MANITOBA	Order No. 150/07
THE PUBLIC UTILITIES BOARD ACT	
THE MANITOBA PUBLIC INSURANCE ACT	
THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT	November 26, 2007

Before: Graham Lane, CA, Chairman
Leonard Evans, LL.D, Member
Alain Molgat, B.Comm, CMA, Member

MANITOBA PUBLIC INSURANCE: COMPULSORY 2008/09 DRIVER AND VEHICLE INSURANCE PREMIUMS, PREMIUM REBATE, AND OTHER MATTERS.

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Appendices

Glossary of Acronyms and Terms

Basic	Compulsory motor vehicle insurance
Bonus/Malus	Incentives/penalties to encourage good driving
BPR	Business Process Review
CAA	Canadian Automobile Association
CAC/MSOS	Consumer's Association of Canada/ Manitoba Society of Seniors
CMMG	Coalition of Manitoba Motorcycle Groups
DCAT	Dynamic Capital Adequacy Test
DSR	Driver Safety Rating (intended replacement for the Bonus/malus program)
DVL	Driver and Vehicle Licensing
ERP	Equity risk premium (equity investments)
Extension	Optional motor vehicle insurance
GHG	Green House Gas
GRA	General Rate Application
IBC	Insurance Bureau of Canada
IBNR	Incurred but not reported
ICBC	Insurance Corporation of British Columbia
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
OSFI	Office of the Superintendent of Financial Institutions (federal)
PfAD	Provision for Adverse Deviation (an element of Unpaid Claims)
PIPP	Personal Injury Protection Plan
Police	RCMP and Municipal police services
RCM/TREE	Resource Conservation Manitoba/ Time to Respect Earth's Ecosystems
RSR	Rate Stabilization Reserve
SAAQ	La Société de l'assurance automobile du Québec -
SDA	Sustainable Development Act (Manitoba)
SGI	Saskatchewan Government Insurance
SRE	Optional Special Risk Extension motor vehicle insurance
MAR	List of vehicle makes/models of passenger vehicles most frequently stolen
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
VIC	Vehicle Information Centre
WATSS	Winnipeg Auto Theft Suppression Strategy
WPS	Winnipeg Police Service

1.0 EXECUTIVE SUMMARY

This Order arises out of an application filed by Manitoba Public Insurance (MPI) for Basic premium rates and fees for the fiscal and insurance year 2008/09, reviewed at a public hearing held over seven days in October 2007.

The Public Utilities Board (Board) has jurisdiction over the rates for services of MPI's compulsory basic motor vehicle insurance program (Basic), and, although the Board has no jurisdiction over the competitive lines of Extension and Special Risk Extension (SRE), the Board considers the financial position and projections of all of MPI's operating segments, including Extension and SRE, in assessing MPI's overall financial position and prospects.

By this Order, the Board:

a) accepts MPI's proposal for 2008/09 Basic premiums, fees, surcharges and discounts – no overall change from 2007/08; MPI's rate proposal was, as required, actuarially sound and statistically driven, using the methodology tested and accepted by the Board;

b) accepts MPI's proposed insurance use changes for Dealer Trailer and Dealer Moped use;

c) directs a premium rebate of 10%, approximately $63 million rather than the $49.1 million (7.75%) rebate proposed by MPI, to be paid to all policyholders who paid basic compulsory insurance premiums in the 2006/07 insurance year, net of premium refunds and fleet rebates; and

d) rejects MPI's request for a three-year application process.

The direction to pay the third rebate in as many years, and fourth in the last ten, reflects a continuation of favourable MPI financial results (driven in large part by higher than forecast investment earnings), projections of modest future positive results, without any need for overall rate increases, and the Board's overall assessment of MPI's financial strength and prospects.

Notwithstanding continuing opportunities to reduce claims in future years through actions both underway and contemplated (anti-theft initiatives, proposed new Driver Safety Rating (DSR) program, road safety initiatives, etc.), rebates should not be considered the norm.

In fact, the Board's current assessment of MPI's financial prospects for the immediate future suggests a relatively low probability of rebates, following the to-be-issued 2008 rebate, and overall rate reductions - particularly if the current investment mix continues.

The 2008 rebate is based in part on the facts that

a) the aggregate of MPI's Rate Stabilization Reserve (RSR) and the Immobilizer Incentive Fund (IIF) exceeded the Board's target range as at the end of MPI's fiscal 2006/07 year,

b) Extension and SRE retained earnings remain material, and

c) for the first six months of fiscal 2007/08 strong positive results have been reported; the six-month financial results to August 31, 2007 were aided by gains on investment sales, as was the case in fiscal 2006/07.

Leaving aside the rebate, average premiums in 2008/09 for major vehicle classes are to change from the levels of 2007/08, as follows:

a) private passenger vehicles - an average 0.1% decrease ;
b) commercial vehicles – an average 1.2% decrease;
c) public service vehicles – an average 1.2% increase;
d) trailers – an average decrease of 4.7%;
e) off-road vehicles – no change; and
f) motorcycles – an average increase of 9.2%.

For 47% of insured vehicles, rate decreases will occur, most to be less than $50. For 46% of vehicles, rate increases are projected, although only 2.5% of vehicles are to incur increases of more than $50.

In this Order, the Board continues to support MPI's anti-theft initiatives, though expresses concern as to rising numbers of attempted thefts and cases of vandalism. The anti-theft initiative was recently aided by provincial government action that requires vehicles on MPI's Most at Risk (MAR) list to install immobilizers, and by the federal government requiring new passenger vehicles to have factory-installed immobilizers.

The Board estimates that the aggregate cost of theft, attempted theft and vandalism approximates 10% of the average basic premium, and this without considering the additional costs incurred by the provincial government departments of Justice and Health and the general economy. The vehicle theft/attempted theft/vandalism situation in Winnipeg is a continuing blight, one requiring the strong actions now being undertaken.

As to the level and severity of accidents, there has been no reduction despite millions of dollars having been spent on various road safety actions. As in past Orders, the Board expresses concern with decreased levels of traffic enforcement, while looking forward to MPI's plan to replace the existing bonus/malus approach with the DSR.

With potentially improved incentives and larger financial penalties to be associated with driver behaviour, and the potential for increased attention to traffic law enforcement by the police, combined with further success in the reduction of auto theft, longer-term opportunities exist for premium reductions arising out of decreased accidents.

While the Board serves the public interest through its oversight and approval of Basic premiums, significant areas of MPI operations remain "off limits" to Board oversight. Once again, joined by interveners in the recent public hearing, the Board urges government to extend the Board's jurisdiction to include MPI's Extension and SRE divisions; it has become increasingly difficult to assess MPI's situation and prospects with the Board's oversight limited to the Basic program.

Policyholders of Extension and SRE are also policyholders of Basic, and the linkages between the programs suggest benefits would accrue for policyholders from more comprehensive regulatory oversight. Difficulties were again encountered in this year's proceeding related to understanding operating cost trends and other matters, and this strongly suggests that to provide effective regulation for the protection of policyholder interests, broader Board jurisdiction is required.

Through this Order, as has been the Board's practice for several years, the Board makes a number of recommendations to MPI and government intended to lead to improvements in MPI operations. While the Board lacks the jurisdiction to direct MPI to abide by its recommendations, since they are provided in the public interest the Board expects MPI to respond, either through implementation or by way of an explanation as to why a particular recommendation has not been acted on.

The Board's recommendations pertain to a wide range of subjects, from investment matters to environmental sustainability. With respect to the environment, at this year's hearing MPI advised the Board that it would only consider reflecting environmental objectives in its rate making proposals if specifically directed to do so by the government.

The strength of MPI's Basic vehicle insurance program lies largely with its mandatory monopoly, enhanced by a no-fault program design. Recently, and following MPI's absorption of the government's Driver and Vehicle Licensing operation (DVL), MPI introduced a new driver licensing and registration process that provides improved policyholder service.

As to the weaknesses of the program, all are capable of remedy, and include:

a) a continuing and longstanding lack of adequate performance indicators and analyses to allow for a fuller assessment of operating performance:

   Although it is now 13 years since the introduction of the Personal Injury Protection Plan (PIPP), which accounts for approximately 40% of incurred claims, MPI is still unable to provide the Board with comprehensive performance indicators and analyses (other than actuarial data) to allow for trends to be detected and/or understood, and for results to be compared with other no-fault systems.

b) too modest investment diversification:

With a portfolio now in excess of $2 billion and investment income required to offset underwriting losses and restrain premium levels, MPI's investment portfolio remains overly dominated by government and corporate bonds, with less than 25% of the portfolio in equities and a very limited number of other asset classes – the current approach limits expected net yield (the Board is pleased that MPI plans a review of its investment approach by an outside firm).

c) a lack of transparency:

MPI operates not only the regulated Basic program but also Extension and SRE divisions, and, in so doing, employs one personnel complement, a pooled investment portfolio and a common overall administrative infrastructure. An estimated 90% of Basic policyholders hold Extension policies. The road safety programs are operated to benefit all lines of business, and the former DVL operation is now within Extension, and also outside the Board's purview.

d) delays in the development and commissioning of the new DSR System:

MPI initially indicated to the Board that the replacement for the existing Bonus/malus system, originally put in service in 1988, would be reviewed at a special Board hearing in 2007, now to occur in 2008, with implementation planned for 2009.

e) delays in conducting an independent review of MPI's road safety program:

This program exists to drive down accident counts and involves the annual expenditure of millions of dollars;

f) lack of an in-depth review of capital and operating costs, and personnel complement, growth:

MPI increased its 2007/08 capital budget, presented last year to be $15.6 million, by over 85% to $28.7 million - the majority of the increase related to a provision of approximately $8 million for prospective land acquisition costs, but did not provide any supporting details. Capital budgets were repeatedly overstated in past applications, resulting in amortization expenses allowed in rates that were not required.

The support staff complement has increased by 65% over the past ten years, yet no detailed analysis of the reasons for the increase or comparisons with other public plans were provided.

g) a need for a thorough review of cost allocations:

The allocation of costs from the common expense and resource framework to Basic and the other divisions requires a review, particularly with MPI's amalgamation of DVL and with Extension and SRE outside the Board's purview.

For the Board, the largest disappointment of this year's proceeding was MPI's slow progress on many fronts related to the development of analyses and comparative benchmarks.

As the Board does not agree with MPI that a multi-year rate review process to involve only one public hearing each three years would bring about material regulatory savings while maintaining stakeholder support, the Board rejects MPI's request. That said, and being as interested in regulatory cost control as is MPI, the Board is prepared to revisit MPI's interest in a multi-year application process once the major outstanding items related to performance indicators, independent reviews and the Driver Rating System are completed and have been reviewed through a Board public proceeding.

The Board recognizes the efforts of MPI's personnel and acknowledges the difficulty that accompanies the need to prioritize given an array of diverse and significant major projects. Accordingly, nothing in this Order should be construed to suggest that either MPI's policyholders or the public interest are poorly served by the mandatory monopoly that is MPI's Basic no-fault motor vehicle insurance program.

The Board expresses its appreciation of MPI's contribution to the hearing process. Without the co-operation of MPI and its witnesses, the Board's regulation of MPI's rates and service, limited as it is by its current jurisdiction, would be even more difficult.

2.0 INTRODUCTION

Rate Hearing Process

MPI applied to the Board for approval of 2008/09 premiums for compulsory vehicle and driver insurance under its Basic Automobile Insurance Plan (Basic). MPI's operations are divided into two main segments:

a) Basic, that is regulated compulsory insurance, operated as a monopoly, and
b) unregulated and competitive lines of business (Extension and SRE).

MPI reportedly possesses approximately 90% of the Extension market, giving the Corporation what was described at a previous hearing as a "near or virtual monopoly." Though MPI's financial strength and value to consumers are directly linked to the success of the competitive lines of business, the Board's jurisdiction over rates and service is currently restricted to Basic compulsory insurance.

The evidentiary component of the Board's hearing of MPI's application for approval of base rates and premiums charged for compulsory vehicle and driver insurance (Basic) proceeded with a public hearing extending over three weeks in October 2007, concluding with final statements by interveners and MPI. The process followed was pursuant to *The Crown Corporations Public Review and Accountability Act, The Public Utilities Board Act, and The Manitoba Public Insurance Corporation Act*.

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);
d) Manitoba Bar Association (MBA);
e) Manitoba Used Car Dealers Association (MUCDA); and
f) Resource Conservation Manitoba/Time to Respect Earth's Ecosystem (RCM/TREE).

With the exception of MUCDA, all interveners were present throughout the proceeding and provided closing statements. MUCDA advised at the outset of the hearing its intention to monitor proceedings and participate only as it deemed to be required for its interests.

In addition to the interveners there were three individual presentations made, each expressing particular concerns. Presentations are not evidence. Presenters express views not subject to cross-examination, and, thus, the contribution of presenters is constrained. MPI is expected to provide a response to each presenter, with copies to the Board.

This Order provides the Board's findings, recommendations and directions on matters of interest arising in the course of the hearing process, as referenced through oral testimony or filed documentary evidence. Hearing transcripts are posted on the Board's website, www.pub.gov.mb.ca/mpitrans.html, and provide public access to the full record of the hearing, including cross-examination of MPI witnesses, presentations made and the closing statements of all parties to the proceeding. Past recommendations and directions arising out of 2004, 2005 and 2006 proceedings are commented on in this Order.

Exhibits placed on the record of 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/or previous Board Orders, which may be accessed at www.pub.gov.mb.ca.

Background – the Basic Insurance Program

Established by provincial legislation in 1971, MPI's goals include:

1. providing universal mandatory motor vehicle insurance;
2. providing lower premiums than private insurers for, at minimum, comparable coverage and service;
3. returning at least 85% of premium revenue in claims benefits;

4. supporting Manitoba infrastructure through investments in municipal, hospital, education and provincial bonds;
5. providing superior automobile insurance coverage and service;
6. providing responsive, fair, courteous and convenient customer service;
7. providing an adequate Rate Stabilization Reserve (RSR);
8. providing an internal working environment attractive to productive improvement-minded people;
9. treating its employees with respect and fairness;
10. leading initiatives on driver education and training; and
11. addressing risky driving behaviour.

<u>Program Amendments</u>

While the degree of success in meeting its objectives may be subject to discussion, MPI's commitment to meeting them has been annually evidenced through the Board's annual public hearing process.

