M A N I T O B A

THE PUBLIC UTILITIES BOARD ACT

THE MANITOBA PUBLIC INSURANCE CORPORATION ACT

THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT

Order No. 122/10

December 08, 2010

Before: Graham Lane, CA, Chairman
Len Evans, LLD, Member

MANITOBA PUBLIC INSURANCE: COMPULSORY 2011/12 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

Table of Contents

Page

Contents

Appendices

1.0 EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) approves Manitoba Public Insurance Corporation's (MPI or the Corporation) proposal that a decrease in written premium rates and revenue, based on 2010/11 rates and revenue, be implemented for its Basic Compulsory Vehicle Insurance Plan (Basic) effective March 1, 2011 for 2011/12.

Approximately 3.52% of the overall approximate 4% decrease is to be derived from adjustments to the Driver Safety Rating scale, and the remainder is to arise from other changes, including the implications of a change to the allocation of costs between major vehicle classes with respect to wildlife/livestock claims (the latter expected to provide a major positive impact for average motorcycle rates). The Board will also approve MPI's request to increase drivers' license premiums for DSR demerit levels -4 to -20 to a maximum of $1,500.

MPI's proposed average premium rates for private passenger vehicles (to decline by 3.67%), motorcycles (to increase by 1.62%), commercial (to decline by 2.82%), public service vehicles (to decline by 8.21%), trailers (to increase by 9.81%) and off-road vehicles (to decline by 15%) will be affected by the change to loss attribution with respect to wildlife/livestock claims.

Ahead of MPI applying the loss attribution change, the Board is unable to assess the extent of the effects at the classification level. As well, the implementation of the changes to DSR directed by the Board is expected to positively affect the average premium rates of motorcycles.

Following MPI's filing of its "interpretation" of this Order with Board, the Board will provide final approval of rates for all classes.

The Board denies MPI's request to replace its late fee structure with interest on overdue accounts; an interest rate is neither as simple to apply nor as likely to be effective as a deterrent to delinquency than a flat late fee (such as the $20 late fee in place currently). As well, the Board denies MPI's request to reduce permits and certificate fees; MPI has not met its onus of convincing the Board that these fees should be reduced. MPI's operating expenses continue to increase, and as such, it is the Board's view that these fees, which are essentially administrative handling fees, should remain unchanged. The Board does accept the Corporation's request that there be no change in service and transaction fees for 2011/12.

As to MPI's proposed premium rebate, the Board directs that a rebate of 10% of 2009/10 vehicle premiums be issued by MPI through the issuance of cheques to ratepayers. MPI applied for a 12.9% rebate. The overall value of the rebate is expected to be in the range of $71.5 million, to be paid in 2011 by May 31. The rebate is subject to the Board's final approval – that currently expected to follow subsequent to the Board's review of further information MPI will be directed to file (the review is to provide the Board with further assurance that MPI's financial position remains such as to justify the rebate being paid).

The Board notes the significant projects and initiatives undertaken by MPI over the last few years, including the success of the anti-theft initiative and the expectations related to the Business Process Review (BPR). However, the Board continues to have concerns with respect to a number of factors affecting MPI's operations and results, including:

a) the continuation of high accident frequency and severity rates, and the need for a greater investment in road safety and traffic law enforcement initiatives. The Board understands that MPI will be developing a new Road Safety Vision, and suggests that the Corporation set aside 2.9% of 2009/10 vehicle premiums (MPI sought to rebate the additional sum to ratepayers) to establish out of Basic's Rate Stabilization Fund a Road Safety Fund, similar to the Immobilizer Incentive Fund established by the Corporation previously, the new Fund to be used to fund additional road safety research and initiatives;

b) MPI's current forecast for Basic operations for 2011/12, which has deteriorated from previous forecasts (a small deficit is now expected);

c) the risk of future interest rate and inflation increases that would affect negatively the value of MPI's bond portfolio, which comprises over 80% of the Corporation's investments, and the Corporation's net income;

d) the magnitude of MPI's operating cost increases, which are in excess of inflation;

e) MPI's history of significant differences between actual and projected claims incurred, giving rise to the risk that, at some point in the future, there will be a significant under-projection (rather than the positive over-estimations that have been experienced over the last six consecutive years);

f) the extent of the Board's jurisdiction (which limits the Board's confidence in its perspective of MPI's financial position and prospects);

g) the extent of the evidence provided to the Board by MPI with respect to the whole of its operation, which question is pending before the Manitoba Court of Appeal;

h) a dramatic and significant increase in annual expenses to be borne by MPI in respect of Manitoba Health costs;

j) a deterioration in Extension and SRE earnings, accompanied by a sharp decrease in the claims to premiums ratio of Extension, as reflected in the Corporation's 2010 Annual Report; and

k) MPI continuing to allow claim buy-backs, and, as well, the on-going risk of "gaming the system" (involving multi-driver households where ownership of vehicles are or may be transferred between drivers, to avoid the loss of vehicle premium discounts associated with driver demerits).

With respect to the Corporation's allocation of expenses between Basic and its other lines of business, the Board is not prepared to allow either the cost of the King Street property donation ($1.1 million) or the annual costs of accident benefits (PIPP or Personal Injury Protection Plan) related to extra-provincial trucking to be allocated to Basic for the purposes of rate-setting.

The Board has elected (this year) to issue two Orders following on the General Rate Application. This Order, the first of the two, reflects the Board's decisions in respect of MPI's General Rate Application (GRA), with brief rationale for each of its decisions. The second Order, which the Board expects to issue before the New Year, will reflect the Board's recommendations to MPI, together with further commentary as well as more detailed reasons for the Board's rate-related decisions.

2.0 BACKGROUND INFORMATION and EVIDENCE HIGHLIGHTS

Rate Hearing Process

In the Application, MPI applied to the Board for approval of proposed 2011/12 premiums for compulsory vehicle insurance, driver insurance premiums and vehicle premium discounts.

The evidentiary component of the public hearing of the Application took place over ten days in October 2010, followed by closing statements by Board counsel, interveners and MPI. The hearing was conducted pursuant to *The Crown Corporations Public Review and Accountability Act, The Public Utilities Board Act,* and *The Manitoba Public Insurance Corporation Act*.

The Interveners were:

a) Canadian Automobile Association – Manitoba Division (CAA);

b) Coalition of Manitoba Motorcycle Groups (CMMG);

c) Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors (CAC/MSOS); and

d) Manitoba Bar Association (MBA).

Manitoba Used Car Dealers Association (MUCDA) was accepted as an intervener, but did not participate actively in the hearing process. In addition to the interveners, individual presentations were heard. Presentations are not considered as evidence, as the presenters are not sworn witnesses and are not subject to cross-examination.

This Order reflects the Board's findings on matters which arose over the course of the proceeding, through oral testimony and documentary evidence. Public access to the full transcripts of the hearing, including cross-examination, presentations and closing statements, is available on the Board's website, www.pub.gov.mb.ca/mpitrans.html

Documentary evidence filed on the record at the hearing may be viewed at the Board's offices. Interested parties may also peruse MPI's Annual Report and quarterly financial statements, which may be found on MPI's website (http://www.mpi.mb.ca), and previous Board Orders, which may be accessed at www.pub.gov.mb.ca.

Lines of Business and Corporate Goals

The operations of MPI are divided into three segments:

a) Basic (compulsory vehicle and driver insurance), operated as a regulated monopoly;

b) Competitive lines (Extension, SRE), which are not regulated; and

c) DVL, for which MPI has a contract with the Government to provide services formerly provided by the Government through its former Division of Driver and Vehicle Licensing, which is also unregulated.

MPI's broad corporate goals and objectives are to:

1. provide universally-available, mandatory protection against the cost of automobile accidents;

2. charge average rates lower than those charged by private insurers for comparable coverage and service;

3. achieve financial self-sufficiency, with no subsidies or other assistance from general government revenues;

4. return at least 85% of Basic premium revenue to Manitobans in the form of claims benefits;

5. operate at a financial break-even level over the long term;

6. be a leader in automobile insurance and vehicle and driver licensing;

7. provide Manitobans with superior products, coverage and service;

8. minimize public inconvenience in insurance claims procedures;

9. provide responsive, fair, courteous and convenient service that meets customer service standards based on customer expectations;

10. encourage investment of insurance capital in Manitoba;

11. maintain retained earnings and an RSR within established target levels;

12. offer an environment and career opportunities that encourage employees to strive for excellence;

13. treat employees with respect and fairness and recognize their contributions;

14. lead driver and vehicle safety initiatives that reduce risk and protect Manitobans, their streets and neighbourhoods; and

15. pursue loss prevention programs.

<u>2011/12 Rate Application</u>

Pursuant to the Application, MPI sought rates and premiums for compulsory driver and vehicle insurance effective March 1, 2011, based on an overall 4% decrease in written premium revenue.

It is important to note that the approximate 4% decrease in written premium revenue sought by MPI and granted, although in a different form, by this Order is based on 2010/11 premium rates, and that the on-going “upgrading” of vehicles (buying of new vehicles by policyholders and an expected increase in the overall number of vehicles registered and insured) is expected to provide for an increase in MPI’s overall premium revenue in 2011/12, despite reductions provided herein.

The 4% decrease sought by MPI was comprised of a 2.1% decrease as a result of increased vehicle discounts and a 1.9% decrease as a result of experience adjustments. MPI also applied for a rebate of 12.9% on 2009/10 vehicle premiums to be paid in the Corporation's 2011/12 fiscal year. MPI also applied for vehicle premium discounts for DSR levels 11 to 14, and for an increase in driver licence premiums for DSR demerit levels -4 to -20, to a maximum of $1,500.

MPI proposed no changes to the fees charged for services and transactions, though it proposed that the late fee structure be replaced with interest on overdue accounts. MPI also proposed that the sought overall rate change be applied to permit and certificate fees, such that permit premiums would decrease from $29 to $28 in 2011/12. MPI proposed no change to the $40 discount provided to customers with VIC-approved after-market and manufacturer/dealer installed anti-theft devices.

Forecasted/Projected Operating Results

MPI based its premium proposal for 2011/12 upon its forecasts for Basic revenue, claims and operating expenses. MPI's Basic operating results forecast for 2010/11, based on existing rates, and a projection for 2011/12, based on proposed rates, were as follows:

Statement of Operations ($ millions)	2010/11	2011/12
Net Premiums Earned		
Motor Vehicles	730.1	746.3
Drivers	33.8	22.4
Reinsurance Ceded	(10.9)	(11.7)
Total Net Premiums Earned	753.0	757.0
Service Fees & Other Revenues	15.4	20.9
Total Earned Revenues	768.4	777.9
Net Claims Incurred	621.0	647.4
Claims Expense	89.4	93.8
Road Safety/Loss Prevention	15.8	13.8

Total Claims Costs	726.2	755.0
Expenses		
Operating	48.8	50.9
Commissions	46.8	40.9
Premium Taxes	20.2	23.1
Regulatory/Appeal	3.2	3.1
Total Expenses	119.0	118.0
Underwriting Income (Loss)	(76.8)	(95.1)
Investment Income	106.0	92.6
Net Income (Loss) from Operations	**29.2**	**(2.5)**

MPI advised that it continues to depend upon investment income to achieve at least break-even on annual Basic operations over each two-year period, and that the Corporation anticipates ongoing Basic underwriting losses each year.

