage discount off OEM parts costs.

Comprehensive claims represent coverage for loss or damage to an insured vehicle arising out of perils such as fire, vandalism, theft and severe weather. In fiscal 2002, comprehensive claims are forecasted to be $59.1 million, an increase of $15.6 million, or 37.1% from fiscal 2001 cost of $43.5 million. This is due to increased loss frequency of 9,000 claims for glass replacements, increased damage due to hailstorms, and a 17% increase in costs related to claims arising out of automobile thefts. The Corporation is projecting a return to more traditional and normal levels of comprehensive claims of $52.8 million for fiscal 2003.

Property damage claims are projected to be $29.7 million for fiscal 2003 a marginal increase from the $28.6 million forecasted for fiscal 2002. Property damage costs have increased by 20% over the five-year fiscal period starting with fiscal 1999.

6.1.3 No-Fault Accident Benefits - PIPP

Accident benefits are paid regardless of fault and include weekly disability payments, death benefits, funeral expenses, medical expenses and impairment benefits arising out of bodily injury. Accident benefits include amounts payable under the Basic insurance prior to March 1, 1994 as well as amounts payable thereafter under the Personal Injury Protection Plan ("PIPP").

The following table compares the actual PIPP accident benefit costs with those previously projected:

PIPP Accident Benefits ($ millions)

Fiscal Year Ended February 28, 29	Original Projection	Revised Forecast	Actual Cost	Difference Revised/ Actual
1995	$132.8	$119.4	$112.6	$ (6.8)
1996	140.2	126.6	105.3	(21.3)
1997	135.9	95.1	90.1	(5.0)
1998	118.8	115.5	132.7	17.2
1999	119.3	132.1	124.3	(7.8)
2000	139.0	136.3	144.0	7.7
2001	139.6	138.2	154.3	16.1
2002	139.8	162.2	-	-
2003	167.8	-	-	-

There continue to be major variances between the forecasted/projected and the actual costs for PIPP accident benefits in each year since the inception of the program. In the first three years, actual costs had been consistently lower than forecasted/projected costs, which was attributed to a decline in fatalities and serious injuries. In fiscal 1998, the Corporation experienced higher accident benefits costs than forecasted/projected, due to larger than expected reserve adjustments for serious losses. Fluctuations in frequency and severity have continued to contribute to the variance in claims costs in fiscal 1999, 2000 and 2001.

6.1.4 PIPP - Third-Party Liability

PIPP coverage includes compensation paid on a third-party basis to individuals injured by Manitoba motorists in accidents occurring outside Manitoba. Claims costs for this cover are anticipated to be $7.4 million for fiscal 2002 and to increase to $8.6 million for fiscal 2003. These claims display a high variability because of their traditionally low frequency and high severity nature.

6.1.5 Pre-PIPP Tort Claims

The Corporation continues to work towards settling outstanding third-party injury claims, which arose under the tort system prior to PIPP implementation in March 1994. The Corporation periodically reassesses the expected cost of settlement of the outstanding tort claims and applies whatever required adjustments are indicated. Any adjustments that reflect an increase (decrease) in the ultimate cost of settling a claim are referred to as adverse (favourable) run-off.

The Corporation indicated there were 207 remaining pre-PIPP tort claims as of September 30, 2001, representing a significant improvement over the 296 claims remaining as of February 29, 2001. The Corporation has posted case reserves of $25.5 million related to costs to settle the 207 claims. Witnesses for the Corporation indicated that it was unable to predict, with any accuracy, when the remaining tort claims would be settled, but it is hoped that there would be only 100 or so claims remaining by October 2002.

As at January 1, 1999, the Corporation obtained reinsurance protection providing $20 million in coverage in excess of $97 million on the pre-PIPP tort claims then pending. This limits ultimate pre-PIPP claims costs on remaining claims to $97 million, unless total remaining claims settle for an amount in excess of $117 million. The one-time premium for this reinsurance is approximately $4 million, which was previously paid. The Corporation's current estimate of pre-PIPP ultimate claims incurred is approximately $95 million, so that the Corporation does not expect there to be any need for recovery from reinsurers.

6.2 Claims Expenses

Claims expenses are the costs associated with processing and settling claims, and include compensation, vehicle and building expenses, amortization, information technology ("IT"), office supplies, telecommunications, and other general day-to-day administrative costs. For

fiscal 2003 claims expenses are projected to be $59.3 million, a 5.7% increase over the $56.1 million forecasted in fiscal 2002, and an increase of 31% in the last five years, over the $45.3 million expended in fiscal 1999.

6.2.1 Claims Cost Savings Initiatives – Bodily Injury

The Corporation attempts to control claims severity and frequency to reduce claims costs. In respect of bodily injury claims, the Corporation continues to operate several programs which are geared to the needs of the accident victim so as to enable as full and early a recovery as possible. These programs include:

- Adjudication of claims, involving chiropractic and physiotherapy treatments;
- Negotiated fee arrangements with chiropractors and physiotherapists;
- Case Management Certification Program;
- Effective Case Management of PIPP claims; and
- Judicious management of income replacement indemnity files.

The Corporation is proposing to initiate a program, the Z-Joint Initiative, a new medical procedure in treating chronic pain resulting from whiplash injuries. The Corporation is proposing that it provide the necessary one-time start-up costs, estimated to be $400,000. The ongoing program would then be operated and funded by the Winnipeg Regional Health Authority. The Corporation estimated that the potential annual savings could be almost $1 million since accident victims would realize significant pain relief to enable them to return to work sooner.

6.2.2 Claims Cost Savings Initiatives – All Perils

Attempts to control All Perils claims costs continue to focus on road safety programs, staff training, and the use of recycled and after market parts. Unlike the majority of bodily injury and road safety programs, the effectiveness of the use of recycled and after market parts can be

quantified. The Corporation estimates that the use of recycled parts resulted in savings of $8.7 million for fiscal 2001, up from the $7.6 million saved during the prior year. Similarly, the use of after market parts resulted in savings of $7.4 million, up from $6 million in the previous year.

The Corporation partners with other agencies in promoting road safety within the province, concentrating on education initiatives. Three priorities are occupant restraint usage, impaired driving and unsafe speed. Additionally, the Corporation has actively promoted driver education classes within high schools, achieving an 80% enrollment after increasing its subsidization of tuition costs. Road safety expenditures are estimated to be $6.7 million for fiscal 2003.

The Corporation continues to contribute to the Winnipeg Police Service to allow for additional police staff dedicated to the control of automobile thefts. The Corporation noted that although the police have had some success, it has not been sufficient at this point to break the trend of increases in auto thefts. The Corporation's funding of Winnipeg police auto theft initiatives and incidents of auto theft since 1997 are as follows:

Year	**Funding Winnipeg Police Auto Theft Initiatives**	**Incidents of Auto Theft Numbers**
2001	$548,654	10,791
2000	379,837	9,545
1999	235,143	8,770
1998	257,770	9,859
1997	83,019	9,856

The Corporation is currently renegotiating the agreement for fiscal 2002 and future participation will be determined once the program effectiveness is reviewed. The program is reviewed on an annual basis. Expenditures for this program for fiscal 2002 are estimated to be $549,000.

6.3 Operating Expenses

Operating expenses consist mainly of employee compensation, data processing, telecommunications, building expenses and supplies for staff not engaged directly in handling claims.

Operating expenses are projected to be $40.4 million for fiscal 2003,an increase of 9% over the $36.9 million forecasted for fiscal 2002. A budgetary increase guideline of 2% for ongoing operations, exclusive of new projects and initiatives, was included in the forecast/projection for fiscal 2002 and fiscal 2003.

Compensation is the single largest expense item, and any variance in compensation can have a significant effect on total operating expenses. Compensation increased from $14.3 million in fiscal 1999 to $19.3 million in fiscal 2003. Compensation increases include economic increases, merit increases, vacancies, severances, bonuses, overtime, and staff growth. While most staff on an individual level experienced increases based on the CPI under their collective agreement, overall staff salaries increased by 6.9%. This is because staff numbers in fiscal 2002 increased to 1,292 full-time equivalent ("FTE") positions from 1,119 FTE positions in fiscal 1997, an increase of 173 FTE positions, with 49 FTE positions added in the past year. The increases in staffing numbers were attributable to new service initiatives, further expansion of services, and an increase in claims and vehicle population. The Corporation stated that the rise in vehicle thefts necessitated an addition of twelve staff members to handle the increased claims and undertake new anti-theft initiatives. Furthermore, with the introduction of customer service standards, new staff was required to ensure corporate compliance.

Data processing cost increased from $7.9 million in fiscal 2002 to $9.6 million in fiscal 2003, whereas leasing costs decreased from $1.4 million to $0.7 million. This change reflects the

decision to purchase rather than lease computer desktop units. Although not part of operating expenses, capital expenditures included an increase from $1 million to $4 million for organizational development costs. Witnesses for the Corporation were unable to provide anything more detailed than an indication that these funding provisions were for future improvement initiatives in IT. Various projects compete for the available funding and on the basis of an evaluation and a cost benefit analysis during that year; a decision would be made to spend that money on particular projects. On a similar basis, an amount of $3.7 million for data processing was included in capital expenditures projected for fiscal 2003.

IT expenditures also were included as part of special services, another category that included an amount of $2.8 million for contingencies projected for fiscal 2003.

7.0 Net Income

The Corporation's net income has varied considerably since fiscal 1997, as illustrated in the following table:

Total Net Income ($ millions)

For Fiscal Years Ending February 28, 29	1997	1998	1999	2000	2001	2002	2003
Projected	$4.0	10.7	18.9	19.3	11.7	(14.3)	2.2
Actual	25.6	46.9	41.9	40.5	30.9	-	-
Actual Greater Than Projected	$21.6	36.2	23.0	21.2	19.2	-	-

Over the past several years, the Corporation has consistently underestimated its net income. In response to previous concerns expressed by the Board, the Corporation reviewed its forecasting and methodologies, and concluded that one of the major reasons for the consistent underestimation was related to vehicle premium revenue. After a more detailed analysis, the Corporation concluded that the vehicle upgrade factor should be increased to recognize the increasing value of the insured fleet as a whole. As well, it introduced a volume factor to recognize the increase in the size of the fleet as previously discussed.