Since MPI's inception, there have been several amendments made to its offerings, insurance product design and practices. Very early in its existence, the Extension and SRE lines of business were added, along with general property, liability and reinsurance assumed. Following a major loss on operations in 1985/86, MPI sold its general property and liability insurance operation and discontinued accepting reinsurance risks. At about the same time, MPI increased Basic deductibles significantly and implemented the bonus/malus program that it now plans to replace with the DSR. The increase to Basic deductibles was a significant factor in the subsequent growth of Extension gross written premiums, as was, to a lesser degree, the freezing of Basic third party liability coverage and maximum insured value. Beginning in 1988, MPI became subject to the Board's oversight and annual public rate hearings.

More recently, in 2005 the government brought about the amalgamation of DVL operations within MPI, and MPI chose to situate those operations within its Extension division before beginning to integrate the operations with those of its Basic program.

There have also been benefit design changes to Basic, the most significant being the 1994 adoption by legislation of "total no-fault" benefits, an approach initially recommended by Judge Robert Kopstein (Autopac Review Commission, 1988). PIPP provides compensation, medical and rehabilitation benefits to those injured in motor vehicle accidents, regardless of fault.

Subsequently, PIPP was amended to include a retirement income benefit. And, through a Board Order arising out of a special public hearing held in the spring of 2005, the concept of "no-fault" was extended to the attribution of PIPP costs to vehicles involved in accidents, and, later, also by way of an Order, the estimated effect of the Board's no-fault attribution approach to PIPP costs was extended to collision claims, though only with respect to motorcycles.

As to efforts towards beneficially influencing the level and severity of claims, MPI has become increasingly active over the years. Through driver education and training, the introduction of graduated licensing, support provided to the Winnipeg Police Service (WPS) and Manitoba Justice, the immobilizer program, and, now, the planned advent of DSR, MPI seeks to reduce claims, accidents, injuries and fatalities.

Auto theft gradually became a major social and economic problem in Manitoba, and, despairing of the costs borne by policyholders and other social ills, MPI introduced the immobilizer incentive program. Amendments to the program followed:

a) free installations for vehicles considered by MPI to be most at risk of theft;
b) the extension of the MAR list, and free immobilizer installations, to vehicles outside of Winnipeg;
c) by regulation, the requirement for recovered stolen MAR vehicles to have immobilizers installed prior to being returned to service;
d) by regulation, the requirement that imported, used MAR vehicles have immobilizers installed prior to registration;
e) by more recent regulation, the requirement that all MAR vehicles have immobilizers installed prior to registration;

f) the addition of 100 vehicle models to the list of vehicles which qualify for free immobilizers; and

g) an increase to the allowable installation costs from $280 to $300.

In addition, new passenger vehicles and light trucks, model year 2008 and on, are required by the federal government to have factory installed immobilizers.

Through the overall anti-theft program, as gradually amended over the past few years, MPI projects that the number of annual thefts will gradually fall to below 4,000 by 2011/12,. Factors related to driver inattentiveness, such as “leaving the keys in the vehicle”, are expected to result in continuing theft experiences.

<u>2008/09 Basic Application</u>

MPI sought Board approval for:

a) no overall change to premiums for Basic policyholders, though increases and decreases were to vary considerably dependent upon vehicle and driver experience;

b) no changes to the existing driver basic premium fee, the driver merit discount program, the demerit point additional premium, the accident surcharge, service and transaction fees, fees for permits and certificates and the $40 discount for VIC approved after market and manufacturer installed anti-theft devices;

c) insurance use changes for Dealer trailer and dealer Moped use;

d) a rebate in 2008 of 7.75% of Basic premiums paid during the 2006/07 insurance year; and

e) a three-year application process – a general public hearing would take place only once every three years, with a formula to be put in place to determine rates and/or rebates within narrow ranges in non-hearing years and rules will be established to require a hearing given certain specific circumstances.

In developing its rate proposal, MPI continued to employ Board-approved experience based rate adjustments with a 15% cap. The long-standing practice is to limit experience adjustments at the insurance use/territory level to ± 15%. When compounded with classification offsets and other adjustments, larger premium change swings are possible, though in recent years capped at ±20%, with certain exceptions for mopeds, trailers with a value of $2,500 or less, and off-road vehicles.

For all vehicles other than motorcycles, trailers and off-road vehicles, MPI also included in its proposed rates, classification offset adjustments to achieve revenue neutrality arising from rate group adjustments. In its proposal, MPI capped all rate changes at 20% except for mopeds - capped at 25%.

Proposed motorcycle rates continue to be positively impacted by the 2005 Board-directed change in claims attribution; premiums for commercial vehicles were negatively impacted. Though the actuarially indicated average premium for motorcycles suggested an increase of 16.5%, driven by large loss experience, the application of the overall rate making methodology, with caps, restricted the average increase to 9.2% - reflecting the fact that new and more costly motorcycles have reached their actuarially indicated premium level, and do not require an increase for 2008/09. Older and less expensive motorcycles will receive increases of up to 20%.

The insurance portion of the Driver's licence premium was proposed to remain unchanged at $45. The licensing fee component, which is set by and remitted to the Province, also remains unchanged, as will service, transaction, permit and certificate fees.

MPI based its proposal on its forecasts for revenue, claims and operating expenses. While overall rate increases have been infrequent since PIPP was introduced, MPI’s annual revenues from policyholders have continued to increase. Vehicle upgrades and increased numbers of insured vehicles provide MPI with annual revenue increases. From the upgrade and volume factors alone, MPI consistently projects annual premium revenue growth, and this was again the case with this year’s application projecting a combined 4.75% premium increase from these factors.

MPI projected total earned revenues for 2008/09 of $804.3 million (including $17.6 million of service fees and projected investment income of $100.2 million), compared to $803.6 million now forecast for fiscal 2007/08 – the forecast of modest earned revenue growth brought about by projections of reduced investment income in 2008/09 compared to the current year.

The aggregate of claims incurred, claims and road safety expenses, and loss prevention expenses were projected by MPI to increase in 2008/09 to $711.5 million from $684.2 million for 2007/08, an increase of 4.0%. MPI also projected operating, commission, tax and other 2008/09 expenses of $104.9 million, an increase of $4.3 million, or 4.3%, over projected 2007/08 expenses.

After deducting projected expenses from projected 2008/09 revenue, MPI projected a Basic underwriting loss for 2008/09 of $112.3 million, this to be offset by projected investment income of $100.2 million and a further transfer from the IIF of $12.6 million to arrive at an overall projected Basic net income of $0.6 million.

Claims incurred, comprising both the effects of bodily injury and property damage, are MPI's largest annual cost. Claims experience rate adjustments are a major factor in determining vehicle premiums and are developed considering historical data and projecting results into the future, to arrive at the expected cost of claims for all vehicle categories.

Net claims incurred (claims incurred less recoveries including reinsurance) represent results and expectations for several claim categories. No fault accident benefits claims incurred for 2006/07 were $186.1 million; the forecasts for 2007/08 and 2008/09 are $234.4 million and $243.7 million, respectively. Claims incurred with respect to collision coverage were $234.4 million for 2006/07, and are projected to rise to $238.9 million for 2007/08 and $253.0 million for 2008/09. Claims incurred for comprehensive coverage were $75.4 million for 2006/07, and are projected to decrease to $75.3 million for 2007/08 then increase slightly to $76.0 million for 2008/09; actual comprehensive claims incurred for 2007/08, prior to reinsurance recoveries, will be higher than forecast due to the major hail storms of the summer.

Overall, net claims incurred for 2006/07 were $534.9 million, with forecasts for $589.5 million for 2007/08 and $615.9 million in 2008/09. Thus, aggregate net claims incurred are projected by MPI to increase by 10.2% in 2007/08 and 4.5% in 2008/09, 15.1% over the two years ending

February 28, 2009. The increase projected for 2007/08 compared to 2006/07 is largely the result of adjustments made in 2006/07 to claims incurred related to 2004/05 and 2005/06 insurance years' experience that had the effect of reducing the accounting expense for claims incurred in 2006/07.

In its Application, MPI projected Basic program expenditures other than incurred claims costs of:

	Forecast Expenses 2007/08 ($ millions)	**Projected Expenses 2008/09 ($ millions)**
Claims Expenses (Note 1)	72.7	73.9
Road Safety/ Loss Prevention (Note 2)	22.0	21.7
Operating Expenses (Note 3)	43.7	44.7
Commissions (Note 4)	35.6	36.6
Premium Taxes	18.7	20.9
Regulatory/Appeal Expenses (Note 5)	2.6	2.7
Total (Note 6)	$195.3	$200.5

Notes:

1. Overall claims handling costs are allocated between Basic and Extension based on net claims incurred before financial provisions.
2. Now classified as claims expenses, excluding the major program, immobilizers, 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. The Immobilizer program, the largest element of this cost category, is funded from an allocation of retained earnings to offset actual period expenditures.
3. Primarily employee compensation, technology related, telecommunications, occupancy costs and amortization of capital assets. Expenses allocated between Basic and Extension based on direct premiums written.
4. Brokers' commissions, increases primarily due to increases in premiums written, though significant net increase from 2004/05 as a result of the cessation of approximately $6 million in annual commission offset payments by the Province (DVL related).
5. Represents the aggregate of costs associated with the Public Utilities Board process, Automobile Injury Compensation Commission, Crown Corporation Council, Advocate's Office and the Rates Appeal Board.
6. Non-claim expenditures for 2006/07 were $183.3 million. Current outlook for 2011/12 is $221.7 million.

The projected annual rate of increase for non-claims incurred expenditures for 2007/08 through to and including 2011/12 approximates 3.25%, compared to the projected annual rate of increase for Net Premiums Earned for the same period of 4.0%. Annual increases in the Consumer Price

Index were projected by MPI to be in the range of 2.25%, while annual volume and upgrade increase factors would, in aggregate, approximate 4.75%.

An increase in claims expenses of 3.7% over 2006/07 is projected for 2007/08, with a further projected increase for 2008/09 of 1.6%. Operating expenses attributable to the Basic program were projected to increase to $43.7 million in 2007/08 from $38.6 million in 2006/07, and projected to further increase to $44.7 million in 2008/09.

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

a) occupant restraint/seatbelt usage;
b) impaired driving prevention; and
c) unsafe speed.

MPI commissioned studies with respect to claims incurred as a result of failure to use a seatbelt and impaired driving, arriving at estimated annual costs attributable to driver and occupant behaviour of $23 million and $35 million, respectively; a similar study with respect to speed remains to be undertaken.

The largest projected road safety expenditure in 2007/08 relates to anti-theft strategies, with Basic's allocated share for road safety projected at $22 million, of which $14.6 million being related to the anti-auto theft strategies. At the hearing, CAC/MSOS gave considerable attention to seeking amendments to MPI’s road safety initiatives and contended that without an understanding of the cost drivers from a driver behaviour perspective, it would be difficult to set objectives and cost-effective budgets.

At last year’s proceeding, MPI reported on its undertaking to implement a DSR program to replace the current bonus/malus system, forecasting the cost of this initiative at $7.4 million, with an additional $1.7 million to be set aside as a contingency provision. At this year’s proceeding, MPI indicated the estimated cost had increased to $10.3 million (plus an additional $2.5 million contingency) and its implementation would be delayed to 2009, following a special Board hearing on the topic to be scheduled for 2008.

Capital project costs are incurred on a regular basis, and MPI reported that its main capital project is the ongoing Business Process Review (BPR), which includes the aforementioned DSR program. The BPR initiative is projected to involve the expenditure of $39.9 million. Essentially, the BPR is to identify service improvements and cost reductions to be accomplished by amending MPI's current business practices; included in the initiative is the integration of DVL functions within MPI's overall operations.

Capital expenditures are reflected in rate proposals through annual amortization and reduced investment income (cash is required to fund capital projects, reducing the investment base).

The allocation of capital expenditures to Basic for 2007/08 was projected to be approximately $24.2 million. MPI revised its 2007/08 capital budget, presented last year to be $15.6 million, by over 85% to $28.7 million; the majority of the increase related to a provision of $8.1 million for prospective land acquisition costs, but did not provide any supporting details.

Evidence was also noted that capital budgets have repeatedly been overstated, from what ultimately was spent, leading to amortization expenses allowed in rates that was not required.

MPI confirmed at the hearing a continued Basic policyholder annual subsidy of inter-provincial trucking of approximately $1.8 million; truck drivers qualify for PIPP benefits, the costs of which are borne by Basic, that are neither recovered from SRE nor reflected in premiums.

MPI advised being unaware of any feasible steps that could be taken to end the subsidy, which is in place through provincial regulation for general economic development reasons. Claims arising out of injuries sustained by Manitoba-based inter-provincial truckers may be made against either MPI or the Workers Compensation Board (WCB); the law prevents MPI from seeking reimbursement from the WCB.

Multi-Year Rate Review Process

MPI sought approval of a multi-year rate review process, whereby premium rates for 2009/10 and 2010/11 would be based on a set process that would be subject to Board approval. MPI based its proposal on the premise that its forecasting and rating practices had reached maturity, and that its financial stability justified a multi-year rate process. The primary reasons cited by the Corporation for its proposal were:

- MPI's financial strength, inclusive of RSR;
- Rate stability;
- Consistency in rate setting methodology;
- Legislative intent (or provision for);
- A provision for a Board public proceeding given a "substantial change" in MPI's situation or forecasts;
- Costs of annual hearings with respect to dedication of human resources and other expenses;
- Rate stabilization reserve surplus; and
- Precedent (the Board's practices and experience with respect to Manitoba Hydro and Centra Gas).

MPI forecast that with the adoption and implementation of its multi-year rate review process regulatory costs averaging $689,000 annually would be saved, though with the estimate of savings excluding consideration of such costs as the Board may incur in its review of MPI filings for years for which no hearing was to be held.

MPI projected that the time related to 2.5 full-time equivalent staff positions would either be saved or allocated to other pursuits with acceptance of its proposal. Again, the projected "saving" did not provide for MPI staff time that would still be required to respond to any questions from the Board or interveners, the latter through the Board, with respect to the abbreviated application to be filed.

The Corporation proposed the following rules to determine rates and rebates in years for which hearings would be not be required under its multi-year rate review process:

a) if the overall actuarial indicator was between –1% and +1%, MPI would seek no change in overall revenue/rates;

b) if the indicator was between –3% and +3%, the Corporation would modify rates applied for, in the multi-year process, by the full amount of the actuarial indicator;

c) if the indicator was either more than plus or minus 3%, MPI would request the Board hold a public hearing; and

d) if the projected RSR was in excess of the Board's approved target range by more than 5% of Gross Written Premiums, MPI would propose to the Board that the excess be refunded to Basic policyholders.

Pursuant to its multi-year review proposal, MPI acknowledged the potential for changes in premiums of up to ±20%, where no public hearing occurred.