Program Revenue

MPI relies on four main sources of revenue to fund Basic insurance: motor vehicle premiums, driver premiums, investment income, service transaction fees and other miscellaneous revenue.

MPI's annual policyholder revenues are expected to continue to increase. The Application assumes a 2.5% vehicle upgrade factor, which reflects the renewal of the vehicle fleet through the disposal of older vehicles and the purchase of newer ones. As well, the Application assumes a 2.25% volume factor representing the expected growth in the number of vehicles insured.

As set out above, total earned revenues for the year of the Application, pursuant to the most recent forecast filed, are projected to be $777.9 million, plus $92.6 million in investment income – the latter being an allocation of MPI's forecast overall investment revenue.

<u>Program Costs</u>

Total claims costs (which include net claims incurred, claims expenses, and road safety loss prevention expenses) are expected to be $755 million for 2011/12. Total operating and administrative expenses are projected to be $118 million for 2011/12.

Net claims incurred (claims incurred less recoveries including reinsurance), comprised of both the effects of bodily injury and property damage, are, by far, MPI's largest annual cost. Claims experience rate adjustments are a major factor in determining vehicle premiums and are developed taking into account historical data and projecting results into the future, to arrive at the expected cost of claims for all vehicle categories.

Overall, net claims incurred for 2009/10 were $515.8 million, with forecasts of $621 million for 2010/11 (*$619.2 million at the time of GRA filing) and $647.4 million for 2011/12, as follows:

Cover (Millions)	**2009/10 (Actual)**	**2010/11 (Forecast)**	**2011/12 (Projection)**
No- Fault Accident Benefits			
Pre- PIPP*	$ 3.7	$ 0.8	$ 0.8
PIPP	175.0	244.6	253.3
Sub-total	$178.7	$245.4	$254.1
Collision	$234.5	$270.2	$284.8
Comprehensive	$61.3	$60.6	$63.9
Property Damage	$35.1	$37.8	$39.2
Public Liability	$6.3	$5.2	$5.3
Total Claims Incurred	**$515.9**	**$619.2***	**$647.3**

*PIPP was implemented by legislation in 1994, pre-PIPP the tort system of compensating those injured in motor vehicle accidents predominated MPI's bodily injury claims incurred.

The overall result is that MPI expects that Basic will record a net loss of $2.5 million in 2011/12.

The Board also notes that the Corporation has revised its initial estimate of unpaid claims liability relating to PIPP enhancements for those with catastrophic injuries – through legislation the benefits for such claims were enhanced, partially on a retroactive basis, in 2009. For 2008/09, the Corporation recorded an unpaid claims liability for such claims of approximately $91 million, but the revised anticipated liability is now $75 million, based on a more detailed review of case files. The Corporation continues to maintain that the PIPP enhancements will give rise to an additional $7 million in claims incurred per year, going forward.

PIPP Claims Run-off

PIPP accident benefits are payable regardless of the attribution of fault for a claim. Claims incurred also include payments and provisions made pursuant to claims under the previous tort-based system. While tort coverage for new claims ended March 1, 1994 (when MPI converted to no-fault and PIPP on a going-forward basis), the pre-existing tort claims continue to run-off (and are now at negligible levels).

During 2009/10, Basic benefited from about $87.4 million of total net undiscounted favourable net runoff – when a claim is incurred and estimate of its cost to the Corporation is made, in subsequent years the initial and subsequent estimates of the cost of the claim is subject to amendment, which consisted of a favourable experience of $51.7 million, and changes in valuation assumptions of $35.7 million.

This run-off represents a continuation of a pattern of favourable run-off that has recurred for several years. In particular, during the five-year fiscal period from 2005/06 through 2009/10, Basic benefited from about $403.4 million of cumulative Basic total net PIPP undiscounted runoff.

The Corporation has given evidence that there are no systemic reasons for the year over year favourable runoff, and that it cannot provide assurances that the current year's claims incurred experience will not be affected as well by significant favourable Basic runoff.

The changes in valuations referenced above are a result of actuarial reviews undertaken at various times during the year. In particular, a thorough review of the assumptions, including loss development factors, the provision for adverse deviation (PfAD, or provision for adverse deviation ratios), and the methodology related to the review of policy liabilities is done in the months of November and December of each year, based on the figures as available at October 31 of each year. The review is conducted by Ernst & Young LLP, with input from the Corporation.

An update to the review is done in March of each year, based on February 28/29 year-end figures. The policy reviews as of October 31 and February 28/29 are provided (when complete) to KPMG, the Corporation's external auditor, pursuant to CICA (Canadian Institute of Chartered Accountants) Auditing Guideline 43.

In addition, two internal reviews are conducted each year by the Corporation, in the months of May and August, based on figures as at April 30 and July 31 respectively.

<u>Claims Incurred Forecasting</u>

In 2009/10, PIPP accident benefits claims incurred amounted to $175.0 million. In 2010/11, these claims are projected to cost $244.6 million – an increase of 40% (the projected increase is largely the result of the favourable run-off of previous years that reduced 2009/10's PIPP accident benefits claims incurred), and in the year of the Application, 2011/12, the current projection is that such claims will cost $253.3 million (an increase of 3.56% over projected 2010/11 PIPP claims incurred).

As the following table illustrates, there have been significant variances between the initial cost projections, the revised estimates provided at the annual General Rate Applications (GRAs), and the actual results as follows:

PIPP Accident Benefits ($ millions)

Fiscal Year End	Initial Projection	Revised Forecast	Actual
1995	132.8	119.4	112.6
1996	140.2	126.6	105.3
1997	135.9	95.1	90.1
1998	118.8	115.5	132.7
1999	119.3	132.1	124.3
2000	139.0	136.3	144.0
2001	139.6	138.2	154.3
2002	139.8	162.2	182.4
2003	167.8	187.2	198.7
2004	190.1	210.4[1]	229.3
	190.1	230.7[2]	229.3
2005	206.7	212.2	154.8
2006	215.1	211.2	194.5
2007	221.1	226.2	184.6
2008	237.3	231.3	167.2
2009	242.1	239.3	186.1
2010	249.8	236.2	175.0
2011	252.9	244.6	-----
2012	253.3	-----	-----

For collision coverage, claims incurred were $234.5 million in 2009/10, for the current year the current forecast is $270.2 million (a forecast increase of 15.2%), and, for the year of the Application, 2011/12, the projection is $284.8 million (a forecast increase over the forecast for 2010/11 of 5.4% - that more in line with the projected rate of inflation, vehicle upgrades and forecast increase in vehicle population).

[1] Two revised forecast scenarios were provided for 2003/04. This scenario represented a moderate level of PIPP loss counts.
[2] Two revised forecast scenarios were provided for 2003/04. This scenario represented a high level of PIPP loss counts.

For comprehensive coverage, claims incurred were $61.3 million in 2009/10, for the current year the forecast is $60.6 million, and for the year of the Application the projection is $64 million.

For property damage coverage, claims incurred were $35.0 million in 2009/10, for the current year the forecast is $37.8 million, and for the year of the Application the projection is $39.2 million. And, for public liability coverage, claims incurred were $6.3 million in 2009/10, for the current year the forecast is $5.2 million, and for the year of the Application the projection is $5.3 million.

Mr. Neil Parkinson of KPMG testified that MPI's actuaries have been consistent in their approach to forecasting claims liabilities, noting that MPI’s “reserves” (forecasts of claims incurred), as a whole, have been consistently conservative, or, in his view, prudent. He also stated that forecasting claims incurred represents a difficult task, one almost guaranteed to be wrong, i.e. actual costs will not be as forecasted, but that, in his view, conservatism with claims incurred estimates provides for the greater financial strength of an organization.

Other Costs

MPI has projected Basic program expenditures (other than claims incurred) as follows:

	Forecast Expenses 2010/11 ($ millions)	**Projected Expenses 2011/12 ($ millions)**
Claims Expenses (Note 1)	89.4	93.8
Road Safety/Loss Prevention (Note 2)	15.8	13.8
Operating Expenses (Note 3)	48.8	50.9
Commissions (Note 4)	46.8	40.9
Premium Taxes	20.2	23.0
Regulatory/Appeal Expenses (Note 5)	3.2	3.1
Total (Note 6)	**$224.2**	**$225.5**

Notes:

1. Overall claims handling costs are allocated between Basic and Extension based on net claims incurred before financial provisions.
2. Road safety has three main priorities: occupant restraint, impaired driving and speed. The focus is on education, assistance for traffic safety programs administered by external agencies and general community work.
3. These expenses are primarily employee compensation, technology related, telecommunications, occupancy costs and amortization of capital assets. Expenses are allocated between Basic and Extension based on direct premiums written.
4. Brokers' commissions will decline due to the implementation of a renegotiated fee arrangement with brokers which will result in a phased in reduction in commissions on Basic transactions from 5% to 2.5% by November 1, 2012.
5. Represents the aggregate of costs associated with the Board process, Automobile Injury Compensation Commission, Crown Corporation Council, Advocate's Office and the Rates Appeal Board.
6. Non-claim expenditures for 2009/10 were $224.3 million. Current outlook for 2014/15 is $230.8 million.

Operating expenses attributable to the Basic program are projected to increase to $48.8 million in 2010/11 from $45.9 million in 2009/10 (an increase of 6.3%), and projected to further increase to $50.9 million in 2011/12 (a further increase of 4.3%). The projected increases were partly attributed to higher amortization costs arising from the Corporation's operational improvement initiatives.

Compensation – salaries and benefits for the Corporation's employees - is the Corporation's single largest operating expense item, representing approximately 59.4% of the total operating and claims expenses in 2011/12. Any variance in compensation can have a significant effect on total operating expenses of the Corporation.

The compounded annual growth rate for the Corporation's employees for 2009/10 compared with 2010/11 is 5.17%, well above inflation. This was attributed to a 2.9% annual collective bargaining increase agreed to by the Corporation for a four-year collective agreement, in addition to annual 3.5% incremental increases, for staff not at the maximum of their salary range, as staff “move up” the pay scale.

Staffing levels allocated to Basic increased from 1,365 full-time equivalents as of March 1st, 2003 to 1,990 full-time equivalents as at March 1st, 2009 (an increase of 46%). This substantial increase was attributed in part to the DVL merger and the BPR initiatives, the latter of which were reported to have resulted in 228 full-time equivalent positions, or 36% of the staff complement increase for the period 2003 to 2009. MPI’s overall staff level was reported to have been 1,905 as of March 1, 2010, and projected to decline to 1,870 by March 1, 2011.