In its revised application, the Corporation is forecasting a net operating loss of $14.3 million for fiscal 2002, which represents a reduction of $30.1 million from its June 6, 2001 original application, and a reduction of almost $43 million from its original projection put before the Board last fall. As discussed, the major variances from the original application flow from unexpected increases of $24 million in claims incurred, and decreased investment income.

These costs were offset to some degree by a forecast increase in vehicle premium revenue of $5.6 million.

The changes in the revised application for fiscal 2002 as compared with that projected in last year's application and forecasted in the original application are reflected in the following schedule:

Summary of Operating Results ($ millions) **For the Year Ending February 28, 2002**	***2002 Application Approved Nov/00***	***2003 Application June 6/01***	***2003 Application Revised Oct 3/01***	***Change from 2002 Approved Nov/00***	***Change from June 6 Application***
Total Earned Revenue	$ 483.5	490.3	493.5	10.1	3.2
Total Operating & Claims Cost	522.5	542.6	567.5	45.0	24.9
Underwriting Income (Loss)	(39.0)	(52.3)	(74.0)	(34.9)	(21.7)
Investment Income	67.7	68.1	59.7	(8.0)	(8.4)
Net Income (Loss)	$ 28.7	15.8	(14.3)	(42.9)	(30.1)

The reduction of forecasted net income of $30.1 million in fiscal 2002, plus the $7.5 million reduction in the projected net income for fiscal 2003 from $9.7 million to $2.2 million, are the factors that caused the Corporation to revise its originally requested 1.2% rate reduction to a 0% change application.

8.0 Rate Stabilization Reserve ("RSR")

8.1 RSR History

In 1995 the Board of Directors of the Corporation approved an RSR plan to rebuild the Corporation's retained earnings for Basic insurance from a deficit balance of $49.9 million. The goal was to achieve a positive RSR balance through a multi-year plan consisting of increasing annual earnings through specific RSR contributions.

The Corporation has seen a marked improvement in the Basic RSR, from a $49.9 million deficit balance in fiscal 1996 to a $142.9 million surplus for fiscal 2001. The improvement in the RSR is attributed to approximately $55 million flowing from the RSR dedicated contributions, a $39 million gain from the sale of investments in fiscal 1998, and $98 million from earnings during this five-year period.

Due to the Corporation's improved financial situation in fiscal 2001, the Corporation's Board of Directors recommended a one-time 16.6% surplus dividend to be paid out of the RSR (then estimated at $75.4 million). This surplus dividend was approved in Order 151/00 and is to be paid to policyholders as policies are issued between March 1, 2001 and February 28, 2002.

In its revised application the Corporation lowered its forecast for fiscal 2002 from a net income of $15.8 million to a net loss of $14.3 million, resulting in a $30.1 million reduction in the forecasted RSR balance for that year. The Basic RSR before the surplus dividend is now forecast to be $128.6 million versus the previously forecasted $158.9 million. A summary of the RSR balances for Basic insurance from fiscal 1998 through to fiscal 2003 is as follows:

Basic Insurance Rate Stabilization Reserve ($ millions)

For Fiscal Years Ending February 28, 29	1998	1999	2000	2001	2002	2003
RSR Opening Balance	$(24.4)	22.5	64.4	104.9	142.9	50.0
Net Income (Loss)	36.3	25.5	23.4	30.9	(14.3)	2.2
Contribution to RSR	10.6	16.4	17.1	7.1	-	-
	22.5	64.4	104.9	142.9	128.6	52.2
Surplus Dividend	-	-	-	-	(78.6)	-
Total Basic RSR	$ 22.5	64.4	104.9	142.9	50.0	52.2

8.2 RSR Target

The Corporation is committed to ensuring that Basic insurance remains financially self-sufficient and stable through maintenance of the RSR and by breaking even on operations over the long term. The purpose of the RSR is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

The Corporation's Board of Directors reaffirmed its previous commitment to an RSR target range of $80 million to $100 million until February 28, 2003. The Corporation acknowledged that the range for the RSR adopted by the Board in Order 177/99 and reaffirmed in Order 151/00 for rate setting purposes is $65 million to $80 million as opposed to the $80 million to $100 million range adopted by the Corporation.

The Corporation had an RSR of $142.9 million for Basic insurance for fiscal 2001. The Corporation has forecast an RSR in Basic insurance in the current fiscal year 2002 to be $50.0 million after the $78.7 million surplus dividend and a forecasted loss on operations of

$14.3 million. The projected RSR for fiscal 2003 is estimated to be $52.2 million, which is below both the $80 million to $100 million target set by the Corporation's Board of Directors and the Board's target of $65 million to $80 million for rate setting purposes. Witnesses for the Corporation indicated no need for a dedicated RSR contribution to rebuild the RSR at this time, indicating it would consider doing so only when the actual results were known. If the forecasted RSR balance for fiscal 2002 of $52.2 million materializes, the Corporation would consider options to rebuild the RSR at that time.

8.3 Risk Analysis History

In the fiscal 1998 GRA, the Corporation prepared a Risk Analysis in support of its RSR target. Using a statistical variance approach, the Corporation considered five risk factors (revenue risk, investment risk, claims costs, claims expenses, and operating expenses) to determine the appropriate level of the RSR. Based on this methodology, the RSR target ranged from $78 million to $105 million at a 95% confidence level. The Corporation's Board of Directors adopted an RSR target of $80 million to $100 million to continue to the end of fiscal 2003.

In subsequent years the Corporation presented various refinements to the methodology to calculate the RSR target, as directed by the Board in Orders 154/98, 177/99 and 151/00. In response to the Risk Analysis presented at last year's application, the Board, in Order 151/00 expressed its desire to bring closure to the methodology to be employed in determining the appropriate RSR target for rate setting purposes. The Board directed MPI to incorporate the following criteria together in the Risk Analysis in establishing the proper RSR target for rate setting purposes:

- At a 95 % confidence level, both including and excluding operating costs; and
- At a 97.5 % confidence level, both including and excluding operating costs.

Each of the four scenarios should:

- Include only PIPP data;
- Include investment risk using a Value at Risk Analysis assuming a 25% equity component and a time horizon of between two and three years;
- Use variances between forecast and actual amounts for revenues, losses, operating expenses and claims expenses; and
- Use actual correlations between all risk components recognizing the directional effect on net income.

The Board also encouraged the Corporation to review recommendations made by their actuarial consultants, Milliman USA ("Milliman") on the operational Risk Analysis presented last year, and incorporate changes, if appropriate, in the next year's Risk Analysis.

8.4 Current Risk Analysis

In the current application, the Corporation provided an updated Risk Analysis to review its selection of a Basic insurance RSR target in compliance with the criteria directed by the Board in Order 151/00.

The Corporation engaged actuarial consultants Milliman to conduct the updated operational Risk Analysis, and as in prior years, engaged Comstat Asset Consulting Group ("Comstat") to perform the updated investment Risk Analysis (Value at Risk study). The updated Risk Analysis as filed contained both the Milliman and Comstat reports as appendices to a summary report prepared by the Pricing & Economics Department of the Corporation.

The analysis was prepared with the methodology set out by the Board in Order 151/00. In addition, the Corporation again presented its preferred methodology. The Corporation noted that

the approach prescribed in Order 151/00 restricts the outcome of the analysis to the variance between actual and forecast net income. To address this, the Corporation proposed to assess the underlying volatility of each component of the net income risk uniquely and combine them considering the correlation among the variables. In addition, the Corporation's approach included operating expenses as a risk, while the Board approved approach calculated the risk both including and excluding operating expenses.

The Corporation combined the operational and investment risk components from the Milliman and Comstat analyses, using perfect positive correlation. The Corporation disagreed with the use of the actual correlation between the two components, stating the relationships are not statistically significant due to the short-time period in which risk margins are calculated.

The combined operational and investment Risk Analysis based on the Board approved methodology prescribed in Order 151/00 suggested an appropriate RSR range of $50.7 million to $81.0 million assuming perfect correlation between operating and investment risk, and $39.5 million to $47.1 million assuming actual correlation. The alternative methodology prepared by the Corporation yielded a range of $94.5 million to $131.2 million.

8.5 Minimum Capital Test

The Corporation also prepared a Minimum Capital Test ("MCT") proposed by the Office of the Superintendent of Financial Institutions Canada ("OSFI") in support of the Risk Analysis. The MCT is a risk-based approach used to determine the minimum capital required to be held by privately owned Canadian property and casualty insurance companies. The Corporation noted that although it does not fall under this regulatory framework of OSFI, the results of the analysis represented another indicator that the Corporation considered in setting its RSR target. The minimum required assets for the Basic insurance line of business pursuant to the MCT is $127 million.

9.0 Rate Design

9.1 Actuarial Methodology

This application reflects an actuarial methodology for projecting the required rate levels that is substantially unchanged from that used in the last previous application. This involves combining claims incurred estimates arising from each of the Financial, Exponential, and Linear Methods, with appropriately consistent estimated provisions for claims expenses, operating expenses, commissions, premium taxes, and the cost of reinsurance and fleet rebates, offset in part by estimated revenue contributions arising from drivers' premiums, service fees and investment income.