In further support of its proposal, the Corporation proposed making filings with the Board for years in which hearings would not be called of many of the documents that currently support the public hearing process. As well, MPI proposed that it would file such other material as the Board may require. In terms of timing, MPI proposed to file applications on or before July 1 of each year, and seek the Board's approval on or before December 1 of each year, as has been the recent practice.

In summary, MPI's proposal provides for no public hearing for two of each three years, and limited involvement of public interest groups/interveners in those years, though MPI proposed that it would develop the full process in consultation with the Board and interveners.

Sustainable Development

At last year's hearing MPI reported on its efforts to promote sustainability with respect to its internal operations. At this year's proceeding, MPI advised that, in the absence of specific government direction it would not apply for rates reflecting environmental objectives.

However, MPI provided its initial research into the premium concept known as PAYD (Pay-As-You-Drive insurance), which has been employed in several jurisdictions in the western world, and advised it would be reviewing the matter in more depth over the coming year. While, at last year's hearing, MPI had agreed to work with RCM/TREE and an environmental group at the University of Winnipeg to consider the matter, no meetings have been held to-date.

The advantages attributed to PAYD by its proponents include reductions in discretionary driving and accidents, with more equitable premiums for some motorists. The Board suggested that research be undertaken of the PAYD concept in both its 2005 and 2006 Orders, and continues this suggestion.

MPI's Financial Situation and Prospects

In terms of its overall financial situation, MPI reported:

a) For the 2006/07 fiscal year, Basic insurance division net income of $61.7 million after a transfer of $13.9 million from the IIF, compared to the updated forecast of last year of $34.6 million, the result representing an improvement of $27 million over the revised projection. MPI attributed the positive variance to lower than expected incurred claims ($22.6 million) and a reduction in other expenses ($5.6 million) and higher than forecast investment income ($0.9 million).
b) For fiscal 2007/08, the current year still in progress, MPI forecast Basic net income of $31.4 million, including a $12.6 million transfer from the IIF, compared to the forecast net income of $6.5 million at last year's hearing, including an $11.1 million transfer from the IIF. MPI attributed the improvement to projected increases over originally forecast investment income, now forecast to reach $121.9 million, an improvement of over $37.9 million compared to the initial forecast.
c) For fiscal 2008/09, the year to which MPI's application pertains, MPI now projects net income of $0.6 million after a transfer from the IIF of $12.6 million. This projection represents an improvement from the $1.6 million loss projected last year. In recent years MPI results have been considerably better than its forecasts, and the results for the six

months ended August 31, 2007 were better than expected, even after accounting for a major hail storm that affected several areas of the Province.

Through to 2013/14, MPI forecast that reductions in claims incurred attributable to its anti-theft initiative would amount to approximately $202.5 million ($178.5 million related to Basic and $24 million to Extension), with overall annual savings projected then to be in excess of $30 million to continue each year thereafter. In response to a question posed by the Board at last year's hearing, MPI's external actuary, James Christie, agreed that if the annual savings related to the anti-theft initiative proved to be infinite as to duration, the net present value of the initiative would exceed $500 million – roughly ten times the projected cost.

In other words, if MPI's projections for the anti-theft program are fully realized, average premiums for all vehicle classifications may eventually decline, all other factors remaining the same.

Rate Stabilization Reserve (RSR)

Unlike past proceedings, there was little discussion concerning the adequacy of the RSR at this year's hearing. Arising out of the 2005 proceeding, the Board concluded on a methodology to determine the appropriate range for the RSR – when the balance in the RSR was below the range, premium surcharges would be considered; when above, rebates.

In both the 2005 and 2006 proceedings, MPI advanced a methodology denoted as the Minimum Capital Test (MCT) to derive the RSR range, an approach the Corporation had previously rejected and the Board, with the support of interveners, again rejected. In this year's proceeding, MPI reflected the Board's methodology in its proposal for a rebate, although retaining its preference for a MCT-based RSR range. The Board's RSR target range for 2007/08 is $69 - $106 million, an increase from the previously established range recognizing the growth of MPI Basic Gross Written Premiums.

The purpose of the RSR is to protect motorists from premium increases otherwise made necessary by unexpected events and losses arising from non-recurring events or factors. RSR balances as of the end of fiscal periods ending February 28, including the IIF balance, were reported to be or projected at:

a) 2007 - $161.3 million, including the IIF and taking into account a rebate of $59 million;
b) 2008 - $131 million, taking into account the IIF and a proposed rebate of $49.1 million;
c) 2009 - $118.9 million, including the IIF with no rebate contemplated
d) 2010 - $114.6 million, no rebate contemplated and IIF fully depleted;
e) 2011 - $118.4 million, no rebate contemplated; and
f) 2012 - $122.8 million, no rebate contemplated.

Projected RSR balances from 2007 were negatively impacted by MPI's decision not to undertake further transfers of deemed excess retained earnings from Extension and SRE to the RSR, a decision related to the Board's rejection of MPI's preferred MCT-based methodology. If the Board had accepted the MCT-based methodology, the RSR target ranges would have increased substantially, and effectively resulted in no premium rebates in 2006, 2007 or 2008.

Coincident with MPI's change in intention as to transferring competitive line retained earnings to the RSR, and as another stark change from previous applications, MPI declined to file any forecasts of future retained earnings balances related to SRE and Extension. In doing so, MPI cited the Board's limited jurisdiction. Nonetheless, with Basic operations generally designed to "break-even", the ability to rely on Extension and SRE retained earnings to support RSR adequacy remains an important factor in the Board's consideration of whether rebates should be paid.

MPI's rationale for withholding excess Extension and SRE retained earnings from transfer to the RSR was, as explained at last year's proceeding, based entirely on the prospect of rebates. MPI reported a concern that with the Board's lower RSR target range, transfers of Extension and SRE retained earnings would likely result in the Board rebating those transfers to Basic policyholders, an undesirable outcome from MPI's perspective – a perspective favouring higher MCT-based RSR levels.

Historically, the Board has reached its conclusion on the adequacy of RSR based on an evaluation of the specific risks faced by MPI, relying on three analyses:

a) Basic Autopac Operational and Investment Risk Analysis (Risk Analysis); and

b) Value at Risk Analysis (VAR); and

c) an annual Dynamic Capital Adequacy Test (DCAT).

The Board noted in Order 177/99:

> *"… the Risk Analysis should determine how the variances in the relevant costs and revenue items may impact on net income and cause a contribution to, or to draw upon, the RSR…. the risk to be considered is to be the risk that actual costs and revenues will differ from the forecast built into rates because forecast revenues and costs are used for rate setting purposes. Rates should address expectations of the foreseeable costs, and therefore should fail to cover … costs … only when forecasts prove to be inaccurate."*

The Board then stated *"... (the Board) expects that in the future, MPI will … use the methodology and statistical approach contained in the … Risk Analysis…."*

The Risk Analysis is a statistical approach devised by MPI to assess its operational risks; the VAR is also MPI-based and complements the Risk Analysis by providing an assessment of investment portfolio risk. According to the 2001 Risk Analysis, the methodology *"assesses the underlying volatility … (of risk), and then combines them using standard portfolio principles which considers the correlations amongst the variables, in essence including the diversification effect"*.

The Risk Analysis has been amended in the past (Board Orders 154/98, 177/99 and 151/00.

By means of the Risk Analysis, the projected effect of various adverse events, combined or individual, and whether non-recurring (major hailstorm) or continuing (heightened inflation without a quick rate-adjustment reaction by the regulator), is evaluated with respect to the risk of depleting an insurer's capital (RSR and retained earnings in MPI's case).

The Board is on record that it expects the Risk Analysis and Value at Risk analyses will be refreshed as needed by changing circumstances, or at the initiative of MPI or the Board.

At last year's hearing, Mr. Christie opined that of the adverse scenarios tested the most adverse development, one capable of depleting the RSR, would be a sustained 3% increase in the rate of annual inflation that not responded to by timely premium increases. The Board has previously commented that in such an inflationary environment MPI would still be expected not to budget for a loss, and that the Board would be inclined to direct rate increases, thus to avoid Mr. Christie's hypothetical adverse scenario.

MPI's annual audited accounts require opinions not only from the Corporation's independent auditor but also from the independent actuary, who provides an opinion on the Unpaid Claims liability, the major determinant of annual results.

DCAT seeks to identify adverse event scenarios individually, exploring the integration of two or more adverse scenarios only if one or more of the events are considered to be of comparable probability to the base scenario. Typically, the objective is to test adverse scenarios reflecting a consistent plausibility level of about a one in one hundred year event occurrence. Integration of two or more adverse scenarios is usually not performed, and it is impossible to be precise in defining adverse scenarios. As well, DCAT identifies and quantifies the relative effectiveness of alternate corrective actions.

DVL and its Importance to Basic

DVL was a provincial government operation until its 2004 transfer to MPI. DVL administers and assesses fees for the registration of motor vehicles, regulates driver licenses, and manages the Driver Class Licensing Program.

Through this latter program, drivers are required to meet vision, physical ability, road safety knowledge, and skill standards for each class of vehicle. As well, DVL manages the merit-demerit point and accident surcharge models, integral to the present bonus/ malus system of "rewarding" and "punishing" good and bad driving habits, respectively.

Approximately three hundred provincial civil servants became MPI staff members with the DVL transfer. Along with the compensation, occupancy and other operating costs associated with a large workforce with substantial responsibilities came the necessity to upgrade an outdated computer system. In the absence of the transfer, the outdated computer system would have been the Province's responsibility. As it is, MPI is making the necessary upgrading investment, and recently segregated $39 million of Extension retained earnings towards that purpose (the BPR is being funded out of that provision).

On the other hand, though expenses that were the provincial government's are now those of MPI, the Corporation now has the opportunity to undertake work towards modifying the bonus/malus program towards improving future driver behaviour (i.e. to develop the DSR).

Under the terms of the transfer agreement, MPI receives a flat annual payment of $21 million towards the now approximate $30 million annual cost of DVL operations. As the annual payment is not to vary unless additional functionality is added to functions associated with the Province's revenue stream arising out of DVL operations, MPI carries the full risk of inflation and/ or other operating cost pressures.

Currently, and as indicated previously, MPI plans to spend $39.9 million as part of its BPR to, among other things, efficaciously integrate DVL within its overall operations, primarily Basic. Costs related to the decommissioning of DVL's mainframe computers have yet to be determined.

MPI had a choice as to where to locate DVL operations. It chose to establish a new "line of business" within the unregulated Extension line of business, beyond the direct oversight of the Public Utilities Board and the annual rate setting process.

While MPI has located DVL within Extension, Extension and SRE operations are tightly tied to MPI's Basic line:

a) common Board of Directors, management, staff and agent complement;

b) operations founded on and supported by the basic mandatory program infrastructure; and

c) a common investment pool.

MPI's annual operating costs are allocated between Basic, Extension and SRE, though the formula supporting the allocation has not been reviewed recently, to take into account linkages between former DVL functions now performed from the Extension division platform and the Basic mandatory program.

Revenue from DVL operations with respect to driver license fees, the latter shared with MPI, flows to the Province. The financial aspects of the bonus/malus program fall to MPI. Improved driver behaviour that may arise out of the DSR program should lead to reduced accidents and claims, with the prospect of reduced claims incurred in future years.

In the absence of DVL functionality, the ability of MPI to positively impact the frequency of accidents and injuries would be reduced, and MPI's monopoly mandatory basic insurance program would be left compensating the injured and fixing or replacing the "tin". MPI has more important work ahead - that of bringing down the human toll arising out of motor vehicle accidents - and the assumption of DVL responsibility should prove of assistance.

The frequency of motor-vehicle-caused serious injuries and fatalities in Manitoba remains unacceptably high, and a key to reducing the frequency may lie with the new DSR program, and an improved approach to rewarding good driving habits and punishing poor ones.

With national and provincial safety-orientated partners, MPI established targets for fatality and injury frequency for 2010, and the targets represent substantial decreases from recent experience. The following table was provided at last year's proceeding

2010 National Target:
Number of Fatalities and Serious Injuries
Baseline Data and Targets

		1996-2001 Ave. Baseline Figure	2004	2002-2004 Avg.	2004	2002-2004 Avg.	2010 Target
					Progress		
Killed	NF	42.2	37.0	38.7	-12.3	-8.3	29.5
	PE	19.5	30.0	22.3	53.8	14.4	13.7
	NS	91.7	90.0	82.7	-1.9	-9.8	64.2
	NB	98.2	71.0	89.3	-27.7	-9.1	68.7
	QC	758.2	647.0	657.0	-14.7	-13.3	530.7
	ON	874.0	799.0	834.3	-8.6	-4.5	611.8
	MB	108.5	99.0	104.0	-8.8	-4.1	76.0
	SK	158.2	126.0	137.3	-20.4	-13.2	110.7
	AB	387.0	387.0	381.3	0.0	-1.5	270.9
	BC	410.5	430.0	446.0	4.8	8.6	287.4
	YK	8.5	5.0	8.0	-41.2	-5.9	6.0
	NWT	8.8	4.0	6.3	-54.5	-28.4	6.2
Seriously Injured	NF	254.5	179.0	194.7	-29.7	-23.5	178.2
	PE	95.3	85.0	80.7	-10.8	-15.3	66.7
	NS	408.0	311.0	331.3	-2.8	-18.8	285.6
	NB	500.5	387.0	406.3	-22.7	-18.8	350.4
	QC	5571.2	6038.0	5852.7	8.4	5.1	3899.8
	ON	4509.3	3565.0	3922.7	-20.9	-13.0	3156.5
	MB	628.7	548.0	540.7	-12.8	-14.0	440.1
	SK	664.5	520.0	570.0	-21.7	-14.2	465.2
	AB	2936.7	3285.0	3299.7	11.9	12.4	2055.7
	BC	NA	NA	NA	NA	NA	NA
	YK	40.3	26.0	38.7	-35.5	-4.0	28.2
	NWT	29.7	25.0	28.3	-15.8	-4.7	20.8

Manitoba fatalities and serious injuries remain well above the 2010 targets, with no indication that the targets are achievable without substantial new initiatives being in place, such as the DSR.

Overall Effect of DVL on Basic and MPI

Notwithstanding the Board's ongoing recommendation from 2005 that MPI relocate DVL to within Basic, the Corporation reiterated its decision that DVL operations would continue to be housed within Extension, outside the Board's regulatory jurisdiction.