<u>Road Safety Initiatives</u>

MPI's safety initiatives continue to focus on three main priorities:

a) occupant restraint/seatbelt usage;

b) impaired driving prevention; and

c) driving at a safe speed.

Over the last number of years, the Corporation's largest road safety expenditure has been in relation to anti-theft strategies, and certainly the Corporation has, with the cooperation of the Province and police, achieved success in its efforts to reduce auto theft counts and claims costs. MPI is projecting to spend $13.8 million in road safety expenditures in 2011/12, a reduction of $2.0 million from 2010/11; the decrease attributable to the “winding down” of the installation of vehicle immobilizers program. (From the 2008 model year, car manufacturers have been obliged by federal edict to install immobilizers on new vehicles, this, combined with the Manitoba immobilizer program has resulted in a significant percentage of vehicles in Manitoba having installed immobilizers – the percentage of such vehicles is “bound” to continue to increase over time, as older vehicles are “retired” and new ones acquired.)

The Corporation has "immobilized" 177,351 vehicles through 2009/10, and that number is forecast to grow by 6,000 vehicles by the end of 2010/11. The current forecast assumes that 4,800 immobilizers will be installed through MPI's program in the year of the Application. (Again, all new cars have immobilizers, further increasing the number of "immobilized cars" entering the "immobilized" fleet in 2011/12.) The total immobilizer installation costs incurred by MPI over the period from 2005/06 through to and including 2014/15 are projected at $69.1 million. Despite the evident high cost, the program has been self-supporting through reduced claims incurred, and is held to result in positive overall net income for the Corporation.

The number of total theft claims in Manitoba decreased in 2009/10 to 2,549 from 9,795 in 2004/05 – a reduction of 74%. Attempted thefts decreased in 2009/10 to 2,649 from 8,074 in 2006/07 – a reduction of 67%. In 2009/10, total and attempted theft claims incurred were about $13.9 million in physical damage costs, compared to $35.5 million in 2006/07 – a reduction of 60%. That said, for 2011/12 the Corporation forecasts an increase in claims incurred from auto theft and attempted theft, to $15.5 million, an increase of 12%. Perhaps this will prove high. The business case provided by the Corporation with respect to its anti-theft initiatives, which includes the immobilizer program, suggests overall claims incurred savings of $220 million over a nine year period.

The Board is hopeful that the DSR system, assisted by MPI's expected "new vision" with respect to road safety measures, will have a similar impact as they are fully implemented. The DSR system has been designed to "better" reward those who exhibit good driving behaviour, while penalizing more severely those exhibiting bad driving behaviour.

Capital Expenditures

The Corporation's budget for capital expenditures for 2010/11 is just over $30 million, of which approximately $13 million is for BPR projects. These expenses were projected to be $25.4 million last year, but there were delays in some of the claims centres being established; as a result, costs were lower than expected in 2009/10.

The Corporation also implemented a change in its accounting policies in 2009/10, this resulted in the expensing of $17.8 million of deferred development cost against Extension net income and retained earnings, the majority of which relates to the Mainframe Decommissioning project (when MPI assumed responsibility for DVL from the Province, the mainframe computer system employed by DVL, which was very much out-dated became MPI's responsibility, and as part of the BPR MPI has and is redeveloping its computer system at a significant cost, the decommissioning of the old mainframe is part of those costs – much of which are being allocated against Extension.

The Corporation donated its former claims centre on King Street in Winnipeg to a community group; the appraised value of the building was $1.1 million. The Corporation advised that the community benefit of the donation outweighs any economic gain that the Corporation might have gleaned from selling the property on the open market.

There was a change in the Corporation's capitalization policy that took effect March 1, 2009. In particular, the threshold for the capitalization of furniture and equipment rose from $500 to $5,000, so such expenditures that are below $5,000 are now expensed in the year of acquisition. The effect of this change was incorporated into MPI's forecasts, and the Corporation advised the change is expected to have a minimal overall effect. For the year of the application, capital expenditures are forecasted to be $17.2 million, a decrease of $1.8 million from the $19 million projected at last year's GRA.

Business Process Review (BPR)

As the evidence reflects, MPI is continuing with the BPR, including projects funded by Basic. The BPR includes projects such as DSR, SRP, PIPP infrastructure and the development of an Enterprise Data Warehouse. Projects funded by the Extension Development Fund (EDF), which is funded by Extension net income and retained earnings, have cost the Corporation $91 million to date.

The PIPP infrastructure project, funded solely by Basic, has been in use since September, 2010. The total cost for this project is expected to be $27 million, and MPI anticipates savings of about $42 million to arise from the project over a period of years. The costs of the DSR project, also funded solely by Basic, are expected to be approximately $7.4 million. The SRP project is charged to Basic to the extent of 80%, or $4.1 million; the remainder is charged to Extension, as the Province provides revenue for drivers' licensing expenditures, which is operated out of Extension.

The details of the costs of the BPR projects funded by the EDF, including the Enhanced Drivers' License (EDL) program, the Enhanced Identity Card (EIC) program and the Mainframe Decommissioning, have not been provided to the Board.

Investment Income

Investment income is a major component of MPI’s overall and Basic's annual income; with annual underwriting losses now the norm for at least Basic, investment income is required and expected to provide for "break-even" operations. MPI’s investment portfolio is not segregated by line of business, but rather all invested funds are commingled, including MPI’s pension obligations to its employees. Investment income is allocated between Basic, the competitive lines (Extension and SRE), and MPI’s employer obligations to its pension plan on the basis of a long-established formula.

Legislation prescribes that the Minister of Finance has ultimate authority over MPI's investments, although MPI’s Board of Directors has an investment sub-committee, which has, with the support of MPI’s board, adopted an investment policy. In addition, MPI participates in an Investment Committee Working Group (ICWG) together with representatives of the Department of Finance, and it also has an in-house investment department which reviews investment performance and provides advice to MPI’s investment sub-committee, management and the ICWG. Neither the ICWG nor the MPI Board sub-committee has members that are outside or independent investment experts.

MPI’s investment policy statement includes a “guideline” governing the sales of securities for gains, based on the level of unrealized gains relative to the book value of its investments. Also, MPI has now incorporated into the investment policy statement a rebalancing policy, although rebalancing is not guaranteed to occur at any particular time. The investment policy sets minimum and maximum ranges for investments, and allows the investment in any asset class to be outside the target range for up to six months.

In 2009/10, MPI realized $84.1 million in investment income; a figure much closer to its "typical" investment income than that which it realized in 2008/09 (where only $4.6 million of investment income was recorded, largely due to global economic events). In 2010/11, MPI is anticipating investment income of $106 million, and in the year of the Application, it is projecting investment income of $92.6 million. In 2009/10, MPI wrote down impaired investments (investments not expected to realize their initial investment price) to the extent of $3.0 million. MPI’s portfolio exceeds $2 billion, and is heavily weighted to fixed-income securities and government bonds.

Investment Portfolio

MPI has adopted various target allocations for the various asset classes within its investment portfolio. Allocation options were provided and modeled by AON Consulting, with its report filed at the 2009 GRA.

MPI's investment portfolio for 2011/12 is projected to be in the range of $2.4 billion, and to be comprised of 66.2% in long-term bonds, 19.9% in equities, 2.4% in cash and short-term investments, 9.9% in real estate, 0.3% in venture capital, and 1.2% in infrastructure investments (rounding results in the aggregate percentage being under 100%).

The Corporation’s current targets for public and private equities are 20% and 5%, respectively, for a total equity allocation of 25%, fixed-income securities are expected to make up the bulk of the portfolio, and, with relatively modest net returns expected through to 2014/15, the Corporation's investment portfolio is expected to grow to $2.8 billion by the end of fiscal 2014/15.

The size of the investment portfolio is increasing due to three major factors:

a) continued growth in the PIPP component of Unpaid Claims;

b) continued growth in deferred premium income (the result of vehicle upgrades and increases in the insured “fleet” of vehicles); and

c) annual net income, expected to result in increasing retained earnings over time.

MPI re-designated its bond purchases after June 1st, 2008 to “Held for Trading”. As a result, along with interest earnings changes in the market value of its bond portfolio, it will impact on the annual net income results of the Corporation, whether the bonds are sold or not - changes in unrealized gains and losses for "Held for Trading" bonds will be included in the annual operating statement (income statement) as investment income.

Unrealized gains and losses due to fluctuating market yields are expected to offset to a large extent the impact of market yield changes on Unpaid Claim Liabilities, and this is expected to provide a degree of net income stability for the Corporation. A further step in this direction was an election made by MPI pursuant to new International Financial Reporting Standards (IFRS), that being to re-designate bond holdings previously classified as "Available for Sale" as “Held for Trading”.

<u>2009/10 Financial Results</u>

In 2009/10, Basic realized a net income of $89.8 million, including the transfer of $2.0 million from the Immobilizer Incentive Fund (IIF). The net income of $89.8 million may be compared to the projected net income of $11.5 million at last year's GRA, which also included a $2 million transfer from the IIF. In other words, MPI reported an actual improvement of $78.2 million in net income for 2009/10 over last year's projection for 2009/10. The change is largely attributable to favourable run-off of PIPP accident benefit costs, previously incurred, of $80 million.

<u>2010/11 Financial Results</u>

In the Application, for 2010/11, Basic was forecast to have net income of $13.8 million, compared to projected net income of $8.5 million for the same year forecast at the 2010 GRA. MPI's most recent forecast for 2010/11 reflects a forecasted decrease in total claims costs of $9.3 million, offset in part by a projected increase in total expenses of $2.7 million.

The Corporation anticipates earning $28.3 million from its Extension and SRE lines of business in fiscal 2009/10, as reflected in its 2nd Quarter 2010/11 unaudited report. MPI has refused to provide the Board with any estimates of further future annual results for Extension and SRE.

<u>2011/12 Financial Results</u>

The Corporation forecast a Basic net loss of $2.5 million, with no transfer from the depleted IIF. This forecast reflects Basic net income about $21.1 million less than the $18.6 million net income projected for 2011/12 at last year's GRA.

<u>Outlook Period</u>

MPI's mid-term projections for 2012/13 through 2014/15 do not assume any overall rate changes, although both reflect an expectation of annual 2.5% upgrade and 2.25% volume factor increases for each year through the outlook period.

MPI projects Basic net income of $6.7 million in 2012/13, $33.4 million in 2013/14, and $49.3 million in 2014/15 -- the projections include the assumption of a continued transition to the DSR System, expected to affect both vehicle and driver premiums. The forecasts do not reflect any anticipated changes in claims incurred experience as a result of the DSR, although MPI expresses "hope" that DSR will provide a sufficient incentive to motivate better driving behaviour over time.