9.1.1 Allocation of Operating Costs

In the previous application, the Corporation declared its intent to change its approach to allocating the provision for operating expenses across the Major Classifications. At that time, the intent was to allocate operating costs on a flat-per-unit basis to the private passenger, commercial and public Major Classifications only. With the initial application, the Corporation proposed this change subject to two modifications, namely to expand the Major Classifications affected to include motorcycles (described as the "HTA power unit basis", referencing the Highway Traffic Act), and to phase in the new approach by first allocating only 50% of the operating costs on the new basis. In the revised application, the Corporation further scaled back the transition approach by allocating only 25% of the operating costs on the new basis. In discussing this initiative, the Corporation indicated its intent to ultimately fully implement the HTA power unit basis, but the period of time over which this will be accomplished is not known at this time.

Largely because of this change in allocation, trailers and off-road vehicles will experience a decrease of -15.7% and -13.8% rather than that originally applied for decreases of –31.2% and -27.5% respectively.

9.1.2 Rate Volatility Factor

With the initial application, the Corporation introduced the concept of rate volatility as a factor in the development of rates. This represented a 1.5% load on the otherwise required rate levels, with the intent of minimizing rate volatility and producing rate requirement indicators more in line with the Corporation's then requested rate adjustments. In the revised application, the Corporation withdrew the rate volatility factor from the analysis, and subsequently acknowledged that the concept was inappropriate as part of determining experience-driven rate requirements.

9.1.3 Rate Group Drift

A fleet of insured vehicles evolves as newly purchased vehicles enter the fleet, and older or damaged vehicles leave the fleet. Because vehicle premiums vary with the make, model and model year of the vehicle (i.e., by rate group), this gives rise to natural growth or decline in the average premium over time. This is known as rate group drift, and is accounted for elsewhere in the application by the "premium upgrade factor" assumptions. In the process of developing the rate requirement indicators, the current rate levels by Major Classification require adjustment to account for the expected effect of rate group drift. With the current application, this has been done in a manner consistent with recent prior applications except that the magnitude of the drift assumption has been increased to be in step with an improved approach to forecast/project aggregate vehicle premium revenue more accurately.

9.2 Major Classification, Insurance Use and Rating Territory

The Corporation continues to classify vehicle risk by considering insurance use, rating territories and rate groups. Insurance use classifications are categorized by the type of vehicles and the varying degrees of risk associated with the different purposes for which vehicles are used. Two minor changes are proposed, both to farm vehicle insurance use categories, as outlined in Section 9.2.1 below. Each insurance use is assigned to one of six Major Classifications, namely private passenger, commercial, public, motorcycles, trailers and off-road vehicles. The province is divided into four geographical rating categories, plus one additional category to encompass Territory 2 residents regularly commuting into Territory 1. No changes are proposed in this regard.

9.2.1 Farm Vehicle Insurance Uses

Two minor changes are proposed to the insurance use classifications, both of which affect farm vehicles. The first change involves a redefinition of farm passenger vehicle use, which is more consistent with the definition of farm truck use. This change is not expected to affect anyone currently insured in the farm passenger vehicle use, and may result in some vehicles currently insured in pleasure use moving to the lower rated farm passenger vehicle use. The second change involves the elimination of the farming all-purpose passenger vehicle use, merging these vehicles in with all-purpose passenger vehicle use. This latter change was introduced because of the historically converging experience for these two insurance use categories.

9.2.2 U-Drive Vehicles

In Order 151/00, the Corporation was directed to determine the most appropriate Major Insurance use assignment for the U-Drive insurance use categories. With the current application, after consideration of the claims experience and inherent homogeneity of the Major

Classifications with respect to the expected cost of claims, the Corporation recommended that the current practice of treating U-Drive vehicles as a part of the public Major Classification be retained. The evidence provided by the Corporation in support of its position demonstrates, for example, the historically high cost of claims per vehicle, which drives pure premiums for U-Drive passenger vehicles, as compared with all-purpose passenger vehicles as indicated in the following table:

Major Use	Pure Premiums
U-Drive	$971
Private Passenger	424
Commercial	225
Public Service	674

9.2.3 Serious Losses

Starting with the previous application, the Corporation introduced a methodological change in the analysis of Major Classification rates, and territory and insurance use rate relationships. This methodological change has been carried forward, and extended in the current application. As a result of this change, expected serious, large losses based on the seven available years of PIPP experience were combined with expected non-serious losses based on the five latest years of experience used in the analysis. The use of seven years of experience for serious losses represents an increase from the six years used in the previous application, and this number is expected to continue to increase up to ten years in future applications.

9.3 Canadian Loss Experience Automobile Rating ("CLEAR")

The Corporation continues with its multi-year implementation of the CLEAR system for passenger vehicles and light trucks. Through CLEAR, almost all Manitoba private passenger vehicles and light trucks have been categorized by make, model and model year into rate groups

which each reflect a reasonably common level of risk, namely expected claims costs per vehicle. Fewer than 10,000 vehicles remain outside their appropriate rate group.

Annually, the Vehicle Information Centre of Canada ("VICC") updates its CLEAR rate group tables to reflect actual experience, vintaging and new trends. The Corporation then collapses the 99 VICC rate groups down to 27 for the Manitoba fleet. This year VICC has made two changes to its assumptions: Firstly, it will use the vehicle repair cost index rather than CPI to more accurately reflect increasing costs to repair vehicles. Secondly, the rate group tables will now be prepared specifically for MPI utilizing VICC's previous approach, since methodologies were changed in Ontario and other competitive jurisdictions. Any changes made to the depreciation and drift assumptions are still reflected in the rate group tables. Classification offsets ensure the Corporation maintains revenue neutrality in rate group assignments notwithstanding the changes in depreciation and drift.

In Order 151/00 the Board ordered:

> "The Corporation report at the next general rate application on whether it will adopt the recommendation by VICC to expand CLEAR rate groups from the current number to 30 rate groups."

The Corporation reviewed this matter as it annually monitors the number of rate groups. In determining whether to add new rate groups, the Corporation balances between the cost of adding rate groups and the number of vehicles that would be placed in the new rate group categories. In this instance, there are 464 passenger vehicles and 6 light trucks that should be in CLEAR rate groups above 27. This is less than one tenth of 1% of all vehicles. Therefore, the Corporation concluded the added costs would outweigh the benefits.

9.3.1 Rate-Line Differential

Last year the Corporation started to implement a second phase to adapting CLEAR to Manitoba, namely introducing rate group or rate-line differentials to establish the premiums for each rate group relative to its experience. A multi-year implementation would be required since the Corporation proposed a 10% cap to limit dislocation on an individual level. At the last hearing the Corporation proposed implementing this for one year, and would review this the following year to determine whether implementation should continue.

In Order 151/00, the Corporation was ordered to file a multi-year plan at this GRA for the implementation of appropriate experience-based rate group or rate-line relationships. The Corporation complied and filed such a report. The report found that for passenger vehicles for rate groups 0 to 13, Manitoba loss experience was sufficient to establish rate group differentials. For light trucks in rate groups 0 to 13, the Corporation identified little difference between current and experience-based rate group differentials, and proposed no change to current differentials.

For rate groups 14 to 27, VICC CLEAR rate group differentials would be used since insufficient Manitoba data meant insufficient credibility to establish rate group differentials. As more Manitoba data becomes available, the Corporation will substitute its data for the VICC differentials for rate groups 14 to 27.

To temper dislocation the Corporation proposed a 10% cap on changes, thereby likely extending full implementation to four years. A rate-line offset adjustment would also be introduced to maintain revenue neutrality. Through the introduction of rate group differentials, approximately three-quarters of the passenger vehicle and light truck fleet will experience an adjustment in rates.

The combined effect of changes to the rate-line differential and annual rate group upgrade for passenger vehicles and light trucks results in a premium decrease for 28% of vehicles, while 23% remain unchanged, and 49% will experience an increase in premiums. Of the vehicles increasing, 93% increase by $50 or less.

9.4 Motorcycles

The Corporation has requested an average increase in motorcycle premium revenue that is capped at 15%, as in the past several years. The Corporation's Financial Method indicates that the required premium increase is 33.6%. The Corporation did not request any change to either motorcycle seasonal premiums or the 5% rate differential for sports motorcycles, which were both initiated last year.

The Corporation's evidence is that VICC currently proposes to review rate groups for motorcycles in fiscal 2002. The intent is to use data collected from VICC member companies to confirm the original assumptions (such as vehicle type differentials) used in creating motorcycle rate group tables. The Corporation stated that it is not possible to develop sufficiently credible rate group tables for Canadian motorcycles such as was developed for passenger vehicles and light trucks, because of the relatively low number of motorcycles.

9.5 Premium Impact

The application seeks approval of motor vehicle premiums which, on an overall basis, would result in no change in average vehicle premium rates. The following table indicates the difference between the experience rate requirement indicators based upon the Financial Method and the requested revenue adjustments, as originally filed in June and, as revised in October:

	Experience Based Rate Requirements		Revenue Adjustments Requested	
Major Use	**Original Filing**	**Revised Filing**	**Original Filing**	**Revised Filing**
Private Passenger	-2.7	-2.1	-0.9	**0.0**
Commercial	13.0	14.3	11.0	**11.0**
Public	-8.2	-6.7	-6.9	**-6.1**
Motorcycles	33.8	33.6	15.0	**15.0**
Trailers	-34.0	-20.5	-31.2	**-15.7**
Off-road Vehicles	-28.3	-14.1	-27.5	**-13.8**
Overall	-1.0	0.0	-1.2	**0.0**

The overall impact of rate adjustments on the total vehicle population is as follows:

- 45% of vehicles will receive a rate decrease, with most receiving a decrease less than $50
- 3% of vehicles will remain unchanged
- 52% will receive a rate increase, with most receiving an increase less than $20.

10.0 Intervenors' Positions

10.1 CAA

CAA submitted that the Corporation's revised application represented an increase in revenue over its original application, although the Corporation stated that it was basically a revenue neutral revision. CAA contended that the evidence does not justify a revision to the application, since the original is also only an estimate. CAA suggested that if the Corporation were to experience a loss, which may be inevitable from time-to-time, then the RSR could be used to absorb that loss. In the view of CAA, the current RSR is in excess of the $65 million to $80 million target range established by the Board, and the absorption of an operating loss would bring that level down closer to the level approved by the Board.