DVL operations are negatively impacting the results expected from both Extension and Basic operations. With recoveries from the Province projected to remain at $21 million notwithstanding inflation and the costs of upgrading DVL software, MPI continues to forecast losses on DVL operations. As first reported in Order 150/05, the DVL transfer also continues to result in an annual loss of $6 million in provincial commission offset payments to MPI's Basic program. This is due to the Province's decision to cease making what were longstanding annual payments to Basic with respect to services performed by brokers and paid for by MPI's Basic division.

In aggregate, the Board understands the overall annual loss to MPI arising out of the DVL transfer and work underway to enhance DVL services now to be in the order of at least $14 million, the equivalent of approximately 2% on the average annual premium. As the Board's jurisdiction does not include Extension, where DVL has been situated by MPI decision, the Board is unable to test that estimate.

Importance of Investment Income

Investment income is a major component of MPI's Basic income, and with annual underwriting losses now the norm, investment income is required and expected to provide for balanced budgets and results. As previously indicated, MPI's investment portfolio is not segregated by line of business but co-mingled, including MPI's pension obligations to its employees; investment income is allocated between the Basic program, the competitive lines and the pension plan on the basis of a long-established formula.

MPI’s investment portfolio now approximates $2 billion, with approximately 75 % in bonds and other short-term investments, and 25% in equities and venture capital. The portfolio’s balance and importance to rates has consistently increased over the years since the introduction of PIPP.

MPI maintains an Investment Committee (of its Board of Directors), an Investment Working Committee (including representatives from Manitoba Finance), and an Investment Department, the latter staffed with investment professionals. These committees and staff provide advice and guidance to the Department of Finance, which has statutorily-based authority over MPI's investments. With respect to the equity holdings, external investment managers engaged by the Department of Finance manage the portfolio segment.

The investment portfolio is increasing due to two major factors:

a) the continued growth in the PIPP component of Unpaid Claims; and
b) annual overall MPI net income, resulting in increased retained earnings and RSR.

PIPP claims have a longer duration than physical damage claims, an average of 9 years, because PIPP claimants receive weekly indemnity and/or retirement benefit payments, and have medical costs covered, for as long as they are unable to return to work as a result of motor vehicle accidents.

There may be a lengthy relationship between claimants and MPI under PIPP, and this stands in contrast to the shorter periods of involvement associated with tort and pre-PIPP accident benefit claims. Under tort, weekly indemnity benefits were low, with the major benefit to claimants being lump sum settlements that generally were received within one year of the accident date – though for some claims settlement came many years later. Thus the change from tort to no-fault largely accounts for the growth in Unpaid Claims and, concurrently, the growth of the investment portfolio.

MPI’s policy requires a 105% ratio of market value to book value of the investment portfolio before MPI may sell securities <u>and</u> record the capital gain in its accounts. MPI reported the expectation of capital gains in each fiscal year. Unrealized losses held within the investment portfolio as of August 31, 2007 were reported by MPI to be in the range of $3.2 million, down from approximately $80.3 million of unrealized gains as of February 28, 2007.

When the 105% market value to book value ratio is exceeded, MPI's policy allows its investment managers to sell securities to realize gains for recording in the accounts. MPI's investment policy does not require MPI to refrain from immediately repurchasing a security sold to realize a capital gain.

MPI reported that 98% of equities sold resulted in gains being recorded in the accounts in 2006/07 were repurchased. Notwithstanding the churning, MPI indicated that its investment managers act in the best interest of the portfolio, buying and selling in accordance with the Corporation's investment policy and its focus on the long term, not simply to enhance MPI's short-term net income.

Generally accepted accounting principles have been amended. MPI now reports its unrealized gains, segregated within retained earnings under the heading "Cumulative Other Comprehensive Income." MPI suggested that the Board ignore "other comprehensive income" in setting MPI's rates.

In response to a Board directive arising out of the 2006 hearing, MPI now forecasts annual returns on its equity holdings at the same rate as it expects from government bonds plus 1.5%, the latter known as the ERP (Equity Risk Premium), that being the "expected" premium over government bond rates anticipated for equity investments. MPI cannot be assured in any one year that equities will deliver a return in excess of government bonds.

Anti-theft Initiative

At the hearing, MPI reported extensively on its anti-theft initiatives, which began in earnest in 2004:

a) Winnipeg Auto Theft Suppression Strategy (WATSS), initiated by the Provincial Auto Theft Task Force; a partnership between MPI, the WPS, the RCMP and Manitoba Justice (Justice) monitors young offenders convicted of auto theft for compliance with court-imposed conditions; and

b) vehicle engine immobilizers, this being MPI's long term strategy towards preventing auto theft.

With respect to auto theft, MPI has current funding arrangements costing $1.5 million annually:

a) a longstanding arrangement with WPS -- support for the Winnipeg Police Service (WPS), auto theft unit at an annual cost to MPI of $550,000; and
b) a funding commitment of $896,000 per year to the provincial Department of Justice with respect to Crown prosecutors and probation officers, recently extended to 2009.

MPI indicated that the combination of police and probation officers' focus on youth offenders was providing results, reducing the number of auto thefts. WATSS is a bridging strategy, suppressing thefts while the installation of immobilizers continues.

With respect to immobilizers, MPI's approach has been modified to adjust for experience. At the outset, the immobilizer program generally involved the commitment of $140 by vehicle owners with MPI contributing a like amount. Now, for vehicles on MPI's "most-at-risk" list (MAR), vehicle owners of the makes and models most stolen in Manitoba receive a free immobilizer, along with the same ongoing annual discounts provided to all after-market immobilized vehicles.

MPI recently added a voluntary program for 102,000 additional vehicles considered to have a risk of theft of 1 in 100. Owners of these vehicles are now eligible to have a free immobilizer installed. All other vehicles remain eligible for a grant of $160 (increased from $140 to recognize an increase of installed cost to $300 per unit); the grant covers all but $140 of the immobilizer cost, which motorists may finance interest free over up to five years. As previously indicated, all immobilized vehicles receive an annual $40 discount on their insurance premiums.

In addition, through regulations of the government:

a) MAR vehicles brought into Manitoba must be immobilized prior to registration;

b) MAR vehicles stolen must be immobilized before being returned to service; and
c) as of September 2007, all MAR vehicles must have an immobilizer installed prior to registration renewal.

Also, with and from the 2008 model year, beginning September 1, 2007, all passenger vehicles and light trucks sold in Canada must have a factory-installed immobilizer.

Presenters

At the annual MPI rate hearing, time is reserved for presentations from the public. Presenters are not restricted as to their topic of interest, though time constraints are placed on presentations and presenters are not sworn in. There is no cross examination of presenters nor are the presentations considered evidence before the Board, though the Board, MPI and the interveners take note of what is said.

Mr. Houghton, a policyholder and motorcycle owner, associated with the CMMG, and a presenter at previous hearings, brought to this year's hearing attention to a number of perceived anomalies and concerns related to MPI's service to motorcycles. Mr. Law, President of the Manitoba Bar Association, raised issues of interest to the Bar Association relative to MPI, and Ms. McGee, the mother of a daughter seriously injured in a vehicle accident, related her experiences with MPI.

The presentations may be accessed from a review of the hearing transcripts, available on the Board's website or at the Board's offices.

3.0 BOARD FINDINGS

PREAMBLE

The Board appreciates the contributions made and cooperation extended by MPI and interveners during the General Rate Application (GRA) process. Over the years, the Board has regulated MPI setting its rates with the assistance of annual rate hearings involving interveners. Interveners have made many contributions to the Board's understanding of MPI and its prospects, and have beneficially affected Board directions and recommendations.

The Board also expresses appreciation to the presenters at this year's hearing who took the time to appear and make their views known. While the Board's jurisdiction is limited and the presentations of presenters do not represent evidence, presenters to the annual rate hearings often bring perspectives on issues of interest not necessarily addressed by the other participants, providing useful perceptions and background information for both the Board and MPI. The information and opinions provided by presenters have in the past led to new topics and areas of public interest being explored by interveners and/or the Board.

At this year's hearing a presenter provided information related to MPI's handling of the outcome of a tragic vehicle accident, reminding the Board of the human dimensions associated with MPI's rate application. MPI must strike the appropriate balance between assuring that claim-related and other operational costs are prudently incurred to restrain premium levels and providing claimants with legislatively established benefits, as it professes to do.

MPI is important to Manitoba, not only for its insurance offerings and service but also with respect to its investments in personnel and arrangements with contracted agencies (insurance brokers and auto body shops). As well, MPI's investment pool is one of the largest in Manitoba, with approximately 20% of the $2.1 billion portfolio devoted to the bond debt of Manitoba's public sector (municipalities, universities, schools, hospitals, and the Province). Absent MPI and its purchases of local debentures, municipal government could expect higher interest rates and increased issuance costs.

The Board's findings reflect the evidence provided through the application process, and provide the Board's determination of the public interest. The Board interprets the "public interest" to include not only financial issues of concern to policyholders, including the financial situation of MPI itself, but also the broader interests of society, inclusive of the objectives established by the legislature for the monopoly compulsory motor vehicle insurance.

ITEMS OF INTEREST

The following matters raised during the proceeding were of particular interest to the Board:

(a) MPI's 2008/09 rate proposal:

The Board will accept MPI's proposal, finding it actuarially sound and statistically driven, and reflective of methodologies developed over a considerable number of years, both accepted and approved by the Board.

(b) MPI's rebate proposal:

The Board will accept MPI's proposal to provide a rebate, but will augment the amount of that rebate from 7.75% to 10% of motor vehicles premiums written in 2006/07

Based on the Board's assessment of the financial picture for MPI, based on reasoning cited elsewhere in this order, the Board has determined that the rebate proposed is less than indicated by the Board's methods of assessing appropriate RSR levels.

(c) MPI's multi-year rate review process proposal:

The Board will reject the proposal, with reasons that address directly the premises upon which the proposal was made.

(d) The RSR and forecasts and issues related thereto:

The Board will confirm its approach to the RSR, as stated in past Orders, and, as well, provide a perspective on MPI's overall financial strength.

(e) MPI's continued cessation of previously assured transfers of deemed excess retained earnings of Extension and SRE to the RSR:

The Board reiterates its previous recommendation, supported by interveners representing the policyholders of MPI, that Extension and SRE be made subject to Board oversight, an action dependent upon government for implementation.

As well, the Board reiterates a prior recommendation that MPI either resumes transferring excess Extension and SRE retained earnings to the Basic RSR, as previously committed and practiced, or provide rebates or premium reductions to Extension and SRE policyholders.

While the Board presently has no jurisdiction over Extension and SRE, it cannot help but be mindful of the spirit of the overall objectives for MPI and the interests of Basic policyholders also holding Extension and SRE policies.

(f) DVL:

The Board reiterates its recommendations of 2004-2006, and seeks that MPI transfer its DVL operations to Basic from Extension, or, in the absence of MPI complying, suggests that government direct the action.

The annual net costs associated with DVL operations should be offset as soon as practical through synergies to be achieved through a BPR and new revenue, expected to arise through the DSR, and from reduced claims incurred, the latter to arise from the expected beneficial impact of the planned DSR on motorist behaviour and experience.

The transfer of DVL to MPI has brought benefits to government, in reduced program support costs, improvements to customer service and the avoidance of otherwise required investments in software and processes. DVL should not end up costing Basic policyholders, either indirectly or directly.

(g) the anti-theft initiative:

The Board is delighted with MPI's report that the number of vehicles with installed immobilizers is much higher than it was at the time of last year's hearing, and is now growing steadily. Combined with new provincial and federal requirements, the immobilizer program is having an impact in reducing auto thefts.

However, the Board shares the concerns of interveners with an apparent upsurge in attempted thefts and vandalism. The "costs" of these illegal activities are placing an unnecessary burden on society.

(h) no evident progress in the development of benchmarks and non-actuarial analyses for PIPP or with respect to operating and administrative costs:

While the Board appreciates that MPI has been absorbed in driver licensing and related service upgrades that have brought improved service and value to policyholders, and that MPI indicates an intention to launch a multi-dimensional initiative to upgrade the understanding of PIPP and its data-based and processing framework, the Board has difficulty in comprehending why, thirteen years after the introduction of PIPP, the Corporation is satisfied with PIPP's performance and cost trends in the absence of adequate non-actuarially based analyses and benchmarks.

Insurers, whether no-fault, tort, public or private, need to understand the cost drivers of their programs, and require the analyses and benchmarks that provide for improved management and regulatory understanding.

In the absence of such analyses and benchmarks, the Board is left with actuarial evidence, audited financial statements and assurances that the Corporation's costs are prudent and reasonable. While there is no current evidence to dispute that MPI's costs are prudent and give rise to just and reasonable rates, the Board is left to wonder how MPI's experience is derived (relative cost of particular injuries in claims, duration of claims, age-related claims incurred data, comparisons of duration and by type injury costs with past experience and other programs, etc.), and to highlight where improvements might be effected to reduce costs and premiums.

The present situation is unacceptable, and MPI's current plans to produce what the Board considers necessary analyses should be revisited with new and earlier timeframes established.

(i) MPI's investment asset mix yields and practices:

The Board notes that while its recommendations for further investment diversification have been responded to over the years, to some degree, the extent of the diversification and the breadth of it remain modest. The Board was pleased to hear of MPI's plan to have an external firm review its investment diversification in 2008.

Despite having "voiced" its concerns for several years, due to the importance of investment yield to policyholders and the present low level of fixed income market yields, with deleterious implications for future rate reduction potential, the Board is obliged to continue to recommend further change.

The Board is also concerned with what appears to be MPI's equity trading to which has generated accounting income. MPI advised that 98% of securities sold producing investment gains recorded in 2006/07 were repurchased - selling only to repurchase involves transaction costs and appears to be driven by a desire to produce accounting net income rather than "economic" gain. MPI's investment policy should be revisited and amended to clarify its intentions, and restrict the sale of securities for any other purpose other than producing real economic gains and reducing risk.