These projections also reflect forecast savings expected to result from changes to processes arising out of the ongoing BPR, but do not reflect any accounting changes from the further adoption of IFRS (although changes to accounting policies may well impact on future year forecasts and eventual results).

RSR

The general understanding is that the purpose of the RSR is to protect motorists from large premium increases that may otherwise be necessary as a result of unexpected events and losses arising from non-recurring events or factors.

MPI forecast RSR balances, excluding the IIF, as follows:

Year	RSR Balance
	(millions,$)
2007/08 (Actual)	$127.1
2008/09 (Actual)	$134.9
2009/10 (Actual)	$224.7
2010/11	$182.9 (After $92.0 million 12.9% proposed rebate)
2011/12	$180.5
2012/13	$187.1
2013/14	$220.5

In Order 161/09, the Board established a RSR target range of 10% to 20% of net written premiums (vehicle and driver premiums). Certainly, the RSR range is a major, but far from the only, determinant in both rate and rebate decision-making. Further, both MPI and the Board, assisted by interveners, have a role in protecting MPI's future financial condition.

MPI advised the Board that it has no immediate plans to pursue further the issue of the RSR target range (MPI had favoured a MCT-based RSR range). Minimum Capital Test (MCT), is a methodology directed to private insurers operating in the competitive market by the federal Office of the Superintendent of Financial Institutions. MPI reported as having been “encouraged” by the fact that the upper end of the Board's current RSR target range (that range being $77 million to $154 million) is now only $30 million less than the Corporation's target “point”, that being $185 million. As such, MPI based its rate application on the Board's RSR target.

Cost Allocation Methodology

In Order 150/07, the Board ordered MPI to undertake a cost allocation review; a filing of an external cost allocation study undertaken by Deloitte, a consultancy, was made in the 2010 GRA, held in the fall of 2009, and at that hearing the Board heard evidence from Mr. Richard Olfert, of Deloitte. The Board again heard from Mr. Olfert at this year’s hearing, following further directions by the Board issued within Order 161/09, with respect to further work undertaken by Deloitte and filed with the most recent Application.

Deloitte undertook three major steps in extending its “allocation” research:

1) a review of MPI’s 2010/11 budget and underlying operations to determine whether any change in operations or accounting unit structure had taken place which could or should affect the categorization of accounting units or the application of the methodology to the 2010/11 budget;

2) a review of the 2009/10 purification adjustments, to determine whether the same were still appropriate, or whether any additional adjustments would or should be required for 2010/11; and

3) a calculation of specific allocators for 2010/11 utilized in the cost allocation methodology, and compare those allocators with those calculated for 2009/10.

With respect to the fourth level of the recommended allocation approach (Level D), over $170 million of MPI’s annual costs was proposed to be allocated between the Corporation's lines of business. Deloitte had originally, in the 2009 hearing, recommended that the allocations among the insurance lines (Basic, Extension, SRE and non-insurance) be done on the basis of net claims incurred versus premiums earned, due to the assumed profit margin included in the competitive lines' pricing. Last year, the Board ordered that the Level D allocations be done on the basis of premiums written.

This year, based on the refinements to the Level D allocation, the costs to be allocated to Basic were to be reduced to 82.4% from 86.9%, representing a reduction of costs allocated to Basic of approximately $6 million.

Asset and Liability Allocation

As part of the GRA filing, MPI filed an asset and liability allocation study and proposed methodology prepared by Deloitte, in response to Board Order 161/09. The Board heard oral evidence from Richard Olfert of Deloitte, and in particular, Mr. Olfert testified that Deloitte undertook the study in a manner consistent with the cost allocation study that MPI filed at last year's GRA.

The methodology suggested for asset and liability allocation provides for six guiding principles, including the five guiding principles utilized in the cost allocation methodology, as follows:

1) Fair and reasonable;
2) Practical and efficient;
3) Flexible and adaptable;
4) Acceptable in a regulatory context;
5) Consistent with industry standards; and
6) Symmetry.

The sixth guiding principle, symmetry, acts as a link to the Cost Allocation methodology put forward last year, by recognizing that many of the assets and liabilities to be allocated are either related to, or ”created by”, particular revenues and expenses.

The methodology was designed to allocate the Corporation's assets and liabilities on an account by account basis; the first stage being direct assignment of accounts that are directly related to a particular line of business. In the case of the Corporation, the asset accounts that can be assigned directly represented approximately 6% of the whole, because the largest block of the Corporation's assets are its investments, which cannot be assigned directly. In the case of the Corporation's liabilities, the Board was advised that approximately 85% can be assigned directly.

The second stage of the allocation methodology deals with any account that cannot be assigned directly to a line of business. At the second stage, the assets and liabilities are assessed to determine what drives the balance in the account, in order that the correct allocator can be selected for that account.

There are five major changes that “flow” from the proposed asset and liability methodology (as compared to the previously existing methodology).

The first change deals with accounts receivable, and, in particular, a $31 million reduction in basic accounts receivable, because driver licensing and registration fees are no longer attributed to Basic but to non-insurance lines. The second change relates to property and equipment assets, and involved a proposed reduction in the allocation to Basic of $15.3 million, due to the allocation of joint use service centres. The third change relates to accounts payable and accrued liabilities allocations, with a resultant $7.5 million decrease in allocations to Basic proposed. The fourth change relates to the provision for employee future benefits, whereby there is a $13 million reduction proposed in the allocation to Basic. Lastly, there is a change in the allocation of cash and investments, in particular an increase in the allocation to Basic of $23 million.

<u>International Financial Reporting Standards ("IFRS")</u>

The Board heard evidence from both the Corporation and Deloitte with respect to the implementation of IFRS, following on the completion of the Corporation's review of IFRS policy considerations and an analysis of election options, approved by the Corporation's Board of Directors in February, 2010.

The Corporation advised that the transition to IFRS is not expected to have a material impact on the annual net income of the Corporation, although there is a one-time impact on the RSR, namely a $21.1 million adjustment arising from the re-designation of bonds within the Corporation's portfolio (as previously reported on).

Mr. Olfert of Deloitte testified that, as well, there are two other elective transition adjustments to be considered on the initial adoption of IFRS. The first relates to the potential valuation of capital assets on the opening balance sheet at fair value; an election MPI did not make. The second relates to employee benefits, and in that vein as well, MPI opted to continue its current practice.

Mr. Olfert also testified about two non-discretionary transition adjustments to be made on the transition to IFRS. One relates to the IFRS requirement to accrue short-term employee benefits that are not vested, which in the case of MPI resulted in an accrual of $3 million of cost and liability for employee sick leave entitlement. The second item relates to the componentization of fixed assets, which in the case of MPI did not give rise to a material change.

Both Deloitte and KPMG testified that the Corporation's policy decisions regarding IFRS were in compliance with IFRS requirements. Mr. Olfert of Deloitte also expressed his (and his firm’s) opinion that the arrangement between MPI and the Province of Manitoba does not constitute an onerous contract for the purposes of IFRS; this because, for Deloitte, KPMG and the Corporation, the arrangement was not a contract in a commercial sense but a reflection of a legislated direction. Accordingly, neither Deloitte, KPMG, nor the Corporation held that the future net cost of the arrangement was required to be booked as a liability in the Corporation’s current financial statements, and that a reduction to net income and retained earnings was not required.

DVL

In 2004, Government directed the amalgamation of DVL operations within MPI -- DVL operations include the administration and assessment of fees for the registration of motor vehicles, the regulation of driver licenses, and management of the Driver Class Licensing Program. Upon the amalgamation taking effect, more than three hundred previously provincial employees became MPI staff.

MPI characterizes DVL as a segment of a fourth line of business, a non-insurance operation based on contracts/agreements/directives of/with/by Government. At the time of the DVL merger, in 2005, the annual contribution to be made by the Province to MPI to meet MPI's annual DVL expenses was fixed at $21 million. At that hearing, MPI forecast that over the first five years of operating DVL it expected to incur net costs in the range of $40 million.

However, at this hearing the Board was advised that the accumulated losses on MPI's operation of DVL for the last five years totalled just under $84 million, and that these losses have been borne by the Extension line of business. The Board was advised that the annual funding from the Province to MPI for DVL is slated to increase to $28 million per year as of the 2011/12 fiscal year of the Province (the Province's fiscal year begins on April 1 of each year, while MPI's fiscal year begins on March 1), based on advice received by MPI from the Province. MPI continues to carry the full risk of inflation and/or other operating cost pressures related to DVL, and any other non-insurance costs related to its arrangements with the Province, arrangements not fully disclosed to the Board.

The increased annual payment (of $28 million) from the Province is apparently intended to "cover-off" DVL operating costs, reimburse MPI for payments to brokers for collecting registration and driver licensing fees, and meet MPI's costs relating to the Enhanced Drivers' License and Manitoba Identification Card projects, which costs were not detailed at the hearing.

MPI advised that much of its expected improvements in customer service (including the streamlined renewal program (SRP), better service through new service centres and DSR) would not be possible if not for the merger of MPI and DVL, the advantages of which, in large part, according to MPI, to "flow to" Basic ratepayers.

Broker Commissions and Streamlined Renewal Process (SRP)

MPI claims two particular major benefits will result from the merger with DVL:

a) policyholder service improvements resulting from SRP; and

b) reduced Basic commissions payable to brokers – the commission rate is slated to decline over time from 5% to 2.5% for Basic transactions, with the commission rate for 2011/12 to be 4%.

Basic commission expense is forecast to decline by $21.9 million annually from the 2009/10 base when the decreased Basic commission transition is fully implemented. However, the Corporation has also negotiated higher commissions payable for Extension and one-time transactions with the Insurance Brokers' Association of Manitoba. (Last year, MPI equated the additional Extension commissions to be representative of approximately a 1% increase in the Basic commission rate, suggesting an overall net improvement in overall MPI costs, when the transition is complete, representative of a reduction of Basic broker commissions from 5% to 3.5%.)

Under the SRP, each insured is to have a "broker of record", which broker will process the first renewal under a five-year term, and, in the result, receive a commission for each of the five years of that policy of insurance, assuming no change to the policy. The commission will be paid to the broker whether or not the policyholder renews through the broker, or another broker, or direct with MPI.

Wildlife/Livestock-related Collision Claims

The Corporation advised of approximately 10,000 wildlife claims being filed annually, with 58,000 such claims having been incurred over the last six years. The claims incurred range, in total, from $20 to $25 million of annual costs for physical damage costs, and an average $1.7 million annually for accident benefits/ bodily injury costs. At this level, wildlife-related claims exceed the current annual cost of auto thefts and attempted thefts, and rank in similar importance (as to accident/injury causation) with alcohol impairment, speeding and the lack of seatbelt restraint.