CAA stated that, because of the one-time surplus dividend last year, motorists that qualify for no change in rates would still see a 16.6% increase in rates, as the surcharge previously credited is added back to the Basic premium.

CAA also suggested the Corporation's contention that its operating costs ratio represents 58% of that experienced by the industry may not be valid because of differences between private and public insurance companies, and requested the Board to review this issue further. CAA stated that, in any event, this factor cannot be used to determine whether an increase in operating costs for the Corporation is justified.

CAA suggested that, although success of road safety programs is difficult to quantify, the Corporation should maintain its role in these programs. CAA did not support the suggestion of some other parties that the Corporation retain external assistance in monitoring the program.

CAA requested the Board to recommend that the Justice Department tighten the laws respecting auto theft "before the driving public refuses to pay the increased price."

CAA supported the Corporation providing start-up funds for the Z-Joint initiative, but expressed concern that the initiative might not receive the proper attention and operating funds when subsequently operated by the Winnipeg Regional Health Authority.

10.2 CAC/MSOS

CAC/MSOS presented the Board with four recommendations. The first, based upon the assumption of zero correlation between operational risk and investment risk, is that the RSR target for the purposes of setting rates be between $45 million and $60 million dollars. CAC/MSOS rejected the Corporation's preferred methodology and stated that the Board's prescribed methodology was appropriate in that the Board's methodology considered the objectives for the RSR and was based upon a solid empirically sound statistical analysis, which balanced the interests of the Corporation with the broader interest of consumers.

CAC/MSOS also rejected the Corporations use of the MCT in assessing the adequacy of the RSR levels, questioning the applicability of the test designed to address solvency issues for private insurance companies, given the Corporation has a monopoly and probably does not face the risk of insolvency.

Second, in terms of road safety expenditures, CAC/MSOS recommended that the Board direct the Corporation undertake an external review of the non-driver education aspects of the road safety program, citing Manitoba's poor ranking in fatalities per 10,000 vehicles and seat belt usage as compared to other jurisdictions in Canada. CAC/MSOS further stated the review should encompass all aspects of road safety initiatives including those that are outside the control

of the Corporation such as police enforcement of driving rules, road and vehicle design and should make recommendations for improvements thereof.

CAC/MSOS' third recommendation was that for next year's proceeding, the Board direct the Corporation to file a revised policy statement addressing the degree to which the Corporation should invest in programs beyond its core functions such as health care or policing initiatives. CAC/MSOS questioned whether the Corporation's expenditures extended beyond the core functions, citing the hiring of a Crown prosecutor, the funding paid to the Winnipeg Police Services for the auto theft program and paying for health care initiatives such as the Z-Joint Initiative.

CAC/MSOS' final recommendation was that the Board impose a 1% rate reduction to revenue. CAC/MSOS contended that the Corporation had failed to meet the onus to justify the 10% increase in operating expenses in fiscal 2003 especially in light of other government departments being asked to cut expenditures. CAC/MSOS also expressed concern with contingency funds for organizational development and special services, noting that the $2 million contingency for new projects in special services almost equalled the actual expenditures made by the Corporation over the past three years.

CAC/MSOS questioned whether the Corporation's claim that its operating expense ratio, was at 58% of the industry average, represented sufficient savings given its monopoly status. CAC/MSOS suggested that in assessing whether operating expenses were at an appropriate level, the Board should differentiate between the benefits that MPI derive due to its inherent advantage as a result of being a Crown corporation with a monopoly position.

10.3 CAC/MSOS Witness

Mr. Todd, on behalf of CAC/MSOS, stated the Board approved methodology for calculating the RSR range was appropriate, but noted one unresolved issue on how to combine operating risk with investment risk. He noted that the issue centered on the correlation assumption that should be used, defining correlation as a measure of the tendency of the Corporation's operating results and its investment portfolio results to vary in some relationship.

Mr. Todd further noted that the Corporation had elected to utilize the additive approach in combining the risk, reflecting a perfect positive correlation between operating and investment risk. He suggested that this approach implies that the worst-case operational variances will always coincide with the worst-case investment performance variance. Mr. Todd contended that based on the available data, there was no statistically significant relationship between operational and investment risk, and therefore, the valid default assumption is that operational and investment risk are not correlated.

Mr. Todd concluded that the RSR target range, using on the Board approved methodology, and assuming no correlation between operational and investment risk, was between $44 million to $60 million.

Mr. Todd noted that the Corporation still champions its methodology presented at prior applications, namely: it looks at year-to-year changes in revenues and costs, rather than variances from forecast. Mr. Todd further submitted that the purpose of the RSR is to protect against unexpected losses, which occur when actual revenues vary from expected revenues, and actual costs vary from expected costs. He suggested that the Board's approved methodology is correct in that it measures variances from forecasts for each source of risk and then combines the

components. Furthermore, the methodology recognizes that if both revenues and costs are higher than expected, for example, by $1 million each, net income will not be affected.

In contrast, Mr. Todd noted the Corporation's methodology does not recognize the opposite directional effects of the various risk components on net income. He stated: "clearly there's no draw on the RSR if both revenues and costs are above expected, nor is there any draw on the RSR if they're both below the expected, by the same amount." Mr. Todd concluded that the Corporation's methodology is incorrect in that it measures the change in cost and revenues from one year to the next, and makes no distinction between year-to-year changes that are contained in the budget and unexpected variances. He maintained that such an approach was irrelevant to the RSR risk as opposed to the Board approved methodology.

Mr. Todd also stated that in his view, the perspective of management of the Corporation is that the Board's approved confidence levels for setting the RSR target of between 95% to 97.5% are too low and that, what in effect, management of the Corporation wants is less risk with a higher confidence level.

Mr. Todd stated that the Corporation's RSR target range of $80 million to $100 million reflects a minimum confidence level of 99.5%. He indicated that this would be appropriate if the issue being addressed were the risk that the Corporation would be unable to meet its financial obligations in the event of a catastrophic loss. However, this is not the purpose for the RSR, which is to enable the Corporation to respond to a bad year experience with a smaller rate increase than would otherwise be necessary. Mr. Todd stated that in the case where costs were rising, overall rates would have to increase to respond to the experience. In the case of large unforeseen losses, Mr. Todd suggested the Corporation would respond by seeking some rate

increase to offset the loss and the RSR would enable the Corporation and the Board respond in a more measured way to offset the loss.

Mr. Todd further stated that the Board's prescribed methodology provides sufficient protection for rate stabilization purposes by placing the RSR target range risk between a one in twenty chance at a 95% confidence level to one in forty chance at a 97.5% confidence level.

Mr. Todd further stated that even if the RSR were depleted because of a catastrophic event, the Corporation would not need to turn to government as it could seek a surcharge from customers. He suggested that a one-year catastrophic hit would not affect the survival of the Corporation as it is a monopoly and could raise rates accordingly to rebuild the RSR. Unlike competitive insurers that are subject to the MCT, the Corporation can seek approval to raise its rates as necessary to recover from any unexpected loss without running the risk of losing customers, as faced by competitive insurers.

Mr. Todd restated a position taken on a prior application, namely that the level of reserves affects the incentive that exists for management of the Corporation to control costs. He maintained that if the Corporation has too much in the way of RSR, there is less incentive for management of the Corporation to control costs.

10.4 CBA

CBA contended that under the Crown Corporations Public Review and Accountability Act and The Public Utilities Board Act, the Board is empowered to approve rates for service charged by the Corporation for the provision of compulsory vehicle and driver insurance. CBA therefore suggested that the Board is able to consider policy matters and any other factors it considers relevant, which would include all elements of insurance coverage, such as service and fairness.

CBA submitted that the Board must and should examine the mechanisms the Corporation has in place to ensure that its customers are properly and fairly treated.

CBA objected to the manner in which the Corporation handled the gain share bonus of $1.35 million paid out in fiscal 2001 relative to year 2000 IT projects the previous year. CBA did not suggest that the IT projects were not necessary, nor that people working overtime should not be paid. CBA did object to the fact that the bonus was paid to all staff, even though only about 20% of the staff worked on the projects, and many were paid overtime for their additional effort. CBA also objected to the payment of the bonus at a time when the Corporation was aware of the trend in increasing frequency of collision and theft claims, fatalities, and serious injuries.

CBA also suggested that the gain share bonus funds would have better served the interests of the customers if they were used to enhance accident benefits and provide assistance to accident victims who appeal the Corporation's decisions.

CBA noted that 66.8 % of internal review files dealt with accident victims claims for medical treatment and income replacement. CBA cited evidence filed by the Corporation which indicated that internal review claimants have had to wait on average 135 days for a review to be heard and a decision rendered, during which time their benefits and/or medical treatments were terminated. CBA also cited that the average length of time for an appeal of an internal review decision to the Appeal Board was 270 days.

CBA supported the position adopted by CAC/MSOS with respect to road safety. CBA commended the Corporation for its financial commitment to road safety. However, CBA

contended that available statistics suggest that the results of the program are disappointing and unsatisfactory. CBA requested that the Board order the Corporation to retain an external consultant to evaluate the road safety program, except for the Driver Education component.

CBA acknowledged that the Board had no jurisdiction to order changes to the legislation or regulations governing the Corporation, but requested the Board make recommendations to the Corporation and/or government to make the review and appeal process more equitable and fair. CBA's specific request was that the Board recommend that legislation be amended to allow accident claimants to make use of an advocacy system for review and appeals.

CBA supported the position adopted by CAC/MSOS with respect to the RSR, and operating and claims expenses. CBA further requested the Board to require the Corporation to review and conduct a cost/benefit analysis with respect to the Winnipeg Police Service Initiative. CBA also suggested that the Corporation conduct a cost/benefit analysis of the Special Investigations Unit to determine if an expansion of this service is warranted and to determine if it is operating fairly and not being used to intimidate claimants. Additionally, CBA recommended that the Corporation become more pro-active in other areas of safety, such as better street maintenance and highway design improvements.