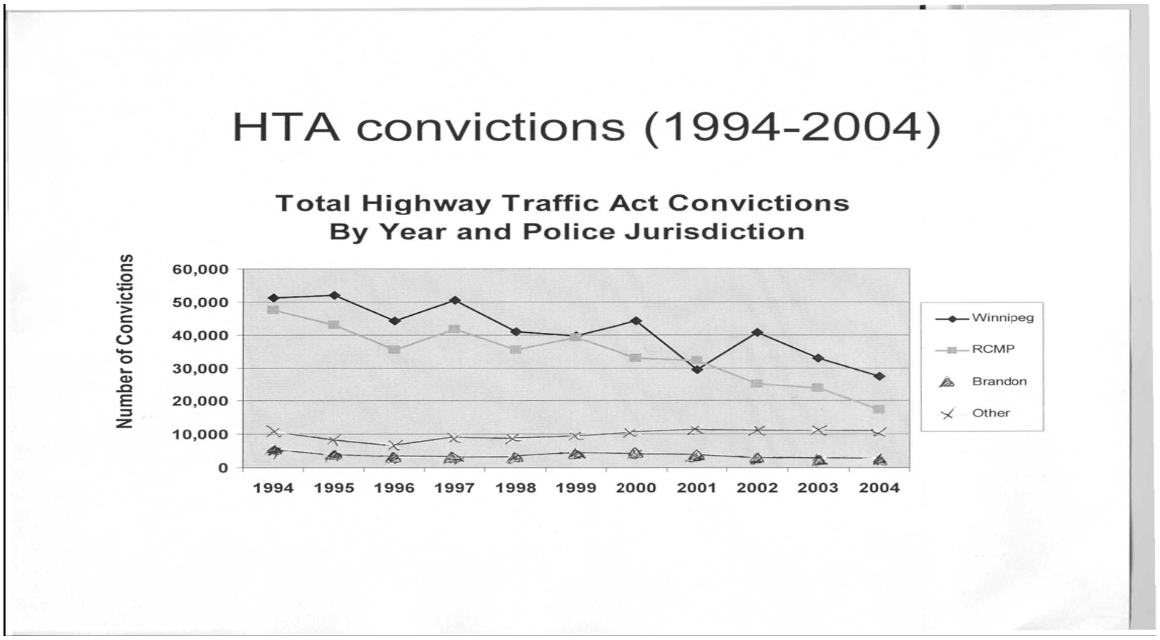
As well, the Board notes that the sales of securities subsequently repurchased generated a material component of the RSR as of February 28, 2007, and is represented in the rebate MPI proposed be paid in 2008. Given that MPI does not agree with the Board's RSR target range, the Board questioned why MPI would undertake such sales/repurchase action, when it should have realized that the gains that would result would increase the RSR and could trigger a rebate.

(j) inter-provincial trucking:

Basic incurs approximately $1.8 million in claims costs every year with respect to inter-provincial trucking PIPP claims by inter-provincial truckers covered by Basic, with no attendant premiums collected, while SRE produces net income from the same base of policyholders, income that is not shared with Basic.

While, as MPI pointed out in the hearing, the PIPP benefits that comprise the "subsidy" are being paid to truckers rather than to trucking companies, while SRE net income arises out of policies taken out and premiums paid by trucking companies, the fact is other than for the legislative provision providing for the payments to injured truckers not being included in the derivation of the premiums, the Board assumes either the trucking industry would have been assessed these costs through higher premiums or other licensing fees for truckers would have been developed.

(k) traffic violation enforcement:



While this chart was provide by MPI for a previous hearing, and though the data is now several years old, the evidence at the hearing did not dispute the story told by the chart, that traffic tickets have reduced dramatically for a number of years now).. The Board suggests there is a link between the continuing high level of accidents and injuries and reduced traffic law enforcement. Red light cameras cannot replace direct traffic law enforcement and the allocation of responsibility for inappropriate driving conduct through the assessment of demerits and surcharges.

The Board continues to recommend that MPI further its discussions with the police and strive to bring about increased traffic law enforcement for the purpose of reducing accidents, fatalities and injuries.

Unless MPI is able to assure the Board that Manitoba's police forces will address what appears to be a dramatic reduction in traffic enforcement, the Board will consider expanding the review of this issue including seeking the participation of law enforcement at next year's hearing. Premium levels are important, but of greater importance to the Board and society is the bringing about of reductions in fatalities and serious injuries. While the Board is unable to be certain that the apparently drop in traffic enforcement is a contributor to the stubborn high levels of accidents, deaths and serious injuries, it understandably wonders.

(l) environmental matters:

To what degree there is interplay between insurance and environmental principles is yet to be determined. The Board notes that MPI awaits government direction while planning further research with respect to PAYD. The Board will recommend that MPI directly engage government in discussion over the potential of employing the rate setting model for environmenal objectives.

SUMMARY OF FINDINGS

The Board finds that:

a) MPI's application for Basic premiums and fees for 2008/09 are acceptable, notwithstanding the Board's discomfort with the lack of cost driver and benchmark statistical analyses;

b) the Corporation's proposal for a multi-year review process is unacceptable;

c) the RSR as at February 28, 2007 was in excess of current requirements, and another premium rebate is to be paid, that of 10% rather than the proposed 7.75%;

d) the retained earnings of Extension and SRE are component elements of MPI's overall financial strength, to be considered in the Board's determination of rates and rebates;

e) the Board's continued concern over MPI's cessation of transfers of Extension and SRE retained earnings to RSR;

f) the anti-theft initiative remains reflective of the public interest;

g) further analyses and comparisons of PIPP, operating costs and personnel complement levels with MPI's past experience and other programs such as Saskatchewan Government Insurance (SGI) and Insurance Corporation of British Columbia (ICBC) are warranted;

h) the to-be-proposed DSR, to replace the current bonus/malus design, is in the public interest and is expected to play a major contributing role in incenting improved driver behaviour and bringing down accidents;

i) MPI's review of DVL, Basic, Extension and SRE operating and administrative functions should be performed as expeditiously as possible, with the twin objectives of improving customer service and restraining if not reducing annual operating costs;

j) DVL operations belong within the Basic program, and that transparency, openness and accountability would be improved with DVL operations within the regulatory review of the Board ;

k) MPI's investment portfolio warrants further diversification;

l) a conflict of interest (perceived if not real) remains with the charge of investment management fees by the Province on the portion of MPI's portfolio invested in Province of Manitoba securities (treasury bills and Province of Manitoba bonds, the Board expresses no similar concern with respect to municipal, university, school and hospital investments);

m) MPI's trading of equities to generate investment accounting gains followed by repurchasing the same securities is not consistent with sound investment practices;

n) the ongoing subsidy to inter-provincial trucking should not continue to be absorbed by Basic policyholders and should be offset by annual transfers of equivalent SRE net income; and

o) analyses of the annual costs to MPI of speeding and other accident factors, collisions with livestock and wildlife, the implications and effect of red light camera on overall driver behaviour in an environment of reduced direct traffic enforcement by police, are required.

FINANCIAL DIRECTION

As MPI's proposals with respect to 2008/09 basic premiums, fees and discounts, were developed in accordance with actuarially sound and statistically driven principles and methodologies accepted by the Board, the Board will approve the proposals.

With respect to MPI's proposal for a 7.75% or $49.1 million rebate, the Board will approve a rebate though direct that it be 10% rather than 7.75%, to be paid to all policyholders who paid Basic compulsory insurance premiums in the 2006/07 insurance year.

Premiums paid are to include all Basic compulsory premiums written during 2006/07, net of any premium refunds and after any fleet rebates.

The estimated $63 million rebate is to be paid separate from the premium collection process and within the first quarter of MPI's 2008/09 fiscal year. To mitigate the risk that a major untoward event depleting the RSR occurs prior to the payment of the rebate, MPI may file an updated forecast with the Board for 2007/08 and 2008/09 upon the conclusion of the 2007/08 fiscal year and before the rebate is paid, and may then request an amendment to the rebate ordered herein.

MULTI-YEAR RATE REVIEW PROCESS

The Board is not prepared to adopt a multi-year rate review process, for the following primary reasons:

a) The Board is not convinced that the approach would result in material savings; and

b) The Board is concerned that the approach would reduce the level of public support for MPI and considers that any loss if such support would not be in the public interest.

While a hearing potentially would be avoided in two of each three years unless certain designated events occurred, the preparation and testing of evidence component of the replacement process would be lengthened and made more complex, and may well lead to increased timing problems and costs.

While the Board accepts MPI's interpretation that legislators have provided for the potential for a three or two-year application, the legislation leaves the decision to adopt a multi-year application approach to the Board. The Board infers that legislative interest in a multi-year premium setting process was based on the premise that regulatory savings could be achieved for the benefit of policyholders without any loss in public confidence in MPI. As matters stand today, neither of these conditions would likely be met by the acceptance of MPI's proposal.

With respect to potential regulatory cost savings, in its initial filing ahead of the hearing MPI posited that savings could amount to approximately $689,000 per year, and allow the re-allocation of 2.5 full-time equivalent staff positions to other duties. In its closing statement at the conclusion of the hearing, MPI noted that its estimates for the saving of personnel time did not include the time spent immediately before and during the hearing by a team of in excess of ten individuals, including the senior administration of the Corporation.

The Board has carefully reflected on MPI's proposal and the detailed listing of steps and filings it would take and provide to assist the Board in determining the reasonableness and fairness of rates in the years that a public process was not undertaken. The Board notes MPI's acknowledgement that its proposal would remove the interveners from the process in those years, and make any involvement of those parties contingent upon Board action.

The Board concludes that its involvement, including that of its advisors, would be significant even in the years a public process would not occur under MPI's multi-year application proposal. The Board would have the full onus of responsibility to assure itself of the appropriateness of MPI's application. To meet that onus, the Board would require significant testing of MPI's submissions, however detailed the design and content of those submissions ended up being after Board involvement in determining the requirements.

As well, even in the intervening years between public hearings, the Board would not be comfortable proceeding to conduct its own review of MPI outside of a public process unless it involved the interveners, and it concludes that, in the end, the costs for MPI and its policyholders may exceed current experience.

In addition, the Board notes that there would be a reasonable prospect for a hearing being held more often than every three years even with the Board's adoption of MPI's proposal. Firstly, there are the indicated conditions under which MPI would call for a hearing. Then there is the potential for major events occurring that would, in the midst of a non-hearing year, lead to a hearing being required. Finally, there is the matter of the Board itself concluding during its examination of MPI filings as well as responses to enquiries made by the Board that a hearing was required, resulting in greater costs and delays.

With respect to MPI's projected cost and personnel savings, while the Board accepts that the participation of MPI in the public regulated process involves the dedication of significant effort, the Board is not convinced that the commitment MPI seeks to reduce would be materially reduced in any event. In the absence of a hearing the requirements of MPI would still be such that considerable time would be required of MPI staff and executives; rate proposals still must be developed and supported, forecasts made and schedules developed, and queries answered.

The Board also notes that no intervener spoke in favour of the multi-year rate review process. The importance of the public process in the case of a mandatory monopoly is apparent. It is likely that even if the Board managed to assure itself of the fairness of an application without a hearing, the loss of public confidence in MPI would be such as to offset any cost gains made.

Over the years, the public process has yielded many benefits for policyholders and MPI. The to and fro of evidence production and examination allows for a spirited annual review that has assisted in the public's support for the program. The Board's counsel, advisors and staff are available to meet with MPI and the interveners to determine if ways can be found to make the existing process more time and cost-effective, through amendments agreeable to all.

Finally, the Board strongly recommends that MPI restrain from raising the prospect of a multi-year rate review in upcoming annual hearings, at least until such time as the outstanding issues raised herein have been dealt with to the Board's satisfaction. The Board is concerned that the reaction of the interveners to a resubmission of MPI's multi-year process proposal may involve expert witnesses, increased hearing days and additional material costs to a process, which, this year, was held in a fairly economical fashion.

KEYS TO LONGER-TERM PREMIUM STABILITY AND/OR REDUCTIONS

Overall, the Board holds that the route to further premium reductions and the potential for improved Basic coverage and/or benefits rest with:

a) an improved understanding of claims development, particularly PIPP experience, as well as of the causal factors of accident frequency and severity;
b) implementation of an effective Driver Safety Rating program to replace the existing bonus/malus system;
c) further success of the anti-theft initiative, and extension of that success to the accompanying societal problems of attempted thefts and vandalism;
d) further improvements to driver education and training, based on further analyses of the causal factors of accidents;
e) completion of the BPR, with that to lead to enhanced operating efficiencies and reduced real, after-inflation, costs;
f) further analyses, along with benchmarking and comparative analyses related to both claims incurred and operating costs;
g) further investment diversification;
h) assurance of the costing of possible future coverage improvements and/or benefit enhancements (going-forward and retroactive effects), and public disclosure of plans through the Board hearing process ahead of implementation;
i) consultation with policyholder and other interest groups between hearings;
j) identification and resolution of policyholder equity issues across existing boundaries between Basic and the competitive lines;
k) improvements in MPI operating transparency, with the transfer of DVL operations into Basic and with Board oversight over Extension and SRE; and

l) direction from government as to whether MPI's rate setting model is to be employed to pursue environmental objectives on a revenue neutral basis, notwithstanding evident potential conflict with standard insurance rate making principles.

The Board's concern with MPI's non-compliance with its repeated directions and recommendations over the past four hearings for cost analyses, benchmarks and comparisons is such that the Board will direct that these matters be attended to and filings made to support next year's rate application, rather than continuing with the voicing of such concerns in the form of recommendations. Understanding the factors that drive costs relates directly to the ability to form a complete and accurate perspective on the adequacy and fairness of rates.

FURTHER RATIONALE - BOARD FINDINGS

Purpose of the RSR

The RSR's purpose is to provide a buffer against an unexpected large loss, actuarial adjustments, major investment downturns, widespread and serious hailstorms, or a bad run of serious injuries or fatalities that, other than for an adequate RSR, would require a rate increase. In short, the RSR is retained to meet the financial impact of events not expected to recur on a regular basis.

The RSR is to hold sufficient funds derived from the net income of past operations, and possibly, as expected to arise in the current year in progress, to allow general premium rate shock to be avoided. The RSR should be large enough to be able to withstand an unforeseen loss of a magnitude not anticipated to occur more than once in 40 years. In the event of a loss of such a magnitude depleting the RSR, possibly even driving it into a deficit, the Board would examine with the Corporation and interveners options to rebuild the RSR, which could include premium surcharges over a period of years. In the past, when the situation warranted it, the Board approved modest rate surcharges for a series of years, just as suggested above.

Other than providing for the RSR of sufficient magnitude to meet most situations, an unforeseen event could require a premium surcharge, with a potential risk of policyholder rate shock. An adequate RSR allows "time" to adjust, providing for the avoidance of rate shock. As to what constitutes rate shock and whether rate shock should always be avoided, the Board is less sanguine. At one time in these annual proceedings, rate shock was considered to be a rate increase of 10% or more. If this is the definition, avoiding rate shock has not always been sought by MPI or realized in practice.

The circumstances and requirements of the time would, of course, be taken into account.

Adequacy of RSR

In recent years, an important matter at MPI rate proceedings has been the topic of RSR adequacy. In 2006, the Board established a RSR range of $65 million to $100 million, to be indexed for increases in future annual increases in gross written premiums.