The Corporation filed with the Board a map reflecting the areas of Manitoba where wildlife collisions have occurred, and observed that wildlife accidents are a Province-wide concern. The Corporation noted that while a number of prevention measures have been identified, most have not been found by MPI to be "cost-effective" to implement. MPI also advised that it was working collaboratively with the police towards reducing speeding and careless driving behaviour of drivers during the "active" wildlife seasons.

To date, the Corporation has focused its road safety wildlife spending on public advertising to raise public awareness of the risks associated with wildlife on Manitoba roads, particularly during October and November (when wildlife close to roadways is most prevalent). In addition, the Corporation advised it has contributed funding toward two variable messaging boards for use within Winnipeg, this to alert motorists to high collision zones within the limits of the City of Winnipeg.

In relation to a recommendation made by the Board in Order 161/09, a witness was called by CMMG, namely actuary Mr. Nicholas Beaudoin of Dion Durrell, who testified with respect to the allocation of costs associated with wildlife-related collisions. Mr. Beaudoin's view is that the costs these types of accidents generate are similar to those involving pedestrians and cyclists and, therefore, the loss attribution rules (reflected in Board Order 97/05) should be amended to include wildlife-related collisions as well.

Mr. Beaudoin testified that to do so would be both actuarially sound and statistically based, as well as representing “fairness”. Mr. Beaudoin held that such a change would respond to a question of the fairness of public policy, and, if implemented, would lead to a 9.4% reduction in average motorcycle rates from those proposed by MPI for 2011/12.

3.0 INTERVENERS AND PRESENTERS

Interveners

CAA

Cost Allocation

CAA noted that, historically, save and except for the last number of years, allocation issues have not been discussed before the Board because the overall health of MPI, as considered in the context of the RSR, etc., was “what mattered”.

CAA stated that benefits from the operations of the Basic program (a mandatory monopoly) support the other lines of business, and that while in the past reciprocal benefits in the form of payment transfers have flowed back to Basic from the other lines of business, those transfers have ceased, while the benefits still flow from Basic to the other lines of business, Extension in particular.

CAA stated that none of MPI's other lines of business could exist without Basic and none would be able to afford to operate as they do if they operated independently of Basic (independent has been defined as including separate staff, facility and governance). CAA stated that the other lines of business have had a "free ride" from Basic, and that Basic has not been fully compensated for the service and support that it provides to the other lines.

CAA stated that it is "ironic" that the Board has access to information about Basic but not about the other lines, despite the fact that the other lines operate because of Basic. CAA recommended that the Board consider further the proper allocation methodology, to ensure that Basic is not "short-changed".

In addition, CAA expressed strong objection to the $80 million shortfall incurred by MPI as a result of the first five years of the DVL merger, and, as well, to the annual ongoing subsidy by Basic to inter-provincial truckers (PIPP claims by such truckers are not reflected in Basic premiums recovered from truckers).

Staffing Levels & Salaries

CAA advised of its expectation that MPI's present staffing levels would decrease over the next few years, given the expected efficiencies to be gained through the integration of the Corporation's business, and its disappointment with cost-saving efficiencies to-date.

CAA further recommended that the Board consider the level of direct compensation and benefits provided to MPI executives and other staff, in light of the recent economically-challenging times.

Rebate

CAA questioned the method of rebating by cheques to policyholders, the approach proposed to be again followed by MPI, and suggested that the costs incurred through the issuance of cheques are unnecessary; and that an alternative and less costly way of issuing a rebate should be considered.

CAA noted that it has long-supported a conservative approach to the RSR, and encouraged MPI to keep close watch on economic conditions, weather events, underwriting results and physical damage costs, etc. CAA noted that the RSR has continued to grow, largely due to excessive premiums (with estimates of annual claims incurred that result in premium levels being set being consistently too high), and that, in its view, for the most part the RSR has not been utilized for the purpose for which it was accumulated.

As such, CAA recommended a rebate of $150 million, rather than the $92 million proposed by MPI, suggesting that even with such an increased rebate the balance left in the RSR would, particularly given the likelihood claims incurred would again prove to be too high, be sufficient.

Donations

CAA questioned MPI's donation of the King Street property to a community group, and likened the donation to the proposed payment by MPI to Manitoba universities some years ago, a payment that was not made following public and intervener opposition.

CAA suggested that such a donation is outside the scope of MPI's mandate, and, if to be made, should be made by government not MPI.

Other Issues

CAA also commented on the issue of family transfers, where the risk of manipulating the DSR scale is present, and, also, suggested that vehicle premium discounts at the high end of the DSR scale may not be sufficient to recognize lengthy consistent good driving behaviour.

<u>CAC/MSOS</u>

Rates and Rebate

CAC/MSOS posed and reviewed five over-arching questions with respect to the rate and rebate application:

1) Is this a politically motivated RSR rebate and rate reduction application?

   CAC/MSOS submitted that it is not, noting that rebates had been paid previously within and outside of years in which an election had been held.

2) Should the applied for 4% rate decrease be granted?

CAC/MSOS would accept a lesser rate reduction, if there were substantial road safety improvements “in play”.

3) Should the applied for $92 million rebate be granted?

CAC/MSOS supported the granting of the rebate as applied for, but does not support distribution of the rebate by cheque (for reasons related to cost and the environment). CAC/MSOS did not support drawing down the RSR to establish a road safety fund, holding that road safety initiatives would best be developed and tested, and that it would support an increase in premiums if a new and acceptable road safety measure required such funding.

4) Are all consumers and classes of consumers being treated fairly?

CAC/MSOS submitted that the "good" drivers are paying more, and historically have paid more, than they should have.

5) What other directives or recommendations might the Board consider?

CAC/MSOS did not support MPI's donation of the King Street property. The intervener also suggested that, with respect to the allocation of costs in wildlife-related claims, 50% of the incurred claims should be allocated to the class of the vehicle involved in the collision, with the rest spread across all vehicle classes.

With respect to MPI's investments, CAC/MSOS supported greater diversification within the portfolio, recognizing that lost opportunities can result from an excessively conservative approach.

CAC/MSOS asked four questions with respect to the concept of a just and reasonable rate in the GRA:

1) Are the forecasts for costs and revenues reasonably reliable?

CAC/MSOS suggested that MPI's forecasts of claims incurred should be carefully considered given the wide variation between forecast and actual, while its forecasts of revenues seem reasonably reliable.

With respect to forecasts of claims incurred, CAC/MSOS asked that the Board consider the concepts of bias (an unbiased forecast is one where, on average the estimate equals the actual over a longer period of time) and auto-correlation (the results are not independent and are more likely to repeat the preceding result).

CAC/MSOS suggested that the linear and exponential forecasting methodologies provide little insight, and that stochastic modelling would give one a better sense of the distribution of the mean, or the best estimate, and would represent a needed modernization of MPI's claims incurred forecasting approach.

CAC/MSOS suggested that the Board use MPI's forecasts of claims incurred with caution, and that it direct MPI to conduct an independent review of its forecasting methodology.

2) Are the costs, revenues, assets and liabilities of the lines of business being attributed appropriately?

CAC/MSOS suggested that cross-subsidization can occur either through transferring costs inappropriately, transferring revenues, or by a failure to recognize a material benefit provided by one line of business to another for which it is not compensated appropriately.

CAC/MSOS accepted that the allocation formulae prepared by Deloitte are not unreasonable, though it submitted that, given the limited terms that established the review, viable alternative analytical constructs were not considered, and central questions were not asked.

CAC/MSOS argued, quoting from the Alberta Energy and Utilities Board, that "…it is necessary that all utility transactions are transparent to regulatory oversight" and expressed concern in respect of transparency before the Board, particularly given the "captive" nature of the Basic customer audience.

CAC/MSOS also cited the closely integrated operations of MPI that give rise to interdependent cash-flow. The intervener noted that motorists can avail themselves of a "one-stop-shop" when purchasing Extension coverage, by buying it at the same location, at the same time, and as part of the same transaction using the same system as Basic coverage.

CAC/MSOS observed that PIPP costs incurred with respect to inter-provincial trucking represented an excess cost to Basic policyholders; it agreed with the concerns raised by the Board in Orders of past years with respect to this issue.

CAC/MSOS recommended that the Deloitte allocation methodologies, for expenses and for assets and liabilities, be given only interim approval by the Board, and limited to 2011/12; or alternatively, that the methodologies be reviewed every 4 years in the absence of further direction by the Board.

CAC/MSOS also recommended that MPI be directed to:

- consider alternate mechanisms to cost allocation to protect Basic ratepayers from inappropriate expenses;
- review whether Extension is receiving benefits from Basic for which Basic is not compensated;
- determine the costs of the Extension stand-alone operation and whether those costs should be considered in allocating costs or attributing benefits;

- revisit the mainframe decommissioning issue, including the extent to which Basic will benefit and propose an allocator for that project; and
- re-visit the inter-provincial trucking issue.

3) Are the forecasted costs reasonable and prudent?

CAC/MSOS was encouraged by MPI's expressed desire to renew its road safety vision and supported a monetary investment in that vision (even if a rate increase of 1% or more was required) given the social and financial benefits to be gleaned.

CAC/MSOS characterized road safety as a material, unrealized area of opportunity in terms of cost prevention, and suggested that MPI be directed to contact key stakeholders in the development of its road safety vision. CAC/MSOS suggested that MPI be directed to report back to the Board regarding the proposed key indicators to be used for evaluating trends in Basic efficiency.

CAC/MSOS cited alcohol, lack of occupant restraint and unsafe speed as major factors contributing to ongoing collision and injury statistics in Manitoba, and asked that the statistics be tracked by territory, or by urban versus rural, going forward.

4) Are vehicle owners paying a reasonable share of the costs that they bring to the system?

CAC/MSOS noted that within the current DSR scale, there is no opportunity for distinction of risk as between drivers with 15, 20 or 25 or more years of claims-free driving; a distinction which it believes should be explored. As such, for CAC/MSOS, it is possible that drivers with a relatively higher number of claims-free years continue to pay a rate that is excessive compared to the risk that they bring to the system.

CAC/MSOS suggested that this issue be examined, particularly given that there are approximately 300,000 drivers in levels 14 and 15; representing a material percentage of the driving population.

<u>CMMG</u>

Rates

CMMG noted MPI's proposal, if accepted, would result in over 14% of motorcycles incurring a premium increase of more than $100.00. CMMG further noted that, statistically, approximately ten motorcycle claims represent more than 50% of claims incurred allocated to the motorcycle major class, and that this unique concentration is not properly accounted for within MPI's rate-setting methodology. CMMG further noted that motorcycle claims experience, the claims to premiums ratio, had declined (from 70% in 2002 to 50% in 2009).

CMMG also compared MPI's projected losses related to motorcycles versus actual losses, and compared both to premiums charged to motorcycle owners for their motorcycles. CMMG noted that over the last six years, actual claims incurred for motorcycles were less than forecast in four of the six years.