CBA stated that those responsible for accidents should be more specifically identified, by age and gender and "...MPI should consciously make decisions to make their rates affordable." CBA cited numerous court decisions which, according to CBA, ruled that use of age and gender was allowable for determining risk and assigning responsibility on such a basis.

Additionally, CBA submitted that Manitoba's system should be able to claim for losses and damages arising from defective automobiles, and to bring claims against at-fault drivers from other jurisdictions.

10.5 CMMG

CMMG stated that the Corporation's revised application would result in a most dramatic increase in motorcycle rates, suggesting that effectively the increase would be 38% when considering removal of the 16.6% surplus dividend rebate. CMMG submitted that motorcyclists would continue to suffer financial hardships, having experienced rate increases in excess of 277% over the last decade. CMMG contended that the proposed increase would clearly constitute rate shock, as the Corporation had stated that all experience rate adjustments were being capped at 15% due to rate shock considerations.

CMMG contended that the public notice of hearing did not clearly indicate the total effect this application would have on motorcycle premiums. CMMG further stated that the notice had not shown any calculation of the effective increases and no specific indication of the effect of the removal of the previous surplus dividend rebate would have on premiums in this application.

CMMG also objected to what, in its view, amounted to the Corporation's refusal to provide information that would have enabled CMMG to carry out a meaningful check or validation of the Corporation's data. CMMG contended that the areas of information not provided were forecasts for frequency and severity of claims for motorcycles and the income and expense estimates for the motorcycle Major Class, even on an estimated basis.

CMMG contended that it was inequitable to allocate an allowance for doubtful accounts related to reinsurance recoveries to motorcyclists, as has been the case in the last two applications, when

as its counsel stated "...there was no evidence of payments being reneged upon." Similarly, CMMG maintained that even though reinsurance premiums are imposed on motorcyclists, a review of the largest motorcycle claims in the last decade indicated that there would be no recovery from the reinsurer.

CMMG objected to the change in methodology, which involves the selection of the HTA power unit as the basis for allocation of operating expenses. CMMG suggested that this means the Corporation is giving up $8 million in contributions from these vehicles to benefit snowmobiles and dirt bikes, that as CMMG counsel stated "...have extremely low premiums and yet are more inherently dangerous than anything regulated by the Highway Traffic Act."

CMMG requested that the Board revisit the area of motorcycle group differentials, in view of the previous Board decision to introduce a 5% differential for sports bikes. CMMG suggested that it would be equitable to introduce a 5% discount for touring motorcycles, as then both differentials would be based on the same facts.

In summary, CMMG urged the Board to view this application considering rate shock and to revise its policies to restrain the increase to the motorcyclists. CMMG requested the Board to order the rate requirements for motorcyclists be spread over a longer period of time in view of the "double whammy effect of the combining of two years maximum experience adjustments in one year on a paid basis."

10.6 DDAM

DDAM submitted that the evidence did not establish that the proposed 11% rate increase for the Commercial Class is warranted, and that by proposing such an increase the Corporation had not protected the interests of this class. DDAM took issue with the Corporation's policy of excluding commercial drivers who pay their own premiums from the merit point program. DDAM also voiced concern that larger commercial operators were eligible for the fleet discount, or rebate, while the individual operators who pay their own premiums were not. DDAM suggested that a differentiation between commercial class drivers who pay their own premiums and those who do not was required so that the premium paying commercial operator would be eligible for the merit program. DDAM suggested that there is a differentiation between vehicles being used only for commercial purposes and those being used for commercial/all-purpose uses, which are assigned to the common carrier groups.

DDAM indicated its desire to meet with the Corporation to discuss these and other issues. DDAM also indicated its willingness to assist in reducing accident frequency and to investigate what impact the use of cell phones in vehicles has on accidents.

In summary DDAM requested the Board to reject the Corporation's application for an 11% increase for the commercial class, and to limit the increases to 5% for fleet-owned vehicles and 3% for owner-operator vehicles. DDAM suggested the Corporation should reconsider this matter, given that 54% of all drivers will not be receiving any increase.

10.7 MCTRA

MCTRA, in its intervention, principally argued that U-Drive passenger cars and light trucks should be assigned to the private passenger Major Classification rather than the public Major

Classification, on the grounds that the nature of use for these U-Drive vehicles is more akin to the former Major Classification than the latter.

Counsel for MCTRA argued that loss ratios are an appropriate comparative measure of risk, that U-Drive loss ratios should be calculated net of the effect of limiting individual losses to $25,000, as is done for fleet rating purposes, and the resulting U-Drive loss ratios compare favourably with those of all-purpose passenger vehicles and trucks. As a result of this analysis, counsel for MCTRA concluded that U-Drive passenger cars and light trucks are less risky than the counterpart all-purpose vehicles and should, accordingly, attract lower rates or at least rates no higher than for all-purpose vehicles.

Noting that U-Drive vehicles leased for terms greater than 30 days attract premiums based on all-purpose rates, counsel for MCTRA argued that the break point at 30 days was both artificial and discriminatory.

Counsel for MCTRA also raised three arguments of a more general nature relating to the application. It was argued that the significant growth over the last several years in the reserve for claims development, a component of the IBNR reserve, was inappropriate when the underlying case reserves are appropriately managed and updated as required, and the very need for a case development reserve was questioned. It was also argued that the increase in reserve for unpaid internal loss adjustment expenses, as documented in the latest external actuary’s report, had not been justified by the Corporation. Finally, counsel for MCTRA argued that since the facilities, equipment and personnel of the Corporation are used to generate revenues for the SRE and Extension lines, it would only be fair and reasonable that a portion of any profits generated on these lines be credited to Basic Autopac premium rates.

11.0 Presenters

Mr. Hughes stated that he would like compensation from MPI in that at an MPI auction he had successfully bid on what he thought to be a 1996 Ford Taurus, when in fact it turned out to be a 1995 model year. Mr. Hughes stated that he initially decided to keep the vehicle, but sought compensation for the error. Mr. Hughes stated that he had sued for compensation for the repair costs incurred on the vehicle, the cost of the vehicle and the insurance on both the Taurus and another vehicle, ultimately settling for the amount paid for the vehicle.

Mrs. Hughes conveyed the story regarding her son's malpractice lawsuit against an orthopaedic specialist who treated him after his motor vehicle accident in 1986. Mrs. Hughes stated that her son John was a diabetic and suffered a loss of eyesight as well as a chronic blood infection as a result of side-effects from surgery to repair injuries sustained from the accident. Mrs. Hughes expressed her frustration with the attempts to settle the claim over the years.

Mr. John Lejins stated that the Corporation was frustrating his ability to present his claim, forcing him through a lengthy appeal process regarding his personal injury claim. Mr. Lejins questioned the Corporation on several specific issues related to his appeal, and requested the Corporation to respond to them in a timely fashion.

Mr. Norm Pawnall stated concern with the accountability of the Corporation, citing the proposal made last year to offer money to subsidize universities and given the Corporation's bonuses to its employees. Mr. Pawnall questioned whether the bonuses paid were justified. He further stated that the surplus funds of the Corporation should be used to lower rates.

Ms. Laurie Dawson, in a letter to the Board dated September 10, 2001, questioned why rates for at-fault accidents were not pro-rated on the amount of damages, stating that a person responsible

for an accident that results in $1,400 damage is penalized to the same extent as those motorists causing accidents which result in greater damages. Ms. Dawson stated that existing accident surcharges are discriminatory on this basis.

Mr. Gordon Drisdale expressed his concern with the driver licence surcharge. Mr. Drisdale noted that the 2001 MPI Guide effective March 1, 2000 states that when the driver at fault is not a registered owner of a motor vehicle on the date of his first accident, he must pay a surcharge of $150. Mr. Drisdale further noted that in the 2002 guide, effective March 1, 2001 the surcharge was increased to $200. Mr. Drisdale questioned why when he renewed his driver's licence in September 2001, he was assessed the $200 surcharge reflected in the 2002 guide when his at-fault accident occurred on January 16, 2001, when the 2001 fee schedule was in effect. He maintained he should have been assessed the $150 surcharge on that basis.

12.0 Board Findings

The Board wishes to thank all presenters who took the time to make their views known. The Board has addressed concerns raised in the presentations that were within the jurisdiction of the Board, and has directed the Corporation to acknowledge their participation and to respond to the presentations, as appropriate.

Rate Stabilization Reserve (RSR)

In Order 151/00, the Board stated its desire to put the issue of the RSR target to rest and requested a refinement to the Corporation's previous methodology for calculating the RSR target. The Board is satisfied that the Corporation has complied with the Order through the filing of its updated Risk Analysis for establishing an RSR target for rate setting purposes. With respect to this methodology, the Board acknowledges the differences of opinion, principally between the Corporation and Mr. Todd, arising over the appropriate manner in which the separate components of operational risk and investment risk should be combined. Recognizing that there likely is no precise and correct approach in this regard, and that there is no definitively correct confidence level, the Board is satisfied that the results of the various approaches presented provide a reasonable context for establishing an RSR target range for rate setting purposes.

The following table summarizes the results presented:

Summary of Risk Analysis Results (in $ millions)

PUB Approach	Assumed Basis for Combining Operational and Investment Risk					
	Perfect Correlation		Actual Correlation		No Correlation	
Confidence Level	95%	97.5%	95%	97.5%	95%	97.5%
Including Operating Expenses	52.4	81.0	39.5	47.1	45.8	60.4
Excluding Operating Expenses	50.7	79.1	-	-	44.0	58.5

The Board has reviewed the summary Risk Analysis and notes that at a 95% confidence level with no correlation and including operating expenses the RSR requirement is $45.8 million while at the 97.5% confidence level, assuming perfect correlation and including operating expenses, it is $81.0 million. Given these results the Board will establish a range from $50 million to $80 million as the appropriate target RSR range for rate setting purposes, and will not require the Corporation to submit an updated Risk Analysis with future GRAs until so directed. However, if there are significant changes to the risk exposure faced by the Corporation in the future, the Board will expect the Corporation to bring forward an updated report at that time.