For this Order, and in considering the potential for and size of a rebate, the Board considered the following major factors:

a) RSR balances, actual, forecast and target range;
b) IIF balances, actual and forecast;
c) 2006/07 six-month actual for Basic and overall MPI net income;
d) Basic net income projections for current and future years;
e) extension and SRE retained earnings, to last audited and interim statement dates available;
f) Extension and SRE net income prospects, MPI has recently withheld future forecasts related to these divisions, leaving only indications gleaned from the six-month year-to-date 2007/08 unaudited statements and report;
g) as available, the net deficit on DVL operations, past and projected, as incorporated or to be incorporated in Extension results as the information indicates in MPI's annual report;
h) MPI's intentions as to Extension and SRE excess retained earnings; in the past the intention was to make transfers to the RSR; more recently the expressed intention has been to the opposite, and some SRE funds set aside for the training of truck drivers (to assist the trucking industry);

i) experience with fluctuations in annual Basic and overall net income, along with causal factors and indicated and available corrective actions;
j) past benefit program design amendments, retroactivity and rate implications;
k) plans or available options raised in public forums for benefit or coverage amendments, if any;
l) investment portfolio balances, yields, and asset mix;
m) unrealized gains or losses on investments, experience and forecast;
n) comprehensive income;
o) reinsurance experience and amendments;
p) Unpaid Claims - growth and variation in actual and projected;
q) Provision for Adverse Deviation (PfAD), experience, changes in factors, and underlying assumptions;
r) PIPP experience, trends and forecasts – adequate non-actuarial analyses and benchmarking not available;
s) budgeting approach; MPI's approach is to budget for break-even operations, before consideration of a rebate; premium increases or decreased are proposed or projected when budget or forecast development suggests either a loss or a sustainable and significant net income;
t) views on RSR target range and methodology;
u) origins, description, history and assumptions of the Risk Analysis, VAR analysis and MCT; the assumption and expectation is that future Risk Analysis and VAR analysis will be performed pursuant to the methodology approved by the Board;
v) understandings as to the purpose of the RSR, and as to actions to occur when the RSR range is exceeded or is below the minimum; and
w) regulatory lag; though potentially short, as the Board regulates only one insurer, MPI, and may accept an application to revise rates at any time between annual applications; regulatory lag is associated with the time it takes MPI to determine a rate change is required and for the

Board to address an application to deal with it, and the implementation of an Order related thereto.

In short, the board's consideration of a 2008 rebate was not confined to whether the RSR was in excess of the target range at the end of MPI's last fiscal year. No one fact or prospect should be grounds for paying a rebate or employing surcharges.

MPI's RSR balance as at the end of fiscal 2006/07 exceeded the Board's restated maximum and the balance of the RSR was projected to increase in 2007/08. In accordance with Orders 150/05 and 156/06, the Board's view of the RSR includes the IIF balance.

As well, MPI's Extension and SRE retained earnings were substantial as at February 28, 2007, exceeding the target established by the MPI Board of Directors. Even with the allocation of funds from Extension retained earnings to an Extension Development Fund – it still a component of Extension retained earnings, both competitive lines appeared to be in a solid financial position. This view is based on actual un-audited six month year-to-date results to August 31, 2007.

The Board makes the assumption that no material extraordinary loss will occur before the current fiscal year-end sufficient to suggest the rebate herein ordered be reconsidered. That said, winter brings a risk of adverse experience related to weather and affected road conditions.

Considering MPI's longer-term forecasts, the only change forecast by MPI was an overall rate reduction to occur in 2011/12. MPI's forecast for the RSR was positive, though no information was made available with respect to overall MPI financial strength, with long-term Extension and SRE forecasts not provided.

So, of continuing concern to the Board and many of the interveners is MPI's determination to hold to its decision to no longer transfer excess Extension and SRE retained earnings into the Basic RSR, at least when the Basic RSR is within the Board's target range.

MPI has not philosophically accepted that the Board's range for the RSR is adequate; in fact MPI commented in its most recent annual report that the Board's range represents an undue risk to MPI's long-term financial stability, an opinion the Board does not share.

The Board questions why MPI, holding the view that the Board risked the Corporation's financial stability with its determination of a lower than MCT-based RSR range, and having determined to cease further transfers to Basic from Extension and SRE retained earnings to "protect against the Board rebating the transfers":

a) began allocating funds for the creation of an Extension Development Fund as well as accessed SRE retained earnings to fund trucker training programs; and

b) sold securities it later repurchased, generating investment gains contributing to the RSR and representing a significant portion of the 2008 rebate it applied for.

The prospects for longer-term premium reductions, not counting on the ever-present possibility of a change of mind by MPI with respect to the transfer of excess Extension and SRE earnings to the RSR, are, similar to last year, reasonably good:

a) based on MPI's own forecasts of declining numbers of non-immobilized vehicles, the Board anticipates that substantial annual savings should arise over time as a result of a progressively more effective immobilizer program;

b) possible future amendments to the investment portfolio's asset mix diversification should provide increased yield opportunities - such amendments may follow MPI's planned independent review of its current approach;

c) reasonable prospects that a DSR will prove more effective than the current bonus/malus approach in bringing down accident and injury levels and to reward good drivers and make meaningful assessments on poor drivers with the hope of changing driving behaviour;

d) MPI's PIPP program review, potentially improved cost control and/or improved and earlier rehabilitation of injured claimants that would follow a more comprehensive understanding of PIPP cost drivers may enhance the Corporation's long-term financial prospects without damaging the overall interest of claimants;

e) MPI's developing research into the causal factors of accidents, to develop awareness of the annual costs of such matters as speeding, impaired driving, lack of driver and passenger restraints, and single-vehicle collisions may assist in road safety program design; and

f) completion of the Business Process Review and the integration of DVL functions within MPI and basic operations - further analyses of operating cost drivers may provide opportunities to, at minimum, slow the growth in operating costs and personnel; and

g) future further road design and road upgrade improvements, to reduce the incidents and severity of collision projects as the twinning of the Trans Canada.

With the stability of the current overall premium level reasonably assured by such factors as the annual vehicle upgrade and volume factors and evidence such as the Baron Report suggesting a degree of stability in PIPP development, and with even an investment portfolio, perhaps too committed to low-yielding bonds, able to generate annual net investment returns in excess of general inflationary factors, the Board observes that changes planned or possible, as indicated above, provide the potential for further reductions in premiums over the long term.

There are risks ahead as well, of course. Ahead of cost analyses, benchmarks and other performance indicators being developed, negative cost trends could worsen further, risking higher premiums. With the dearth of analyses now available to the Board, the Board's optimism, that there is a reasonable prospects that overall future premiums will come down, is constrained.

What also could affect premium levels are further changes to coverage or benefits. MPI has advised of no plans for future benefit or coverage changes of a material nature. It remains the expectation of the Board that any proposals to increase benefits or coverage would be both costed and discussed as a proposal, rather than as a *fait accompli* at a Board hearing. As well, retroactivity with respect to any future material change to benefits affects intergenerational equity, as it involves costs for which no premiums have been collected, placing a burden on the RSR, and should normally be avoided.

MPI began in 1971 without a RSR, fully dependent for financial assurance on its monopoly, as that of a mandatory insurance program, backed by the legislature and government that put it in place in support. Careful actions and monitoring over thirty-five years, with a major program amendment being implemented on the apprehension of a risk of future unacceptable rate increases (the implementation of PIPP), suggest that the RSR is only one mechanism by which unacceptably high premium increases have and can be avoided.

Accordingly, the Board does not agree that the RSR should be so large as to make it a virtual impossibility that a premium surcharge representing a rate shock, even a general rate shock, would ever be required. Both the potential for rebates and premium surcharges play a role in providing the balance between the interests of MPI and its Basic program and the interests of its policyholders.

Finally, the Board again confirms the generally understood principle that goes back to Judge Kopstein's 1988 report: MPI is not to knowingly budget for a loss.

Rebate

While the Board accepts MPI's contention that a rebate should be provided to Basic policyholders, having a different view as what factors the Board should assess in reaching a conclusion as to what is "excess", the Board will direct a rebate of 10% rather than the 7.75% proposed by MPI.

The factors taken into account in reaching this conclusion are outlined above.

Rebate Distribution Methodology

As to the method of distribution for the rebate directed by the Board, and having considered the administrative costs involved, the Board confirms that rebates be provided through a separate process, by separate cheques, rather than by discounting premium billings.

If it were to be paid by discounting 2008/09 rates, the rebate would benefit the policyholders of 2008/09, not those of 2006/07. As well, policyholders may fail to appreciate that the actual premium assessed for 2008/09 had been reduced by a non-recurring rebate; a 2009/10 premium without a rebate may be interpreted an increase in rates, which would not be accurate.

As to the difficulty of providing cheques to past insured, the Board understands that of the over $110 million of rebates paid out over the past two years, only approximately $1 million have yet to be cashed.

Ever-present Risk of Premium Increase

While directing MPI to issue the third policyholder rebate in as many years, the Board cannot assure policyholders that there will never be a time when Basic rates will have to be increased or surcharged.

Unforeseen situations do develop, and even foreseen situations can develop losses such that the RSR would have to be rebuilt through surcharges. This has happened in the past and, more than likely, it will happen again at some point in the future.

Rates

MPI's rate setting methodology is well established and thoroughly tested at these annual rate hearings. The approach continues to be actuarially sound and statistically driven. That said, ensuring fair rates across major classes and rate groups is a difficult task given the reduced credibility associated with low vehicle "populations" in certain categories. The design of the system, which is subject to review at the annual hearings and amendment, a review that includes that of the Board's actuarial advisor, provides sufficient support to allow adequate confidence.

As well, the Board-approved general overall cap of 20% provides continued assurance of reasonable attention to the risks of rate shock. If a future situation suggests that the Board should revisit its cap, the Board will do so after receiving the evidence and views of MPI and interveners.

Jurisdiction

The Board understands that approximately 90% of mandatory Basic policyholders purchase Extension insurance from MPI, and that the vast majority of SRE policyholders are also found in the ranks of the mandatory Basic program. As Professors Hum and Simpson asserted at last year's hearing, MPI has a near or virtual monopoly in its Extension business, and perhaps in the case of SRE as well.

MPI possesses major and dominating advantages in the provincial motor vehicle insurance field – common administrative and claim processing platform, agency network, mandatory monopoly Basic product, economies of scale, no income taxes, ease of customer transactions – all enabled by its monopoly of mandatory Basic coverage.

The Board, though driven by its mandate to seek and determine the public interest, is unable to oblige responses to its questions with respect to the Extension and SRE lines of business. Nor can the Board assure policyholders of overall equitable treatment with Extension and SRE policies, along with DVL operations, behind a wall it cannot breach. Accordingly, given the seemingly stark choice presented to it by MPI at last year's hearing and maintained at this year's, the Board will have to count on MPI also being driven by the interests of its policyholders, while asking the government to change the "marching orders".

The Board again joins CAA, and now CMMG, in recommending to government that the Board's jurisdiction with respect to MPI be expanded to include the Extension and SRE lines of business. The decision to exclude the competitive lines from the Board's oversight was taken years ago, under very different circumstances. At the time, MPI was in the general insurance business as well as the reinsurance assumed field. The degree of its dominance over Extension and SRE competition was not known, nor was the policy issuance technology now in place with the broker network present.

If there are some aspects of the competitive lines that would best not be disclosed through the openness and transparency represented in the Board's hearing processes, ways and means can be found to deal with such, likely limited, situations.

The reality is that MPI dominates the motor vehicle insurance field in Manitoba. While the Board was provided oversight to provide assurance to the policyholders, that oversight has reduced value when the same policyholders are also found in lines of business that the Board cannot survey.

The linkages between Extension, SRE and Basic are tight and likely neither of the competitive lines would be successful without the mandatory Basic program as the foundation. Action on one element of MPI's programming has clear implications for the other elements. If, for example, deductibles were raised for the Basic program, claims incurred would fall for Basic and net income rise, while at the same time there would be an impact on Extension for the buy-down of deductibles. At this proceeding, CMMG noted that the maximum insured value for a passenger vehicle under the Basic program has remained at $50,000, while average vehicle prices have increased significantly, and of course, a motorist can purchase extra protection through Extension.

DVL

The Board reiterates concerns expressed following the last three rate hearings as to the effects arising from the transfer of DVL from the Province, its placement within the unregulated Extension Division of MPI, and the loss of annual commission offset payments from the Province.

From the Board's perspective, only a successful integration of DVL into Basic operations reducing the net costs of DVL operations, and an enhanced bonus/malus system in the form of the DSR program, leading to reductions in injury frequency, will make the assumption of DVL cost effective for MPI in the long term.

The stated objectives for the transfer include customer service improvements, cost savings, increased efficiency and the reduction of Basic/ DVL overlap and duplication. The Board continues to have no difficulty with MPI's plans to bring about the creation of a new model for meeting the licensing, registration and insurance needs of Manitobans. The Board notes the improvements in driver licensing, one-stop insurance, licensing and registration through brokers, and the new driver license format, and expects the DSR to add to the list of major improvements based in large part on the amalgamation of DVL with MPI.

The Board had long supported the amalgamation of DVL and MPI, before it became a reality. Its concerns rest with the cost of the venture, the sharing of those costs during the transition period when cost savings opportunities and synergies are in the development phase and the lack of transparency of the actions underway at MPI.

Also unhelpful was MPI's placement of DVL into Extension rather than Basic. Extension and SRE lines of business are not regulated by the Board, and the avoidance of the purview of the Board, as suggested by MPI in the 2005 hearing as being a motivation for the placement in Extension rather than Basic Insurance. This is not a valid reason for locating a critical component to long-term road safety within a division not subject to the Board's review.

DVL's connection to MPI's unregulated and competitive lines of business, SRE and Extension, is tangential in nature compared to the "cause and effect" relationship and importance to mandatory Basic Insurance operations.

Of major concern to MPI, interveners and the Board, as evidenced at the hearing, is that accidents and bodily injury remain consistent with that of recent years. The Board heard that the incidence of vehicle accident injuries in Manitoba remains among the highest in Canada.

Through actions taken by DVL, accident and injury incidence can be positively affected. The Board and the Interveners have a continuing and strong interest in participating in discussions related to DVL's functions, responsibilities and actions.