CMMG argued that two-thirds of the time MPI is incorrect with respect to its claims expectations with respect to motorcycles, and in such a manner that prejudices motorcyclists and results in higher premiums than could be considered fair.

CMMG suggested excess motorcycle premiums were being charged, and that the premiums exceed the motorcycle class' share of operational expenses. CMMG claimed that over the last six years the Corporation received approximately $8 million more in motorcycle premiums than the actual losses occurred. CMMG held that the "over-collection" was significant, particularly given the relatively small size of the class (approximately 12,900 insured motorcycles).

Wildlife/Livestock Claims

CMMG argued that MPI's efforts to address claims involving wildlife are insufficient, and that MPI has not taken adequate action to address the problem, despite the reference of the Board to the issue in Order 161/09. CMMG argued that MPI "jumped to the pump" with respect to the auto theft problem, with a successful result, but has yet to provide funding to deal with the wildlife issue.

As set out above, CMMG called evidence from Nicholas Beaudoin with respect to the allocation of loss costs in wildlife-related collisions. CMMG cited Board Order 161/09 and argued, based on the principle of consistency, that loss costs related to wildlife claims should be treated in the same manner as claims involving collisions with pedestrians and cyclists.

Road Safety

CMMG argued that MPI's road safety effort record is disappointing, and noted what it considered to be low levels of annual expenditures by the Corporation, including only approximately $80,000.00 on specific motorcycle related initiatives.

CMMG noted that at present there is no research contemplated by MPI, and no new programs or initiatives being discussed related to motorcycles. CMMG also noted that MPI has not responded to previous Board Orders that suggested an increased safety campaign to address motorcycle losses.

<u>MBA</u>

Claims Handling

MBA expressed ongoing concerns about the way in which MPI handles claims of victims of personal injuries, particularly whether or not victims receive all of the benefits to which they are entitled in law.

MBA raised potential problems that individuals could encounter in "navigating" MPI's claims system, and in their advancing their claims clearly, forcefully and fully. MBA noted that most claimants neither retain lawyers nor other bodies or individuals when dealing with MPI, unlike the "norm" MBA held was present with the tort system. For MBA, too often claimants are "left on their own" with MPI.

Transparency

MBA notes the vital role played by the Board as the regulator of MPI, serving as a proxy for competition, in the context of MPI's statutory monopoly over auto insurance in Manitoba. MBA noted that it has consistently supported the Board's requests of MPI for disclosure and cooperation, and commented upon what it held to be the resistance of MPI to provide certain information to the Board. MBA opined that the Board, as the regulator, should not be put in a position of having to "plead" for compliance and cooperation.

Subrogation Expenses

MBA suggests that MPI makes insufficient efforts to either succeed in its subrogation efforts or "rein in" expenses incurred in connection with subrogation. MBA also claimed that MPI does not effectively track the success of its subrogation efforts.

MBA submitted that the Corporation does not track how many instances in which it is able to collect on a judgment, how often it is unsuccessful in a claim, how often it abandons a claim, and how often claims are settled. MBA also suggests that MPI's tracking of the overall dollars involved in its efforts to collect on subrogated claims is ineffective, and suggested that fuller and better measures should be adopted.

MBA also commented upon the external legal services utilized by the Corporation, and, in particular MPI's practice of not tendering external legal work, or issuing requests for proposal. MBA held that prudency suggests that requests for proposals be issued.

MBA also made submissions with respect to the BPR; specifically, characterizing MPI's PIPP Infrastructure initiative as "mammoth and expensive", suggesting that there was no evident improvement that has resulted in either the overall foundation or structure of PIPP operations.

MBA noted that MPI has expended $22.3 million on the initiative over a number of years, and that while there have been changes in MPI's process there has been little or no benefit arising for claimants - the new system has not introduced any new "help" resources for claimants or changed the claims process for the benefit of claimants.

Presenters

The Board heard from four presenters at the hearing of the Application, namely Mr. Gordon Forman, Ms. Jill Ruth, Mr. Craig Steiben and Mr. Grant Parsons. The presenters are not sworn witnesses, and were not cross-examined. As such, the content of the presentations are not evidence, though the Board, MPI and the interveners received the information presented for consideration.

Mr. Gordon Forman presented to the Board as a representative of the Manitoba Association of Automobile Clubs (MAAC), which represents 62 car clubs in Manitoba. Mr. Forman requested that MPI institute changes to allow a collector plate and a manufacturer plate and that only one plate be required for multiple vehicles.

Ms. Jill Ruth, the President of Headingley Sport Shop Limited, presented to the Board with respect to a variety of issues relating to motorcycle use. Mr. Craig Steiben, also a motorcyclist, presented to the Board with respect to the costs of motorcycle insurance and various challenges faced by motorcyclists in Manitoba. Finally, Mr. Grant Parsons also presented to the Board with respect to motorcycle related issues, including classification issues, rates in Manitoba relative to Saskatchewan and a transferable license plate.

4.0 BOARD FINDINGS

Rates

The Board accepts MPI's 2011/12 proposal for an approximate 4% decrease in written premium revenue (based on 2010/11 premiums) for the Basic Compulsory Vehicle Insurance Plan ("Basic"), to be effective from March 1, 2011. However, while MPI sought to apply the approximate 4% overall rate decrease such as to bring about a 2.1% decrease through changes to Driver Safety Rating and a 1.9% decrease by way of experience adjustments, the Board's approved allocation for the rate decrease is different, as is set out below.

As the Board has stated previously, it considers a number of factors and events when setting rates, including but not limited to:

(a) MPI's actual financial results for the first six months of the current year (the six months ended August 31, 2010);

(b) MPI's revised year-end forecast of Basic net income, as provided during the hearing;

(c) results and prospects for future annual net income for Extension and SRE (recent results have deteriorated, reported due to the recession with respect to SRE and, apparently, due to BPR costs assumed by Extension with respect to Extension);

(d) investment market performance and conditions, together with inflation conditions and expectations;

(e) plans for benefit or coverage changes (no changes are planned for 2011/12 according to MPI);

(f) IFRS-driven and other accounting changes;

(g) anticipated changes to the DSR scale and related matters;

(h) potential changes in the margins underlying PfAD and other financial factors (impacing on the Unpaid Claims); and

(i) take-downs or build-ups of claims reserves.

The Board agrees with MPI that, all factors considered as of the close of the hearing an overall approximate 4% premium reduction is in order.

That said, it is important to consider each of a number of factors, which include: a) information withheld from the Board (that includes forecasts of future annual results for Extension and SRE), b) recent reductions in auto theft and the prospects for further reductions, c) the potential for reduced accident frequency with more attention to road safety and traffic enforcement (bringing the prospect of lower than otherwise incurred claims), d) the Board's level of uncertainty with respect to investment markets and future inflation experience, and e) the potential for "the pendulum swinging the other way" with respect to claims incurred (the possibility of incurred claims exceeding current forecasts).

As previously indicated, the Board has determined that the allocation of the overall 4% premium decrease should be different than that proposed by MPI. For reasons reflected below, under the heading "Wildlife/Livestock-related Collision Claims", the Board accepts the suggestion of CMMG and will alter the allocation of loss costs incurred in single vehicle collisions involving wildlife and livestock; this is expected to reduce motorcycle premiums for 2011/12. And, with respect to the DSR, the Board notes that while the scale provides for vehicle premium discounts for "merited drivers" at DSR levels 1 through 15 and MPI has applied for changes to the DSR scale providing increased discounts, the changes are too modest with respect to "rewarding" the best drivers.

Accordingly, a "stronger" price signal should be provided in the DSR scale. The concentration of the premium reduction for those with the most merits would be more consistent with providing a further incentive to motorists to drive responsibly, and would better address the spirit of the views expressed by both CAC/MSOS and CAA. Therefore, larger discounts are to be provided to those at the “top” of the DSR scale; this approach will provide a proper price signal recognizing the "merits" of very responsible driving.

In particular, the Board will direct changes to the applied for vehicle premium discounts to be reflected in the following DSR scale for 2011/12:

DSR level	Vehicle Premium Discount	
	Applied for:	Board Approved
15	30%	33%
14	29%	30%
13	28%	29%
12	27%	28%
11	26%	27%
10	25%	26%
9	25%	25%
8	25%	25%
7	25%	25%
6	20%	20%
5	15%	15%
4	15%	15%
3	10%	10%
2	10%	10%
1	5%	5%
0	0%	0%

In short, the Board anticipates that instead of an approximate 4% premium reduction being employed as proposed by MPI, the changes to the DSR schedule (Appendix A attached and as per above) will account for approximately 3.5% of the 4% premium reduction.

The remainder of the rate reduction will, in part, occur due to changes in the loss attribution rules, which are anticipated to result in reduced average motorcycle rates, with, currently, uncertain implications for the other major vehicle classes. It is reasonable to assume that the loss attribution change is, basically, a “zero sum game” for the rate level change indication overall.

MPI's proposed premium reductions for private passenger and motorcycle classes will be affected by both the Board-amended DSR scale and the implications of the change in loss attribution. Changes may occur for 2011/12 premiums for the commercial, Public Service, Trailers and Off-Road Vehicle classes, but these changes are not currently known (with respect to trailers and off road vehicles, the changes are expected to be minor, if any). The Board will review the implications of its directions prior to providing final approval of MPI implementing the directions. MPI will be required to provide the Board with its interpretation of the directions provided herein, broken down to differentiate the effects of the DSR scale change from other factors, ahead of implementing this Order. In particular, the Board will require MPI to provide the average premium change for each major class, towards ensuring that MPI has interpreted the directions provided herein as the Board intends.

The Board remains optimistic with respect to the future. The Board is of the view that there are prospects for further future rate reductions with: a) the prospects of further reductions in auto theft (Winnipeg and Manitoba still rate "high" on the national chart relative to other jurisdictions); b) more focus on road safety (recent proposed legislative changes towards bringing about reductions in impaired driving should contribute as well additional steps to be taken by MPI); c) the potential for the DSR scale “motivating” overall “safer driving” over time; d) operational changes at MPI with the implementation of the PIPP infrastructure and other operational initiatives may also increase MPI's efficiency and result in lower future rate indications that would otherwise be the case; and, e) possible improvements in investment yield (which would, if realized, further the prospects of lower rates in the future).

The full DSR scale approved by the Board is found at Appendix A of this Order.

The Board is particularly encouraged as to the prospects of future MPI road safety initiatives (assisted by government and other parties, towards bringing down the terrible toll of annual fatalities, injuries and property damage resulting from motor vehicle accidents) and other developments allowing for future further rate reductions.