In its evidence, the Corporation introduced the MCT as a factor it considered relevant in establishing the RSR target. The MCT has been proposed by OSFI as a solvency test for private insurers. In the Board's view the MCT is a capital adequacy test for solvency purposes, which are fundamentally different from the stated purpose of the RSR. Accordingly, the Board finds consideration of the MCT to be of no direct relevance in establishing the Corporation's RSR target for rate setting purposes. Further, any future decisions of the Board that impact the level of the RSR will be made also taking into consideration the overall financial wellness of the Corporation.

The RSR was not designed to address all risks faced by the Corporation but rather to dampen volatility in rate changes. The Board remains of the belief that for rate setting purposes, the RSR should be utilized to protect motorists from rate increases that would otherwise be necessary because of large losses from unexpected and non-recurring events. This is consistent with the Corporation's stated view of the purpose of the RSR. The RSR should not be used to offset base premium increases, which would otherwise be necessary to ensure that forecasted/projected revenue is sufficient to cover forecasted/projected costs in a particular fiscal year. It is the

Board's view that on a forward looking basis, where there is a need, steps should be taken to replenish the RSR with the overall goal of keeping rates reasonably stable.

The Board stated in Order 151/00 that future applications should be prepared based on operating results that are closer to breakeven, given the Corporation's stated objective of breaking even over the long term while maintaining an adequate Basic RSR. The Board further notes that the Corporation had originally requested rates resulting in a $9.7 million net income for fiscal 2003 and that with its October 3, 2001 revision, it adjusted the application to reflect a net income of $2.3 million. It is the Board's view that these levels of net income are generally consistent with the stated object of the Corporation that it will break even over the long term in its Basic compulsory automobile insurance business, recognizing that the annual revenue requirement is in excess of $500 million.

Forecasting/Projecting Accuracy

The Board notes the Corporation's undertaking to improve the quality of forecasted/projected premium revenues through a more rigorous and analytical approach to estimating the vehicle premium upgrade factor and the introduction of the volume factor. The Board is mindful of the difficulties in accurately forecasting/projecting both future revenue and future costs, and encourages the Corporation to continue efforts to improve its methodologies in this regard. The circumstances that gave rise to the need for the Corporation to revise its application in October are illustrative of the practical difficulties. While the Board fully intends to monitor forecasting/projecting accuracy going forward, the Board believes the Corporation's forecasting/projecting methodologies and results are reasonable.

Rate Adjustment and Design

The Board will approve the Corporation's application for experience-based rate adjustments capped at –15% and +15%, in addition to the applied for classification offset adjustments ranging from –1.38% to +9.39%. Both of these adjustments are continuations of previous rate design initiatives.

The Board will approve the requested change to the classification treatment of farm passenger vehicle use and the elimination of farming all-purpose passenger vehicle use, merging these latter vehicles in with all-purpose passenger vehicle use. The Board accepts the Corporation's arguments supporting these changes, and views them as practical simplifications to the Corporation's rate design.

With respect to U-Drive vehicles, the Board is not persuaded by the arguments raised by MCTRA witnesses. In this regard, the Board notes the evidence filed by the Corporation indicating pure premiums for U-Drives of $971 as opposed to $424 for private passenger vehicles. The Board considers loss costs to be an appropriate comparative measure of risk, as compared to loss ratios that do not serve this purpose, but rather may be used to gauge the relative adequacy of the underlying premiums. While usage may be a valid consideration in determining the appropriate categorization of a type of vehicle by Major Classification, the Board is satisfied that the current treatment is fair and reasonable, and that the Corporation's classification ratemaking approach produces rates by insurance use category that are appropriately responsive to the experience of the category. Otherwise U-Drive vehicles would be unduly subsidized by vehicles in the private passenger Major Classification. With respect to the position taken by MCTRA regarding the differing rating treatment accorded to short term versus long-term U-Drive vehicles, the Board is satisfied with the Corporation's evidence that its experience justifies a rating distinction between short and long-term leases.

With respect to the more general arguments raised by MCTRA, the Board is satisfied that the work of the external actuary, and in particular the need for IBNR reserves and reserves for unpaid internal loss adjustment expenses, are necessary components for an appropriate presentation of the Corporation's financial position in accordance with generally accepted accounting principles. Absent these provisions, which reflect estimates of current obligations for future payments, the Board would expect the resulting financial statements for the Corporation would not be a fair representation of the Corporation's financial position.

With respect to the arguments presented by MCTRA regarding the partial recognition of profits generated on the SRE or Extension lines in the setting of Basic rates, the Board considers the current cost allocation approaches to assign cost to each line of business appropriately, thereby eliminating any need for consideration of sharing profit. This approach currently assures that there is no cross-subsidization between the Corporation's Basic Extension and SRE lines of business.

The Board notes the Corporation's continuing efforts to embrace the principles of CLEAR for the classification and rating of private passenger vehicles and light trucks in Manitoba. With the implementation of adapted CLEAR rate group assignments now virtually completed, the Corporation filed a plan for the implementation of appropriate experience-based rate group (rate line) relationships in response to the requirements of Order 151/00. The plan involves the recognition of Manitoba experience where possible, and continues the past practice of tempering policyholder dislocation by capping changes in premium at 10%. The Board accepts the evidence provided in this regard, and further accepts the Corporation's arguments for continuing to limit to 27 the number of private passenger rate groups.

With respect to the allocation of operating expenses across Major Classifications, the Board is satisfied the proposed "HTA power unit basis" is an equitable basis of cost allocation and brings improved fairness to the Corporation's rate design. The Board accepts the Corporation's arguments for phasing in the change to the new basis of allocation, principally to temper policyholder dislocation, and will allow the limited allocation of 25% of operating costs on the new basis proposed in this application. The Board encourages the Corporation to continue with this initiative in future applications, and to ultimately bring it to full implementation.

With respect to the rate volatility factor, the Board notes the Corporation's decision to withdraw the rate volatility factor from the analysis of the rate requirement indicators, and concurs with the Corporation's evidence that the concept did not properly belong in the determination of experience-driven rate requirements.

Motorcycle Rates

The Board notes that there have been no structural changes with respect to the motorcycle Major Class in this application. Seasonal rates, which were introduced last year, continue to be offered by the Corporation. Additionally, no change is proposed for the 5% differential from the base motorcycle rate for sports motorcycles in this application. The Board further notes that the proposed change in allocation of operating expenses using the "HTA Power Unit Basis" will result in motorcycle rates being higher than they would have been using the previous allocation methodology. While this change increases the indicated rate change for this and future years, the capping of the motorcycle rates at 15% effectively eliminates the potentially negative impact of this change for motorcyclists in this application.

The Board is concerned about the continued 15% annual increases for motorcyclists, but is well aware that the 15% capped increase approved by the Board has consistently been below the

indicated required increase. As an example, in this application the actual increase is capped at 15%, while the indicated increase under the Corporation's Financial Method is 33.8%. The Board also recognizes that these required increases are the result of the Corporation's methodology, which does not utilize the loss transfer concept, which was canvassed by all parties several years ago. The Board continues to believe that the current methodology is proper, given the circumstances and the no-fault insurance plan in effect in Manitoba.

The Board considers that the underlying data supports the required rate increases for motorcyclists, even though unusual losses are capped at $500,000. The pool of motorcycles that must absorb the costs charged to the motorcycle class is small, and the benefits payable to motorcyclists as a result of an accident can be large. As long as the insurance plan remains unchanged, and accident frequency per insured unit continues to increase, motorcycle rates will also increase. The obvious alternative is to increase the pool of units over which costs can be spread. However, the evidence is that motorcycles do represent a unique insurance risk, as evidenced by loss costs. To combine motorcycles with some other Major Classification would, in the Board's view, clearly contravene the principle of homogeneity within Major Classifications. Based on historical data, if motorcyclists were placed in another class cross-subsidization would result. This approach is consistent with the Board's previously stated commentary relative to U-Drive vehicles.

The Board encourages the Corporation to investigate vigorously all possible avenues to decrease, or at least stabilize motorcycle rates. The Board urges the Corporation to involve not only CMMG, but also other stakeholders, in a meaningful manner in such investigations and discussions. Thereafter, in the absence of available meaningful analysis by VICC, the Board suggests that the Corporation implement its own Manitoba-specific data tracking and analysis to determine appropriate motorcycle type classifications and differentials. Such an analysis may well result in certain classes of motorcycles requiring larger rate increases, while others may

decrease. In any event motorcyclists would then have the necessary data to make an informed choice in this regard.

Motorcyclists should then be in a position to make informed choices as to the type of motorcycles they prefer to purchase and insure, in a fashion similar to owners of private passenger vehicles and light trucks.

The Board has reviewed the submission by CMMG in great detail. The Board questions CMMG's statement that the effective increase for motorcyclists is 38%. It must be clear that, but for the 16.6% surplus dividend refunded to all policyholders, regardless of required rate changes, the rate increase for motorcyclists continues to be capped at 15% this year, as it has been for the last three years. It is the Board's view that CMMG has ignored the fact that last year's rebate resulted in a net decrease to motorcycles, even though the required rate increase was well in excess of 15%, and the requested increase was 15%, prior to the surplus dividend rebate.

The public notice quite clearly stated that "The 2001/02 one-time surplus discount of 16.6% is ending, and therefore premium payments will again be in accordance with the base rates, as approved." The Board further notes at page 41 of Order 151/00, with respect to the one-time surplus dividend, that "In approving this request, the Board understands that the Corporation will clearly disclose this item separately on all statements of accounts issued to policyholders." As well, at page 44 of Order 151/00, the Board stated: "The Corporation must carefully manage the communication of this one-time refund so that all policyholders have a clear understanding of premiums that would otherwise be payable, but for the one-time rebate." The Corporation complied and all statements isolated the one-time rebates. The Board is of the view that this matter has been properly dealt with by the Corporation.