There is another problem with the transfer and the location of DVL functions within Extension outside of the Board's purview. The Board understands that administrative savings from the ongoing BPR are expected to eventually arise from operating synergies to be identified through the review. Over time, the costs associated with the DVL functions may become difficult to identify as DVL and Basic functions are integrated. Unless the revenues and costs associated with the functions of the current DVL operation are segregated, it may not be possible to fully know the long-term effect on Basic and Basic premiums.

In short, the Board remains uncertain as to the eventual impact from MPI's BPR project, and is concerned that costs may migrate from Extension into Basic as Basic and DVL functions are integrated, thereby increasing the rate of increase of Basic's annual expenses and placing pressure on premiums. Outside of the purview of the Board, it is possible that some of these cost transfers may already have been affected. MPI advised the Board at this year's proceeding that a major reason for the seemingly rapid increase in Basic personnel is the location of former DVL staff and staff functions within Basic operations, though apparently allocations of costs to reflect a fair sharing of costs between Basic and Extension are being made. To assure itself of this, MPI advised that the Board should rely on MPI's auditor's opinion and assurance by MPI that proper allocations of shared costs are occurring. The Board prefers to make its own assessment.

The Board is of the view, given the integration of DVL as well as other changes internally within the Corporation; the time has come to revisit the cost allocation methodology. The Board will direct MPI to undertake a cost allocation review in consultation with the Board. The Board will expect the review to be presented at the next GRA.

Transparency is clearly not present with the current situation. Accordingly, the Board reiterates its recommendation of the last three years, that MPI place DVL within the purview of the Board and relocate DVL within Basic.

Inter-provincial Trucking

Basic incurs claims expenses of about $1.8 million every year through a subsidy to inter-provincial trucking arising as PIPP claims for inter-provincial truckers, covered by Basic with no attendant premiums collected. While SRE derives net income from the same policyholder base, that income has not been shared with Basic since MPI's decision to cease transfers from SRE and Extension retained earnings to the RSR.

Basic policyholders, dominated by passenger vehicles, should not be subsidizing the trucking industry if, as MPI has consistently advanced, insurance principles are to govern the rate setting model. The apparent ongoing subsidization of inter-provincial trucking should be offset by the transfer of SRE net income arising out of the inter-provincial trucking policyholder segment to Basic.

Provision for Adverse Deviations

While, MPI's forecasts and financial outlooks do not address unforeseen adverse events, MPI projects no need for annual revenue increases beyond those provided through the normal upgrade and volume factors through to and including 2011/12. One of the supports for this outlook is the Provision for Adverse Deviation (PfAD) that forms an important component of MPI's Unpaid Claims liability.

In the valuation of claim liabilities, PfAD increases the net claim liabilities in consideration of the uncertainty around the best estimate assumptions used in the valuation. A best estimate assumption is intended to be equally likely to be high as low. The more that uncertainty exists in these assumptions, the greater the PfAD. The PfAD is determined by application of Margins for Adverse Deviations (MfAD) to components of the valuation. MfAD levels are generally selected within ranges prescribed by Standards of Practice promulgated by the Canadian Institute of Actuaries.

The Board observes that the PfAD continues to increase along with the increasing experience of PIPP; the PfAD balance has more than doubled over the past five years. One of the contributing factors was the actuary's 2005/06 selection of 15% as the claims development MfADPfAD margin, from a range of possible selections of 5% to 15%. This was offset by the discovery of and adjustment for excess claims reserves of $250 million offset in large part by apprehended deficiencies in IBNR (incurred but not reported) provisions within Unpaid Claims.

With respect to the discount rate used in the calculation of Unpaid Claims, the Board observes that while the actuary's selection falls within the range of accepted actuarial practices, the rate is not at a higher yet still acceptable level. If set higher, and given no offsetting other adjustments, reduced Provision for Unpaid Claims and an increased RSR would have resulted.

While the Board does not suggest that the actuary's selections represent inappropriate practices, the Board does observe that MPI has the protection of a conservatively established forecasting methodology. The Board's confidence in the decisions taken with respect to actuarial factors would increase with the preparation by MPI of the long-requested cost analyses and benchmarks.

Anti-Theft Initiative

The risks associated with auto theft are very high, including financial, as to fatalities and injuries, and with respect to social issues. Including attempted theft and vandalism, and MPI's administrative and operating costs, it would appear that almost 10% of the average passenger car's premium is associated with this problem. MPI's auto theft initiative is in the public interest.

Until 2005, MPI had reported steady annual increases in thefts, associated costs and related injuries involved, particularly in Winnipeg. MPI then-advised that the number of thefts was increasing by the month: " *every day of the year approximately 30 vehicles are driven up and down our streets by thieves – most of whom are young, immature and lacking basic driving skills"*.

MPI took action towards bringing the situation under control. MPI properly observed that a successful solution to the theft problem would require the efforts of other stakeholders as well, and correctly noted that the costs of auto theft go beyond finances and injuries:

> *"Hundreds of young at-risk youth are jeopardizing their futures by coming into conflict with the law, incurring criminal records, establishing a law-breaking persona and building up crippling levels of financial debt. The direct and indirect costs to the justice system, the social services system and education system exceed many millions of dollars."*

MPI determined that the most effective end solution would be one involving prevention, and looked to electronic engine immobilizers. While increasing numbers of new vehicles come factory-equipped with immobilizers, and Transport Canada has directed, and now implemented, the edict that from the 2008 model year all vehicles must have them, the majority of registered vehicles are not equipped with them.

MPI began with an offer of a $40 annual premium reduction for vehicles with after-market immobilizers (the discount is "built-in" for vehicles with factory installed units), but the take-up was low and insufficient to bring about a reduction in thefts. Determined to bring down auto theft, MPI introduced an immobilizer incentive program. In effect, through a $140 (now $160) contribution to the purchase and installation of an immobilizer, an interest-free loan for the balance and the continuation of the $40 annual premium credit, MPI provided motorists with the opportunity to equip their vehicles with immobilizers at no cost to themselves.

Since this initial offer also did not bring about the desired number of installations, MPI enhanced the approach by making free immobilizer installations available to owners of "most at risk" vehicles, then extending that offer beyond Winnipeg to include all of Manitoba, and more recently introducing a voluntary program offer of free immobilizers to vehicles with a 1 in 100 chance of theft. As well, the government has further assisted by enacting regulations, first making it mandatory for older cars brought into the Province and cars recovered following a theft to have immobilizers installed prior to registration or returning to the road. Lately, the government has gone further – all cars on MPI's MAR list have to have immobilizers installed to have their registration renewed.

MPI's theft initiative also involves providing financial support of WATTS with the Department of Justice, its Corrections branch and the WPS. Through vigorous enforcement of parole requirements, it is hoped that the worst young offenders can be more effectively managed and future theft experience reduced. The costs of the suppression project are recorded as expenses in the year incurred. The Board agrees with the extension of the program to 2008 and will expect an update be provided at the next GRA on the results and future plans of the program.

The Board applauds all these measures and the commitment that MPI has made to reduce auto theft.

Planned Corporate Reviews

MPI plans to review the operations and design of PIPP, implement a DSR program to replace the bonus/malus system, and continue with the BPR and the integration of DVL and related Basic administrative functions. The Board encourages and supports this work, towards achievement of:

a) customer service improvements;
b) eventual reductions in accident severity and frequency; and
c) reduced operating costs, or, at minimum, restraining future non-claim costs to increases linked to volume and inflation.

The annual rate hearings since the introduction of PIPP have continued to note on-going and significant increases in PIPP claim costs, understandable to some degree as the PIPP segment expands over time (with a reported average duration of 9 years, now into the 13th year of PIPP, some program maturation should be present) and the remaining pre-PIPP tort claims are resolved (very few claims were reported as remaining outstanding). The Board notes MPI's latest indication that it plans to enhance its claims analysis capacity and practices, and therefore encourages and expects it to follow through prior to the next GRA; too much time has passed and PIPP costs are too significant for further delays. MPI suggested its work on analyses and benchmarking would not be complete until 2013/14; while adjustments are always expected, the Board, with respect, finds the lack of an analytical framework and benchmarks twenty years into the program, questionable.

While the Board notes the "Baron Report," filed at the 2005 hearing states, "*The overall estimate (projection of PIPP experience) is remarkably close to the actual experience of MPI under PIPP*", and finds that while it provides a degree of comfort, benchmarks and analyses to guide PIPP management are still necessary.

In Order 148/04, the Board commented on the introduction of red light cameras in Winnipeg, and the fact that violations do not result in demerits and surcharges on the owner's license, though fines are imposed upon vehicle owners under the Highway Traffic Act. All of this continues to suggest a need for the new Driver Safety Rating program. The Board looks forward to a 2008 hearing on the new approach, albeit that being some two years later than initially estimated.

Investment Portfolio and Related Matters

Investment income is a major contributor to MPI's revenue and the restraining of premium levels. With an investment portfolio now exceeding $2 billion, investment performance is a major determinant on MPI's financial results.

Underwriting losses are being incurred on a regular basis, so investment income is very important to policyholders. MPI has no expectation that it will break-even in the future on its overall insurance operations without the investment income from its portfolio. MPI expects annual underwriting losses to continue to be offset by rising investment income. Thus, future investment income is of critical importance to forecasts of future premium levels.

Investment mix -

Investment income is significantly influenced by MPI's asset mix, i.e., the distribution of its investment holdings between various kinds of investments. When market interest rates were high and equity markets stagnant and choppy, there was a stronger argument for fixed income dominated investment portfolio. This is no longer the case. Ten-year Canadian government bonds now offer a market rate of below 4.50%.

The outlook for future investment returns would be significantly and negatively affected if equities and other non-fixed income asset classes continue to comprise less than 25% of the portfolio. The current equities portfolio also contains no foreign stocks other than traded stocks of American companies – and those holdings are restricted to no more than 5% of the overall portfolio. Neither are other international stocks held, nor are many other security classes that often included within large investment portfolios, towards providing adequate diversification.

Accordingly, the Board remains concerned with the prospects for future investment yield in low interest rate environment, and thus suggests a more diversified investment asset mix. The Board notes that at the 2004 rate hearing, MPI reported that it had engaged Mercers, an experienced actuarial and asset mix investment counsellor, to review the asset mix for its large investment portfolio. The Mercers Report recommended that:

(a) the portfolio should be further diversified from the reliance on bonds;

(b) the bond component invested in real return bonds should be increased; and

(c) diversification should include international non-U.S. equities and real estate (Canada's equity market represents less than 3% of the world's security market.)

The Board further notes that MPI rejected the advice of Mercers, offering four reasons:

a) a requirement to invest in Manitoba municipal, hospital and education bonds;

b) lack of experience in non-U.S. foreign stocks and real estate investments;

c) foreign exchange concerns; and

d) its portfolio mix earned more over the then-past five years than that recommended by Mercers.

MPI's portfolio is large enough to allow for it to be invested more in equities and to be diversified into other asset classes, while still meeting its "invest-in-Manitoba" mandate. While the Board accepts MPI's report that other property and casualty insurers have investment asset mixes similar to that of MPI, the Board notes that MPI's PIPP benefit design provides for more assurance of long-term and large investment balances. As well, MPI's Crown Corporation status, and the benefits arising from that, provides solvency assurance not found with private insurers.

The Board fully supports MPI's decision to engage an independent expert to review its investment asset mix in 2008, and looks forward to reviewing that report at the next GRA.

Pooling of pension funds -

MPI's investment portfolio is represented by not only MPI insurance operation liabilities and retained earnings, but also funds related to its pension obligations. The Board suggests that MPI consider segregating pension assets and develop a different asset mix for these assets than the mix for the insurance operations since the durations of pension assets generally exceed those of the insurance operation and, in the opinion of the Board, justify a more diversified asset mix. Left as it is, there is the risk that the annual transfer of investment income from the pooled returns to the pension liability will be proportionately more than earnings allocated elsewhere and most germane, to Basic.

Transactions with a Related Party, the Province

In Board Order 148/04, the Board suggested that MPI discuss with the Province an exemption from the management fee levied by the Province with respect to MPI's investment in provincial bonds and short-term deposits, so as to eliminate one aspect of a perceived conflict of interest.

While the levies are relatively modest, they are based on all securities including the fixed income securities purchased from the Province. The Board continues to recommend that MPI discuss with the Province an exemption from investment management fees related to the portion of the portfolio invested in securities for which the Province is responsible, i.e., provincial treasury bills, Province of Manitoba and/or Manitoba Hydro bonds, and hospital, university and school division bonds (municipal bonds are not covered by this suggestion).

While the sum collected by the Province through the levy on the portion of MPI's portfolio invested in its own security is not overly significant, the avoidance of a perceived conflict of interest through the elimination of the levy is preferred. The Board understood last year, from a report by MPI, that the Province had engaged an outside consultant to evaluate the situation, but received no report from MPI on the results of that study at this year's hearing.

Capital Expenditure Forecast

Capital expenditures are reflected in rate proposals through annual amortization and reduced investment income (cash is required to fund capital projects, reducing the investment base).

The Board notes that the vast majority of capital expenditures impact Basic, with 2007/08 expenditure projected to be approximately $24.2 million. The Board further notes that there have been major variations between what is provided as the forecast for the year of the application with what is ultimately incurred for the year. The Board realizes the nature of the imprecision that marks capital expenditure budgeting, but notes that annual capital budgets have repeatedly been overstated.

In the current year MPI revised its 2007/08 capital budget, presented last year to be $15.6 million, by over 85% to $28.7 million, the majority of the increase related to a provision for prospective land acquisition costs. The Board accepts MPI's assertion that the proposed acquisition is the subject of ongoing negotiations, but is concerned with the major variations and the annual impact on rate applications. To ensure the public interest is served the Board will expect fuller disclosure of capital program plans at future applications.

Claims Handling and Other Operating Expenses

Excluding claims incurred, the costs associated with Basic are: claims expenses (costs related to claims handling services), road safety and loss prevention programs, operating expenses, commissions, premium taxes, appeal costs and regulatory expenses. MPI allocates these expenses between Basic, Extension and SRE based on approved allocation formulae.

The Board continues to recommend that MPI benchmark its expense experience against other public insurers such as ICBC, SGI and Quebec's SAAQ. Benchmarking continues to represent best practice. Through it, informed views may be developed with respect to cost control and other matters such as road safety and loss prevention initiatives. Benchmarking requires not only an awareness of cost experience in other jurisdictions, but also an informed view on the factors driving the differing experiences.

<u>Road Safety</u>

As indicated previously, the prospects for future premium reductions would rise if the incidence and severity of injuries were reduced. Road safety measures are thus the key to premium reductions, and benchmarks need to be developed to allow MPI to effectively assess its road safety actions and plans, particularly with new opportunities now available through the assumption and integration of DVL functions.