This optimism is based on MPI's unique position as a motor vehicle insurer, with the following factors and circumstances in its favour:

a) A legislated monopoly over mandatory Basic coverage in Manitoba;

b) The legislated monopoly provided an infrastructure that has allowed MPI to dominate the Extension market;

c) MPI has been legislated to be responsible for the administration of Driver and Vehicle Licensing in Manitoba;

d) MPI is a Crown Corporation and can obtain or at least seek the co-operation of the Government of Manitoba with respect to its business, particularly given that the Government has assigned a Minister Responsible for the Corporation and that a member of Government is also a member of MPI's Board of Directors;

e) MPI enjoys a secure, online relationship with brokers, who receive: commissions on Basic policies for the full five-year term of a policy renewal, regardless of whether the policyholder visits the broker after the initial visit or not; high (18.5%) commissions on Extension transactions (that comprise 95% of the Extension insurance market given the Basic insurance customer base); a relatively low workload for Basic transactions, particularly given the Streamlined Renewal Process;

f) Manitoba has a “relatively” low population (although Winnipeg represents approximately 60% of Manitoba’s overall population);

g) Manitoba has a fairly low-cost repair environment;

h) MPI has the ability, by its own actions and also through the actions of its sole shareholder (the Province) to influence road safety and traffic enforcement – over the years, the government has amended legislation providing significant contributions to increased road safety;

i) MPI has a large and growing investment portfolio (this, largely due to the “total no fault” PIPP design);

j) There has been low growth in the average PIPP weekly indemnity payments due to low Manitoba CPI increases year-over-year in recent years;

k) MPI's premium revenue continues to increase through upgrade and volume factor increases, even given overall premium reductions; and

l) MPI pays no income tax and has no need to expend large sums towards securing and retaining a policyholder base, given the mandatory monopoly of Basic and the near monopoly with respect to Extension.

Also contributing to MPI's prospects for further lowering premiums in the future is the fact that despite the foregoing, MPI's average premium is not the lowest in Canada; rather there are several cities in Canada where coverage is or may be less costly, including (to the Board's understanding) Regina, Montreal, Halifax, Saint John and Charlottetown. (The Board recognizes that comparisons of motor vehicle insurance levels between jurisdictions are "fraught" with difficulties, given differing mandatory coverage, benefits, population and population density levels and other factors. In the next GRA, the Board anticipates MPI providing more "benchmarking" of Basic coverage and benefits against other jurisdictions and insurers).

The Board is not prepared to allow the cost of the King Street property donation ($1.1 million) to be allocated to Basic for the purposes of rate-setting. In the Board's view, any donation made by MPI must be reviewed carefully on a case-by-case basis, given that the making of donations is not generally within the scope of MPI's mandate (which does not include community development through general donations).

Although the dollar value of the donation is not significant, relative to MPI's finances as a whole, and although the recipient of the building will no doubt do good and valuable work within it, the Board notes that this is an issue of policy and principle. It would not be appropriate for donations of this type, with no relationship to insurance (however worthy the cause), to become a regular or common occurrence within the Corporation. As such, the cost of the donation must be allocated by the Corporation to a non-Basic line of business.

Similarly, the Board is no longer prepared to allow the cost of providing PIPP benefits to extra-provincial long-haul truckers and bus drivers to be allocated to Basic; as such, the annual cost from 2011/12 and on must be allocated by the Corporation to the non-Basic line of business.

While the Board is satisfied as to an overall approximate 4% rate level premium decrease, the Board has ongoing concerns with respect to a variety of issues relative to the prudency of MPI's expenditures, including the following:

- increased annual costs to be paid to Manitoba Health, without any evidence provided to support an almost 50% increase;
- increased costs to be paid to catastrophic injury victims (lacking an analysis from MPI, the Board is unsure if there are other areas of Basic benefits that require amendment);
- increasing operating costs, including general wage increases that exceed the rate of inflation;
- commission arrangements with brokers, not only with respect to Basic but also Extension;
- the magnitude of BPR costs – with significant expenditures being incurred by Extension, weakening Extension retained earnings; and
- an apparent lack of tendering processes (in some instances).

Rebate

The Board stated in its Order 161/09 that:

> *"When the Corporation's RSR balance exceeds or is expected to exceed the maximum of the range, the Board will consider directing that a premium rebate be paid. That said, the Board intends to continue to take into account many factors (as outlined later in this order) before implementing either a premium surcharge or a rebate, and will not be bound by the RSR balance or reliance on a surcharge or rebate as the only possible courses of action".*

The Board hereby orders that a rebate of 10% of 2009/10 vehicle premiums shall be issued by MPI through the issuance of cheques to ratepayers. MPI has proposed rebating by the way of cheque, and has indicated it is prepared for such an issuance. While there are costs associated with cheque issuance that could be avoided by proceeding, at least in part, through other means such as deductions upon renewal, the Board also understands the advantages of "simplicity", consistency (recent rebates have been by cheque), and increased assurance that those receiving rebates will understand that the rebate does not ensure that the next year's premium will be lower. In any case, rebating through renewals is not always possible, some motorists due a rebate will have moved or sold their vehicle(s) or will have already renewed ahead of the actual rebate payment.

On another note, the Board anticipates that, pursuant to *The Insurance Corporations Tax Act*, C.C.S.M., c. 150, section 5, the issuance of the rebate will result in a premium tax savings to MPI. In addition the Board anticipates a savings in broker commissions to MPI as the premiums charged for 2009/10 and on which commissions were paid are now being reduced significantly.

The Board recognizes, however, that it does not have evidence before it regarding the system in place as between MPI and the brokers regarding commission, other than the testimony of the MPI witnesses that there is no "agreement" in place and that the relationship is governed by Regulation, namely the Agents Commission Regulation 93/2009. That noted, the Board observes that section 4 of the regulation provides that no commission is payable in the event of an overpayment by a customer.

The rebate shall be issued, however, only after production to the Board of the following on or before April 15, 2011:

- MPI's external actuary's reviews as at October 31, 2010 and February 28, 2011;
- MPI's unaudited 2010/11 Basic and Corporate financial results, reviewed by MPI's auditor and to be filed with the Board in confidence; and
- an assurance from MPI, in writing, that no material changes to the Basic program are anticipated in 2011, which assurance will be based on MPI's discussions with Government (to be filed with the Board in confidence).

Following the receipt of this information, the Board will review the data and provide its final decision with respect to the rebate. MPI is not to pay the rebate until it has the Board's final approval, which will not be unduly withheld.

The Board continues to have serious concern with respect to road safety in Manitoba, and with respect to what steps will or should be taken in terms of new or enhanced road safety initiatives.

While the Board recognizes that the Province, municipal governments and the police have interests in, if not responsibilities, with respect to improving road safety, it is clear that MPI is in a relatively unique situation, joined by other jurisdictions with mandatory Crown monopolies, to "take action", which it clearly did in the case of auto theft. Leaving aside direct investments in road design and construction, clearly a government responsibility – with significant revenue flow through registration fees and taxation, the Board holds that MPI can and should "play" a much larger role in road safety than it has.

As such, the Board strongly recommends that MPI utilize the remaining 2.9% (of the requested rebate of 12.9% MPI sought) to establish a Road Safety Fund out of the Rate Stabilization Reserve, similar to the approach taken with the Immobilizer Incentive Fund (established by the Corporation previously, and now fully depleted), with the funds to be used to fund enhanced and new road safety research and initiatives. While, with the immobilizer program winding down (from the 2008 model year, federal regulations require factory installed immobilizers, and MPI's program, assisted by provincial legislative action, has greatly increased the percentage of vehicles with immobilizers), MPI's annual "road safety" budget is expected to decline. The Board would prefer the opposite to occur, and that the road safety budget increase, through "investments" in measures assessed to bring down fatalities, injuries and property damage caused by motor vehicles, their drivers and the general environment.

Late Payment Fees

As set out above, the Board denies MPI's request to replace the late fee structure with interest on overdue accounts at the rate of 1.5% per month, compounded daily, which equates to an annualized interest rate of 19½%. This change, if granted, would affect insureds that pay by quarterly time payments.

It is the Board's view that an interest rate is neither as simple, practical nor as effective as a flat late fee, such as the $20 late fee in place currently. Further, the Board does not see logic in implementing an interest rate charge for the owners of large fleets who may be saddled with large interest charges in comparison with potentially lower late fees. MPI may pursue this change at a subsequent GRA, and provide more support to warrant consideration.

Road Safety

Further to the comments expressed above, the Board supports MPI working with governments, law enforcement, and other associations and agencies, including regular interveners to its GRAs, towards implementing measures designed to bring down the frequency and severity of motor vehicle accidents in Manitoba.

The Board notes that MPI has expended significant resources (almost $140 million on the BPR, before considering the new service centres), attention and energy over the last few years with respect to not only its Business Process Review and related initiatives, including the SRP and the internal integration of operations, and recommends that same level of energy be expended on road safety.

One of the objectives referenced by MPI as having its attention has been maintaining (if not increasing) its market share of Extension insurance business; a market that MPI has dominated consistently for many years, largely due to Extension being run off of Basic infrastructure. Now that the Business Process Review is substantially complete, the Board is of the view that MPI should focus its efforts on road safety, just as it did when it worked with the Province and law enforcement to bring down theft counts in Manitoba. The Board is confident that MPI can achieve similar success in road safety as it did with respect to theft claims.

MPI gave evidence at the hearing that it is intending to take part in and/or develop a new Road Safety Vision. In any event, and in the view of the Board, there is now an invaluable opportunity for MPI to conference with other agencies and stakeholders to inform its new vision, with a view to reducing accident frequency and severity, and hence claims costs going forward. All parties to the GRA and many other associations outside the GRA process have a deep and abiding interest in “bringing down the toll” of motor vehicle deaths and injuries.

There are far too many deaths, injuries and motor vehicle accidents occurring in Manitoba, and a concentrated effort to develop new programs and enhance existing programs – the latter including traffic law enforcement by the police – should be capable of achieving success.

Success in such an effort would not only be expected to bring down the degree of human misery associated with motor vehicle accidents but also could be anticipated to allow for further rate decreases – all in the public interest.

With respect to motorcycle safety, the Board recognizes and accepts MPI’s longstanding assertion that motorcycles are inherently dangerous vehicles (due to the dearth of personal protection), but notes that they are permitted in society and, as such, is of the view that whatever can be done to make motorcycle riding safer ought to be done. Actions to be considered should include graduated licensing measures and restrictions on driving sport “bikes” by inexperienced motorcyclists. (The Board also notes that most motorcycle owners also own a car or light truck.)

Cost Allocation Methodology

As was the case last year, the Board found both the updated Deloitte cost allocation methodology report and the evidence of Richard Olfert to be valuable and credible with respect to the completion of a revised cost allocation formula for MPI.