The Board notes CMMG's complaint respecting the Corporation's refusal to file information as requested by CMMG. The Board has reviewed the Corporation's closing comments, which addressed this issue. The Board finds merit in the Corporation's contention that frequency and severity are not prepared for each Major Classification, including motorcycles, and then rolled upwards into a large overall revenue requirement. Rather, the frequency and severity for the overall fleet are first determined, and then this information is rolled down to the various Major Classifications, based on historical experience and precedent. The Corporation provided the available information.

The Board further notes CMMG's concerns with respect to the cost of reinsurance and the provision for doubtful accounts on reinsurance recoveries, and specifically their recognition in the Corporation's analysis of the required rate indicators, overall and by Major Classification. The Board accepts the Corporation's evidence that the purpose of reinsurance is to smooth financial results, and that the doubtful accounts provision is an appropriate precautionary measure to reflect the uncertainty of reinsurance recoveries. The Board finds that the reinsurance coverage provides protection against large claims, including those potentially arising from motorcyclists, and that the cost of that protection is a real cost to the Corporation that is appropriately recognized in the application.

While it can understand the frustrations expressed by CMMG, the Board will approve motorcycle premiums as applied for by the Corporation. The Board looks forward to being apprised of all studies related to alternative solutions that the Corporation, in conjunction with CMMG and other industry stakeholders, will undertake in the near future.

Other Issues

Internal Claims Review Process

The Board wishes to comment on one aspect raised by CBA; namely fair and equitable treatment of claimants during the process of internal reviews.

The Board notes that the Corporation has a standard whereby claimants requesting a review of a decision will be given an opportunity to have the review heard within 30 days. The Board encourages the Corporation to establish a further benchmark or target by which a decision of a review will be rendered, absent any factors in the process beyond the control of the Corporation.

With respect to the equity and fairness during the claims review and appeals process, the Board accepts the Corporation's position that its "customers come first", and also that there will inevitably be different points of view as to what is appropriate in this approach.

With respect to the time required to conduct an internal review, the Board notes the Corporation's comments that in most cases a delay in the length of time required to conduct a claim review is often caused by the claimant, for any number of reasons. These include failing to keep an arranged appointment at times postponing the appointment for years, then cancelling the request for review. As well, claimants often desire their own medical opinion which can take months, while some who obtain legal advice delay the process because of scheduling difficulties.

The Board continues to hold the view that the issues related to the internal reviews have some relevancy in this process, as they go to the heart of the level of service for the claimants. The Board recommends that the Corporation conduct a study to track and analyze data pertaining to claims reviews to determine the cause of delays in the process. Further, the Board encourages

the Corporation to review those factors **within its control** with a view to compressing the length of time required for reviews so as to minimize hardships on claimants. The Board encourages the Corporation to establish a benchmark or target period for completion of internal claims reviews.

In respect of CBA's suggestions respecting the use of age and gender by the Corporation in ratemaking, the Corporation's legislated mandate is to provide a universal insurance plan that is affordable, and excludes consideration of such factors. The Board is of the view that any request for changes in this mandate are not appropriate in this process, and unless circumstances change, the Board will not consider any representations in this regard in the future. Anyone requesting legislative amendments should do so in the proper forum.

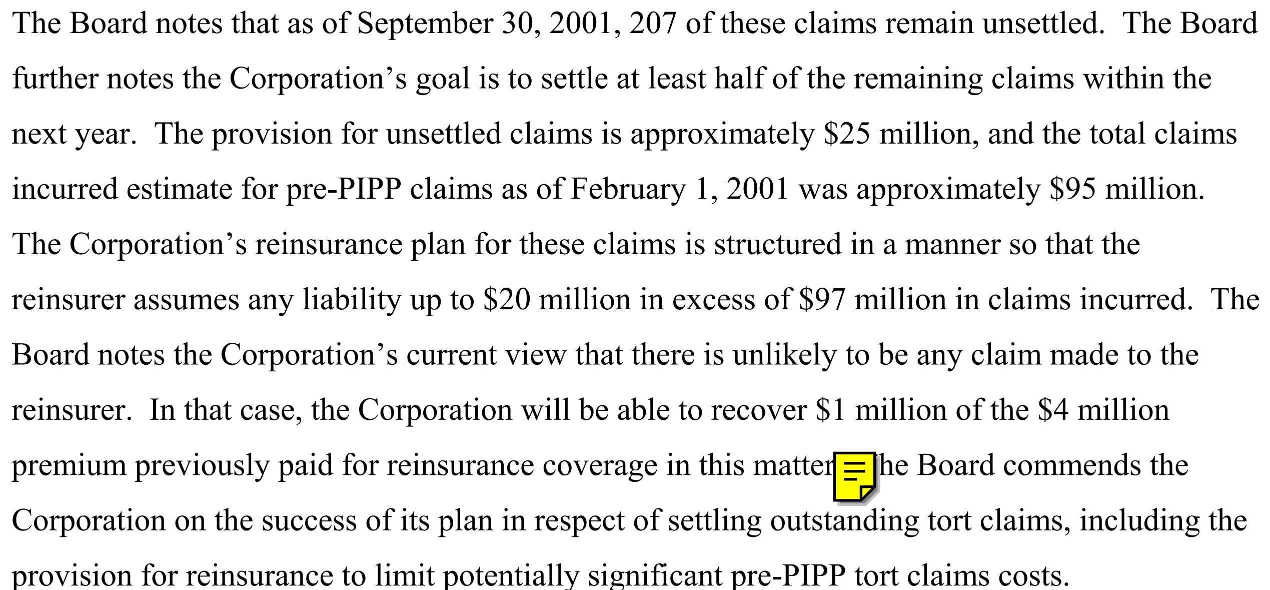
DDAM

As discussed elsewhere in the Order, the Board will approve the Corporation's application as filed, which will include the 11% increase, based on loss experience, to the Commercial Class.

The Board recognizes the concerns expressed by DDAM regarding the Corporation's policy of excluding commercial drivers who pay their own premiums from the merit point program, exclusion from certain aspects of the fleet program of commercial drivers that pay their own premiums from those that do not, and the issue of safety related to the use of cell phones while operating vehicles.

During the hearing DDAM advised that it would welcome the opportunity to meet with the Corporation's personnel to discuss these and other issues. The Corporation indicated its willingness to do so. Therefore, the Board will direct the Corporation to initiate such meetings.

Pre-PIPP Tort Claims



The Board notes that as of September 30, 2001, 207 of these claims remain unsettled. The Board further notes the Corporation's goal is to settle at least half of the remaining claims within the next year. The provision for unsettled claims is approximately $25 million, and the total claims incurred estimate for pre-PIPP claims as of February 1, 2001 was approximately $95 million. The Corporation's reinsurance plan for these claims is structured in a manner so that the reinsurer assumes any liability up to $20 million in excess of $97 million in claims incurred. The Board notes the Corporation's current view that there is unlikely to be any claim made to the reinsurer. In that case, the Corporation will be able to recover $1 million of the $4 million premium previously paid for reinsurance coverage in this matter. The Board commends the Corporation on the success of its plan in respect of settling outstanding tort claims, including the provision for reinsurance to limit potentially significant pre-PIPP tort claims costs.

Accident Surcharges

The Board notes that although there have been no changes in the treatment of surcharges imposed on at-fault drivers, objections were raised regarding the implementation of the increases that were made to the accident surcharge program last year.

The complaint is that even though an accident occurred prior to the surcharge being increased, the higher surcharge was imposed on the at-fault driver. In other words the surcharge imposed is at the level in effect when the driver's licence is renewed, not when the accident occurs. In the Corporation's view, this is proper and consistent with the implementation of changes in other premiums. The Corporation submits that surcharges are a reflection of the fact that individuals who cause accidents are more likely to cause another one. The surcharge is a risk assessment on a go-forward basis, and as such the imposition of a surcharge in effect upon licence renewal is

appropriate. The Board notes that there are no changes being requested to the surcharges in this application, the complaints are related to events already occurred. This issue should not arise in the future unless further changes are made.

However, the Board appreciates the Corporation's comments that the impact and timing of changes in the surcharge program could have been better communicated to the public, and is encouraged by the Corporation's commitment to re-examine this issue, if further changes are made to the program in the future.

Road Safety

The Board notes that the Corporation continues to focus its direct road safety expenditures on three main areas: occupant restraint usage, impaired driving and unsafe speed. Another component, which the Board considers to be safety related is the drivers education program offered to high school students throughout Manitoba. The Board notes that of the total $6.4 million expenditure for various road safety programs, approximately $2.7 million is earmarked for drivers education. The decrease in fees charged to students from $100 to $50 has resulted in a significant increase of 20% in student enrollment in the first year, and now almost 80% of all eligible students are opting for the program. The Corporation's opinion is that the initiation of graduated licensing has also encouraged enrollment in the driver education program.

The Board commends the Corporation's proactive approach to educating future drivers. In light of the increasing frequency of accidents, proper training at this stage is, in the Board's view, crucial in any attempt to reverse these trends. The Board also notes that the Corporation has retained the services of an outside consultant to evaluate the drivers education program, and the Board looks forward to reviewing the results of this assessment when it has been completed.

With respect to the other road safety programs, the Board particularly notes the statistics as summarized by CAC/MSOS which would, on the surface, lead one to question the success of the "traditional" road safety initiatives. In particular, the use of seat belt restraints by occupants appears to be decreasing, and the frequency of fatalities in Manitoba appears to be increasing. The Board acknowledges that other agencies involved with enforcement and the overall justice system share responsibility for the success of road safety programs. The Board notes that, unlike the evaluation of the driver education program, the Corporation has not deemed it advisable to retain external advice to assess the other components of road safety.