The Board is not prepared, however, to allow the proposed allocations to Basic at Level D of the cost allocation methodology given the lack of information provided to the Board by MPI, despite requests. In particular, the Board was not provided with:

- details of expenditures in DVL operations directly assigned to non-insurance, for comparison and testing purposes;

- details of all BPR project expenses, in order that the costs thereof (including project management costs), and the allocation thereof (among all BPR projects) can be tested;
- a corporate-wide trend analysis;
- a corporate-wide schedule (TI.7.B in the latest GRA), reflecting operating expenses; and
- details of and support for corporate-wide capital expenditures.

The reality continues to be that the Board has not been assured that the costs subject to allocation are prudent and efficacious, and that all of the costs allocated to Basic should be taken into account in setting Basic premiums.

As matters now stand, with its limited jurisdiction and MPI's lack of transparency as to the details of its overall costs (costs that are then allocated by way of formulae), the Board cannot be assured that the costs being allocated to Basic are fair and reasonable or even (though the Board continues to be comforted by MPI's pledge), that the costs incurred for non-insurance purposes have, are, or will be billed to Government.

The Board orders, therefore, that the proposed methodology not be implemented until such time as the Board has had the opportunity to review all underlying expenses to be allocated.

However, the Board will tentatively approve the proposed revised asset and liability allocation methodology, subject to review at the next GRA.

<u>Forecasting</u>

The Board directs the Corporation to improve its forecasting approach through the use of stochastic modelling, going forward.

The word “stochastic” is often used to describe a process involving a random variable, whereby the historical observed results of that process are each considered to be a sample result arising from an underlying probability distribution.

A “stochastic model” is an analytic tool for estimating the underlying probability distribution of that process. This can take the form of modeling results of the process through successive trials (sometimes called Monte Carlo simulations) using a random number generator as input to assumed probability distributions for one or more underlying random variables. The parameters for which are estimated using observed historical experience.

A fairly common application of this tool to insurance is in the modelling of a year’s worth of incurred claims, which is separated into its frequency and severity components, each of which is treated as a random variable to be modeled. Through a large number of successive trials, an estimate of the variability in the potential outcomes for a year’s worth of incurred claims takes form, reflecting the modeled variability of the underlying frequency and severity components.

The value of adding stochastic modeling to MPI’s forecasting of incurred claims will be to provide additional context for its forecasting. This should lead to a more rigorous assessment of the level of conservatism (if any) embedded within the incurred claims forecast for the GRA test year (e.g. where the forecast sits in the estimated probability distribution of potential outcomes for that year, expressed relative to the 50th percentile or estimated median of that distribution), and in due course, the extent to which that level of conservatism has changed from the prior year’s GRA.

MPI has already recognized the value of stochastic modeling in its DCAT investigation, and it is expected that carrying this over to the GRA process will be a natural extension of that work.

Wildlife/Livestock-related Collision Claims

As reflected above, wildlife-related collision claims (including those involving livestock) are common, and give rise to significant annual claims costs to MPI each year. Of course, prevention of these types of claims is a road safety issue which the Board is confident that MPI will address in the course of its new Road Safety Vision, preferably with the input of the numerous other parties with an interest in the topic.

With respect to the allocation of claims costs, the Board is of the view that single vehicle wildlife/livestock related collisions are similar in nature to those involving pedestrians and cyclists, and that the loss attribution rules provided in Board Order 97/05 should be amended to include wildlife-related collisions as well. This allocation is fair and is actuarially sound.

Further, this change meets the test of public acceptability and as well is reasonable. It also provides for consistency and supports the implementation of additional road safety measures for all vehicles, including motorcycles.

Inter-Provincial Trucking

As indicated above, the Board directs the Corporation to allocate PIPP costs associated with claims by inter-provincial truckers to non-Basic lines of business. MPI should also identify the annual operating and claims expense costs associated with these claims, for review at the next GRA.

In the view of the Board, MPI's current practice is neither fair nor reasonable nor actuarially sound, as the costs presently borne by Basic are not related to passenger vehicles or insurance *per se*. Rather, an economic development or trade measure has been taken by Government. As such, while, preferably, government would absorb these costs, an allocation to non-insurance services would at least improve the actuarial soundness of MPI's rate setting model.

Other Comments

A second Order that will provide additional recommendations, commentary and detailed support for the directions and views of the Board set out herein will follow by December 31, 2010. At the GRA, MPI advised the Board that it requires the Board's direction on rates by early December, thus this Order is issued in advance of the more detailed one to follow.

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

5.0 BOARD DIRECTIVES:

BE IT ORDERED THAT:

1. The proposed overall approximate 4% decrease in 2011/12 written premium revenues be approved but the allocation of same is denied;

2. The Driver Safety Rating (DSR) schedule be varied from that proposed by MPI, to that reflected in Appendix A to this Order, to be implemented as of March 1, 2011 for the 2011/12 insurance year;

3. The loss attribution rules provided in Board Order 97/05 for single vehicle accidents involving pedestrians and cyclists are hereby amended to include wildlife/livestock-related accidents, and the change in allocation shall affect premiums for major classes for 2011/12;

4. MPI file with the Board for its review and approval, as soon as possible, revised tables reflecting the Revenue Adjustment Overall impacts by Major Use and Territory – the Board anticipates that changes in average premiums for major classes will be affected by both the revised DSR scale and the change to loss attribution;

5. Neither shall the change in loss attribution be implemented nor shall premiums be established for all vehicle classes such time as the Board has received, reviewed and approved all underlying financial implications related to this Order, and, in particular, the implications of the change in loss attribution;

6. MPI's proposal for a change to an interest rate based late payment fee from a flat rate late payment fee is denied;

7. MPI shall issue a 10% rebate of 2009/10 vehicle premiums in 2011, and by no later than May 31, upon production to the Board of further financial information, as detailed herein, and receipt of the Board's further approval;

8. The cost of the King Street property donation ($1.1 million) shall not be allocated to Basic for the purposes of rate-setting;

9. MPI shall allocate PIPP costs associated with claims by inter-provincial truckers to a non-Basic line of business;

10. MPI shall utilize stochastic modelling of claims incurred for rate-setting purposes; and

11. The proposed revised asset and liability allocation methodology be employed for the next GRA.

THE PUBLIC UTILITIES BOARD

“GRAHAM LANE, CA”
Chairman

“H. M. SINGH”
Acting Secretary

Certified a true copy of order No. 122/10 issued by
The Public Utilities Board

Acting Secretary

APPENDIX A

Driver Safety Rating Vehicle Premium Discounts and Driver Premiums Effective March 1, 2011		
DSR level	Vehicle Premium Discount	Driver' Premium
15	33%	$15
14	30%	$20
13	29%	$20
12	28%	$20
11	27%	$20
10	26%	$20
9	25%	$25
8	25%	$30
7	25%	$30
6	20%	$30
5	15%	$30
4	15%	$30
3	10%	$35
2	10%	$35
1	5%	$40
0	0%	$45
-1	0%	$45
-2	0%	$45
-3	0%	$45
-4	0%	$100
-5	0%	$100
-6	0%	$250
-7	0%	$300
-8	0%	$300
-9	0%	$350
-10	0%	$400
-11	0%	$500
-12	0%	$500
-13	0%	$600
-14	0%	$700
-15	0%	$800
-16	0%	$1,000
-17	0%	$1,200
-18	0%	$1,200
-19	0%	$1,300
-20	0%	$1,500

Appendix B

Glossary of Acronyms and Terms

Application	2011/12 General Rate Application
AOCI	Accumulated Other Comprehensive Income
Basic	Compulsory motor vehicle insurance
Board	Public Utilities Board
Bonus/Malus	Incentives/penalties to encourage good driving
BPR	Business Process Review
CAA	Canadian Automobile Association
CAC/MSOS	Consumers' Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors
CLEAR	Canadian Loss Experience Automobile Rating
CMMG	Coalition of Manitoba Motorcycle Groups
Corporation	Manitoba Public Insurance Corporation
DCAT	Dynamic Capital Adequacy Test
DSR	Driver Safety Rating (intended replacement for the Bonus/malus program)
DVL	Driver and Vehicle Licensing
Extension	Optional motor vehicle insurance
GAAP	Generally accepted accounting principles
Government	Government of Manitoba
GRA	General Rate Application
IBC	Insurance Bureau of Canada
ICWG	Investment Committee Working Group (MPI)
IFRS	International Financial Reporting Standards
IIF	Immobilizer Incentive Fund
MBA	Manitoba Bar Association
MCT	Minimum Capital Test
Monopoly	Policies that can only be sold by one corporation (MPI)
MPI	Manitoba Public Insurance Corporation
MUCDA	Manitoba Used Car Dealers Association

Near monopoly	Description of market domination in a competitive market due to distribution and other advantages by an insurer (MPI)
No-fault	Accident benefits not related to the fault of the driver
OECD	Organisation for Economic Co-operation and Development
Onerous contract	A IFRS-defined term signifying a contract that involves costs in excess of revenues, expressed in net present value
OSFI	Office of the Superintendent of Financial Institutions Canada (federal)
PfAD	Provision for Adverse Deviation (an element of Unpaid Claims)
PIPP	Personal Injury Protection Plan
Province	Government of Manitoba
RA	Risk Analysis
RIB	Retirement Income Benefit
RSR	Rate Stabilization Reserve
SRE	Optional Special Risk Extension motor vehicle insurance
SRP	Streamlined Renewal Process
Stochastic	Randomly determined; having a random probability distribution or pattern that may be analysed statistically, but may not be predicted precisely.
Tort system	Benefits paid take into account the allocation of fault
Total no-fault	Benefit approach that does not account for the fault of the driver
VAR	Value at Risk
WATSS	Winnipeg Auto Theft Suppression Strategy
WPS	Winnipeg Police Service

Appendix C

Appendices

Candace Everard Nicole Hamilton	Counsel for The Manitoba Public Utilities Board
Kathy Kalinowsky	Counsel for Manitoba Public Insurance Corporation
Liz Peters Gerry Kruk	Representing the Canadian Automobile Association (Manitoba Division)
Raymond Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups
Nick Roberts	Representing the Manitoba Used Car Dealers Association
Byron Williams	Counsel for the Consumers' Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors
Robert Dawson	Counsel for the Manitoba Bar Association

Appendix D
Witnesses

For MPI

Marilyn McLaren	President and Chief Executive Officer
Don Palmer	Vice-President Finance and Chief Financial Officer
Ottmar Kramer	Director of Finance & Controller
Richard Olfert	Deloitte LLP
Neil Parkinson	KPMG LLP
Robert Kowalchuk	KPMG LLP

For CMMG

Nicholas Beaudoin	Dion Durrell & Associates Inc.

Appendix E

Interveners

Canadian Automobile Association - Manitoba Division

Coalition of Manitoba Motorcycle Groups

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

Manitoba Bar Association

Manitoba Used Car Dealers Association

Presenters

Gordon Forman
Jill Ruth
Craig Steiben
Grant Parsons