The Board does recognize the difficulty in measuring the success of these programs due to the lack of control groups and other factors suggested by the Corporation. However, the Board considers that the other programs related to road safety are also critical in reducing claims costs. As is the case with the driver education program, these programs should aim to change the attitudes of motorists to improve driving habits. The Board would therefore recommend that the Corporation take all steps necessary to assess these programs, including considering the use of external consultants. The Board also notes that the Corporation's target for road safety expenditures is 2% of premiums written, which would be near $10 million. The Board would encourage the Corporation to conduct an analysis, which would support an optimal level of expenditure for road safety. The important point is that on an overall basis, claims incurred and associated costs should be as low as possible.

The Corporation continues to increase the use of after market and recycled parts in an attempt to reduce physical damage claims costs. Other programs, such as staff training are also being continued, as are negotiated settlements for labour and materials. The Board is aware of the increase in the cost of automobile repair parts, and commends the Corporation for greater use of other than OEM parts, where possible. The Board would welcome any new approaches or

suggestions that could further reduce the cost of automobile repairs, but which would not affect current service levels.

In the area of bodily injury, the Board notes that the Corporation, in addition to continuing its various cost savings initiatives from prior years, has proposed to implement the Z-Joint radio frequency Neutronomy procedure; the "Z-Joint Initiative." It is commendable that the Corporation is taking the lead in this initiative, which can eliminate or reduce chronic pain, thereby allowing accident victims to return to a productive life. However, the Board appreciates some of the concerns expressed by other parties, and that in the future the Corporation may encroach into areas outside its core business of providing automobile insurance coverage to Manitobans. The Board is aware that the Corporation does have a community responsibility policy as part of its governance. The current policy does not, however, contain any reference to investments in medical procedures. The Board notes the Corporation's undertaking to revise and file that policy for the Board's review at the next hearing.

Comprehensive Claims

The Board understands one of the major reasons for the Corporation's revised application to be the increase in claims frequency for glass replacements, the increase in automobile thefts, and additional costs related to the hailstorm of August 21, 2001. The Board recognizes that the Corporation annually assumes a normal level for claims because of hailstorms, and also carries reinsurance to limit that hailstorm Basic claims exposure to approximately $4.4 million. The Board considers the reinsurance program to be a prudent manner by which to normalize the year-to-year impacts of totally unpredictable events.

The Board accepts the Corporation's explanation respecting the increased number of glass replacement claims as being a timing matter that impacts the Basic program even though this is brought about by the change in non-Basic deductible levels for glass replacements.

The Board shares the Corporation's concern over the increase in automobile thefts. As previously mentioned, many agencies are involved with addressing this issue. Until a change is brought about in societal attitude to the problem, it will quite likely continue at high frequencies. The Board realizes that the Corporation does not enforce the laws or sentence the perpetrators of the thefts, and that these components are a large part of the problem. However, the Corporation has provided funds for several years to the Winnipeg Police Service for additional enforcement. It would appear that the expenditures have not resulted in a decrease in frequency of theft. The Board recognizes the argument that, absent this funding, frequency of thefts may have been higher.

The Board would encourage the Corporation to review these particular areas again and to bring forward any recommendations to address the problem. This recommendation should, in addition to a review of the Corporation's programs and processes, address shortcomings of and remedies for the other stakeholders, as perceived by the Corporation.

Collision Claims

The Board notes that the Corporation increased its forecast for collision claims frequency for fiscal 2002 by 8,000 claims. This, in turn, has an impact on the projected claims cost for fiscal 2003, as the Corporation anticipates similar levels as those in the revised forecast for fiscal 2002. The Board accepts that the majority of the increase in frequency of collisions can be attributed to the return to what can be regarded as more traditional winter weather, after several years of milder than normal winter weather. However, regardless of weather conditions, if the

driving habits and attitudes of Manitobans do not change and claims frequency continues to trend upward, the driving public in Manitoba can expect increased costs for automobile insurance.

Claims and Operating Expenses

The Board notes that the Corporation's total claims and operating expenses for fiscal 2003 are projected to be $125.5 million, which represents an 8.1% increase over the total forecasted fiscal 2002 expenses. Based on allocation formulae reviewed by the Board several times in recent years, the Basic insurance share of the total projected fiscal 2003 expenses is $108 million, or 86%. Given the numerous allocation factors used to apportion these expenditures to the Basic, Extension, and SRE lines of business, and different special projects undertaken from year-to-year, the Board is of the view that the projected allocation for fiscal 2003 is reasonable.

The Board has also reviewed the increases for each of the components of claims and operating expenses. The Board is aware that the claims incurred for fiscal 2003 are projected to increase to $440.8 million, an increase of 1.8% over the forecast for fiscal 2002. The Board also notes that the increase in Basic expenses, excluding compensation, is 5.4% over forecasted fiscal 2002 expenditures. The Board notes that, over the longer term, the annual increases in these areas is somewhat less than the 2% increase budget guideline adopted by the Corporation for budgeting purposes.

Compensation for fiscal 2003 is projected to increase by $5.3 million over forecasted fiscal 2002 expense, related to increases in staff, economic and merit increases, and increases in benefits. The Board understands that the staffing level projections are presented some 18 months before the end of the year under review. The Board is concerned, however, about the trend of increasing compensation costs on a year-over-year basis, and the number of claims projected to be handled per adjuster in fiscal 2003 is less than in 1999. While the Board recognizes that

compensation is to a degree dictated by terms of collective bargaining agreements, the cost increases are largely attributable to increases in staff. The Corporation has indicated that the staff complement is budgeted to increase by 49 FTE positions, of which twelve are required to handle additional claims, and five are required for the data processing needs, while the balance is estimated for a variety of special projects and customer service enhancements.

The Board also notes that the data processing costs are projected to increase by $1.6 million or in excess of 20% over the forecast for fiscal 2002. The Board is aware that the nature of the business is such that the Corporation must rely heavily on IT. The Board further notes that the Corporation is upgrading systems and in the past it attempted to do so in a cost effective manner. The Board recognizes that there is a limited growth in the Corporation's customer base and questions when the Corporation will realize a reduction in data processing expenditures. The Board also notes that the Corporation did not file an IT strategic plan and therefore will order the Corporation to file a plan at the next rate application in order to provide some insight on the extent IT initiatives impact the Corporation's business and benefit ratepayer.

The Board notes that significant provisions have been made for future capital and operating expense initiatives in organizational development and special services, the nature of which have yet to be determined by the Corporation. The Board recognizes the need for such provisions, given it is early in the Corporation's budgeting process and that there are competing projects for budget dollars. Nonetheless, it remains difficult for the Board to assess whether the expenditures are prudent, without more information on the proposals being considered. Therefore, the Board encourages the Corporation, in future applications to provide more appropriate details justifying expenditures recognizing that priorities do change over time.

The Board also notes that one of the Corporation's stated objectives is to maintain expense ratio levels at 58% of the industry average, and that this objective has consistently been achieved. However, the Board notes that this matter was not canvassed in-depth previously.

The evidence before the Board supports the requested claims and operating expenses for the Basic program of $108 million. The Board will therefore approve rates for service based, in part, on that amount. The Board will, however, expect the Corporation to file supporting documentation with future applications as evidence in respect of the goal of having an expense ratio at no more than 58% of the industry average and, indeed, whether this is an appropriate benchmark for the Corporation.

In summary, the Board is satisfied that the overall revenue and expense requirements as projected by the Corporation for fiscal 2003 are reasonable and the resulting RSR currently falls within the approved target range.

The Board is also satisfied that the rate design and resulting premiums are just and reasonable and will therefore approve the application as filed.

13.0 It Is Therefore Ordered That:

1. Motor Vehicle premiums for the Basic Automobile Insurance Program, for the year ending February 28, 2003, as applied for by the Corporation in its revised application dated October 3, 2001, BE AND ARE HEREBY APPROVED.

2. The Rate Stabilization Reserve target range be $50 million to $80 million for rate-setting purposes.

3. The implementation of the change in the basis of allocation of operating expenses among Major Classifications as applied for by the Corporation, BE AND IS HEREBY APPROVED.

4. The Corporation file a plan at the next general rate application for the continued implementation of the change in the basis of the allocating operating expenses among Major Classifications.

5. The Corporation, in consultation with CMMG and other stakeholders investigate all possible avenues to decrease or stabilize motorcycle rates and consider conducting Manitoba-specific data tracking and analysis to determine the appropriate motorcycle type classifications and differentials, and to report to the Board at the next general rate application.

6. The Corporation initiate meetings to explain and further discuss those points raised by representatives of DDAM, and to report the results of these meetings to the Board at the next general rate application.

7. The Corporation conduct a study to track and analyze data pertaining to internal claims reviews to determine the cause of any delays in the process including a review of procedures within the Corporation's control to compress the time frame for internal reviews, and report on its findings and recommendations at the next general rate application.

8. The Corporation undertake an assessment of all its safety programs, with possible use of external consultants in conducting the review, and report its findings to the Board at the next general rate application.

9. The Corporation conduct an analysis of the Corporation's road safety expenditure target to support an optimal level of road safety expenditures and file a report thereon at the next general rate application.

10. The Corporation file its revised policy statement related to expenditures outside its core business activities at the next general rate application.

11. The Corporation conduct a review of its auto theft prevention initiatives and report its findings and recommendations to the Board at the next general rate application.

12. The Corporation prepare and file an Information Technology strategic plan at the next rate application.

13. The Corporation file at the next general rate application, supporting documentation in respect of the appropriateness of having the expense ratio target at 58% of the industry average.

The Public Utilities Board

Chairman

Secretary

THE PUBLIC UTILITIES BOARD

"G. D. Forrest"
Chairman

"G. O. Barron"
Secretary

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Secretary