The Board, once again, expresses concern with reduced traffic infraction enforcement in Manitoba. MPI is urged to consult with the RCMP, the WPS and the Province to address what appears to be diminished enforcement in the context of persistently high accident and injury claims. The incidence and severity of injuries remain far too high.

In the absence of any indication that improvements will be forthcoming as to traffic enforcement, the Board will consider calling the police, WPS and RCMP, as witnesses for the next MPI proceeding – the matter is vitally important for the board to have to a fuller understanding of issues related to this matter.

MPI reiterated its reports of past hearings that it works to improve road safety by leading or supporting initiatives in partnership with other key agencies. MPI's three main road safety priorities remain:

- occupant restraint usage;
- impaired driving; and
- speeding.

MPI has developed an estimate of the annual claims costs associated with impaired driving ($35 million) and occupant restraint ($23 million), but has yet to develop a similar estimate for speeding. By developing such cost estimates, MPI should be able to establish benchmarks to compare against experience as it amends its programs, including the new opportunities now to arise through its assumption of DVL functions.

The Board is pleased with MPI's ongoing reports that graduated licensing has reduced the incidence and severity of claims of first-time drivers, and anticipates a report for next year's hearing outlining the experience to-date and prospects for the future.

MPI indicated at this year's proceeding that its road safety initiatives relate to education, training and loss prevention, and that road design and upgrading, including such matters as signage intended to reduce accidents, are not its responsibility, but that of the Province and other governments. MPI reminded the hearing that the anti-theft initiatives are loss prevention actions, and within its mandate.

While the Board urges actions by all involved parties to reduce accidents, through measures ranging from a new DSR, to anti-theft initiatives, to graduated licensing, to the twinning of busy major highways, the Board shares MPI's concern that the Corporation does not end up carrying the costs for measures that should be funded by other parties. There may be a thin line that divides some of the matters that could come under consideration, but it is a line that needs to be carefully monitored.

Environmental Matters

The Board is aware that transportation emissions are a major contribution to overall greenhouse gas (GHG) emissions and a recognized danger to the environment. The Sustainable Development Act (SDA) requires all public bodies to pursue environmental objectives, both the Board and MPI included. The Board understands that older vehicles emit multiples of the CO_2 emissions associated with newer vehicles, and that weight and distance driven also are major factors with respect to the volume of emissions.

The Board continues to note that the potential interplay between insurance and environmental principles remains to be understood, and recommends that MPI conduct further research into environmental concepts. As well, the Board recommends that MPI seek direction from government as to whether the rate model should be employed to advance environmental objectives.

INTERVENER POSITIONS:

CAC/MSOS

The Board is in fundamental agreement with CAC/MSOS with respect to several major areas of interest the intervener reviewed in this year's proceeding:

a) budgeting for a loss should continue to be avoided;
b) rebates are not a suitable replacement for appropriate rate reductions;
c) MPI's operating costs and personnel numbers have risen to such an extent that considerable further analysis is required;
d) the importance of effective road safety initiatives, requiring analyses to allow for appropriate resource allocations;
e) the importance of the Board's jurisdiction being extended to Extension and SRE; and
f) the need for more analyses, benchmarking and comparisons with other public automobile insurance programs related to costs.

The Board disagrees with CAC/MSOS with respect to the magnitude of the rebate to be paid in 2008; CAC/MSOS opined that MPI's proposed 7.75%, $49.1 million, was reasonable and should be accepted, and that a 1% overall rate decrease should be directed. The Board is sufficiently confident with respect to MPI's overall position and future prospects to provide for a 10%, approximately $62 million rebate. As to CAC/MSOS' proposed 1% rate reduction, proposed to incent MPI to better restrain operating costs, the Board is satisfied that the directions, recommendations and comments will be sufficient to bring about increased efforts to identify and explain costs and cost trends.

CMMG

The Board shares several of CMMG's perspectives:

a) the significance of the relationship between Extension and Basic operations, as CMMG stated at last year's hearing: "*Autopac extension and SRE customers are also basic customers. If rebates flow from those sources, they will be going to a group of basic customers*";
b) to accompany actuarial data in support of MPI's rate application cost analyses, benchmarking and comparisons with other programs are required to allow for the identification of cost drivers and provide for a comprehensive assessment as to the prudence of costs;
c) as to the importance of monitoring and controlling operating costs, towards assuring program cost effectiveness;
d) motorcycle driver training, education and driving behaviour are important factors in the frequency and severity of motorcyclist injuries and deaths, and suggest MPI should involve CMMG more in consultative discussions as to how to improve accident counts;
e) the approach to wildlife and livestock involved accidents, both with respect to deductibles and cost allocation to major classes, requires re-consideration and discussion;
f) a multi-year rate review process that would provide for one public hearing each three years would not reduce overall regulatory-related costs while reducing stakeholder acceptance with the mandatory monopoly; and
g) the addition of comprehensive coverage for motorcycles within the basic program should be considered.

CMMG noted that with continuing motorcycle premium increases for the lower rate groups, ridership has become less and less affordable, and has resulted in a relatively higher uptake for time payment plans for this group. For CMMG, the overall rate increase for motorcycles should be capped at the current level, defending its position in a variety of ways, both actuarially related and otherwise.

CMMG recommended that serious losses be capped and the excess, as would be the case with single-vehicle accidents involving wildlife and livestock, be pooled. CMMG observed that serious losses make up about 10% of the loss costs for motorcycles, considerably higher than has been the case for other classes, and that for other classes, the significance of serious losses for premium levels is much smaller.

CMMG recommended that as the purpose of averaging serious losses is to reduce rate volatility, on a comparative basis motorcycles are disadvantaged relative to all classes since the instability caused from large losses is greater; instead of averaging serious losses and applying the ten (10) year average, each serious loss should be capped at $500,000, with the excess amounts to be pooled, similar to the treatment of unassigned claims and injury loss transfer amounts.

As to single vehicle accidents, CMMG noted that these include risk factors that are not directly controllable by motorcyclists and other vehicle owners, and that these accidents include collisions with livestock and wildlife. CMMG opined that motorcyclist or any other motorist should not be considered at fault in such accidents, and that the costs associated with such accidents should be allocated across all classification groups.

The Board understands CMMG's perspective, and although it will recommend MPI provide further consideration to the approach to livestock and wildlife collisions, it is not prepared to freeze overall motorcycle rates at present year's levels, nor to change the approach taken with respect to serious losses.

With respect to CMMG's recommendation that MPI investigate and pursue approaches to reduce accidents involving road design and upkeep matters, while the Board accepts that MPI is a suitable party to advance concerns and suggestions with respect to the role these matters play in accidents, the Board accepts MPI's insistence in separating its responsibilities and mandate from those of government departments and agencies. The Board agrees with MPI that MPI's policyholders should not be funding road design, construction or upgrades, as these are responsibilities assigned to other agencies for which tax dollars are collected.

CMMG also raised a number of other recommendations and made wide-ranging comments on MPI operations and actuarial matters, many of these issues were not addressed directly or were addressed but not sufficiently to provide cause for the Board to act during the cross-examination of MPI's witnesses. The Board suggests that CMMG consider returning to these matters in a subsequent hearing if it is or remains unsatisfied with the approaches taken by the Board herein or MPI's responses to CMMG issues through MPI's closing statement to this proceeding.

CAA

The Board shares CAA's concerns with respect to:

a) the Board's limited jurisdiction and a need for increased transparency through the extension of the Board's oversight to include Extension and SRE;

b) concern with respect to the incidences and trend in incidences of attempted theft and vandalism, and supports a review of the approach to Basic deductibles and initiatives to suppress displaced theft attempts; and

c) concern that MPI's "temporary" funding of police and Justice to further the anti-theft initiative may become permanent, and represent basic policyholders supporting expenditures that, it may be argued, should be met by government (which is funded by tax revenues).

CAA opined that *"… we are on the cusp of an impending explosion of vandalism arising from the attempted thefts that will offset any gains made to eliminate the actual theft problem... "*

CAA suggested *"… although (with the immobilizers) we are perhaps solving one aspect of auto theft, we may in fact be masking the entire problem… as we bring down the total number of vehicles available for easy theft as we immobilize them, what is going to be hit in its stead? … vandalism.. carjackings, house break-ins, etcetera will be, no doubt, increasing because of our success in minimizing actual car thefts."*

Finally, the Board shares CAA's concern with the lack of PIPP analyses, benchmarks and comparisons, as with the similar situation with respect to operating costs.

MBA

The Board shares MBA's ongoing reservations about MPI partially funding government programs or undertaking expenses that benefit the government rather than Manitoba motorists, and agrees with MBA as to the importance of particular Board directives of Orders 148/04 and 150/05:

Order 148/04:

> *"Manitoba Public Insurance (is to) develop claim benchmarks for duration, frequency and costs for comparison with its own experience and that of other no-fault jurisdictions and agencies; and file a summary of the benchmarks with the Board."*

Order 150/05:

> *"Develop claims handling, PIPP and other operating benchmarks, perform analyses comparing MPI experience with that of other comparable insurers and file a report with the Board at the next GRA providing the findings."*

Similar to the perspective of the Board and other interveners, MBA held that benchmarking is a useful management practice, and that it "… *enables both the applicant and th(e) Board to formulate informed views on cost controls*."

MBA also noted that benchmarking and comparing MPI's operations to other insurers "… *would help underlying areas where (MPI) could improve its service to Manitobans. MBA suggested that "… the results of such a study could show indeed that MPI has brought its operations well in line with established benchmarks, and that there really is no substantial room for improvement (and if this was the result, it) … deal with many of the complaints (interveners) … ha(ve) asserted over the years*."

MBA reminded the Board of the testimony of MPI's witness Mr. Bedard at last year's hearing, and his comment about benchmarking, that being:

> *"Allowing the system to provide you with data in terms of how you're performing, in terms of the frequency and duration of treatments, length of income replacement based on injury type, the demographics of the type of claimants you're dealing with allowing you to have more data in which to understand your business, understand what the drivers*

> *are and ultimately understand what your cost implications are."*

MBA also noted that at this year's proceeding, its President, Ms. McLaren, reported as follows on the MPI's progress with respect to the Board's previously expressed direction to proceed with benchmarking:

> *"We have not started to collect and report on our data or the data from other no-fault insurers to compare the result of the measure … (and) The measures themselves have been described as best we know about them a year ago … (and) I think the most important consideration for Manitoba Public Insurance is benchmarking itself against its past experience. I think that this is the first thing that would certainly be our priority."*

MBA also observed that through benchmarking *"… (MPI operating) deficiencies could arise and be identified … and that would in turn help (the) Board to curb unnecessary expenses and make other orders and recommendations."*

Both MBA and the Board hold that MPI should develop the benchmarks called for in Orders 148/04 and 150/05. Without benchmarks to test actual experience against, it is difficult to be fully assured that MPI is handling and managing claims in an effective fashion.

MPI's general operations should be cost effective, and the costs should be comparable with those of the other Canadian public auto insurance programs. Without that assurance, there will always be an element of doubt as to whether current premium levels are higher or lower than effective and fair treatment and management should provide.

With respect to MPI's application for a three-year rate application, the MBA submitted:

> *"… a more fundamental reason to reject the proposed multi-year rate application (relates to) .. benchmarking… (MPI) has, year after year failed to comply with an Order of this Board, an Order which the president of this applicant acknowledges to be binding upon the Corporation… (MBA) client expresses concern that if the multi-year rate application were approved, it likely would be three (3) years before (the parties to Board MPI-hearing proceedings) would return to the subject."*

MBA concluded

> *".. (MBA) submits) that where a regulated monopoly has consistently failed to comply with the directives of the Tribunal to which the legislature has delegated oversight responsibility, that monopoly is simply not appropriately entitled to an exercise of this*

Board's discretion in the approval of a multi-year rate application."

The Board will deny MPI's application for a three-year rate application, though for different reasons, not to say that MBA has not made a valid observation and point.

RCM/TREE

The Board continues to support RCM/TREE's interest in the advancement of a sustainable society and economy in Manitoba. The Board agrees with RCM/TREE that the Board, MPI and other Crown agencies are subject to the Sustainable Development Act, and that each body should pursue the achievement of the objectives of that Act.

While the Board joins RCM/TREE in recognizing that MPI's major contribution to sustainability could potentially lie through the employment of its premium-setting model, the Board notes that government direction will evidently be required. As well, the Board joins RCM/TREE in recommending to MPI that it further its research into PAYD concepts and potential applicability.

4.0 IT IS THEREFORE RECOMMENDED THAT MPI:

1. Consult with policing agencies and the Province with respect to remedying evident diminished traffic law enforcement (objective: bring down accident, fatality and injury counts, improve road safety, and further premium equity between drivers with differing driving experiences and approaches) – **continued recommendation from 2006**;

2. Support the Board's recommendation to government that Extension and SRE divisions be brought within the Board's regulatory oversight (objective: enhance transparency and the value to policyholders of Board oversight and processes) – **continued recommendation from 2004, 2005 and 2006**;

3. Transfer DVL operations, including its financial aspects, from the Extension division to Basic insurance operations (objective: recognize the integral nature of DVL operations within basic) **– continued recommendation from 2005 and 2006**;

4. Transfer sufficient net income to Basic to cover the annual subsidy provided by Basic to inter-provincial truckers out of the net income attributed to the inter-provincial trucking policyholder segment of SRE;

5. Seriously consider the further diversification of the investment portfolio, through the terms of reference for the planned 2008 review by an independent expert (objective: improve future yields and establish reasonable forecasts based on equity investment plans) **– continued recommendation from 2004, 2005 and 2006**;

6. Discuss with government a discontinuation of investment management fees to the Province for the portion of the portfolio invested in Province of Manitoba treasury bills and bonds **– continued recommendation from 2004, 2005 and 2006**;

7. Seek direction from government concerning the potential use of the rate-setting model to further environmental objectives, inclusive of the reduction of GHG emissions (objective: determine the extent of MPI's contribution to environmental sustainability) **– continued recommendation from 2006**;

8. Continue consultations with CMMG concerning motorcycle coverage – particularly the potential inclusion of comprehensive coverage for motorcycles within Basic, and, as well, classification and road safety issues (objective: enhancement of relationship between MPI and major policyholder group) **– continued recommendation from 2005 and 2006**);

9. Review hearing presentations, and provide responses to the presenters with copies to the Board;

10. Segregate investment assets pertaining to employee pension plan, and consider a separate investment policy for pension assets, providing for diversified asset classes and mirroring the investment practices of the Civil Service Superannuation Fund which manages MPI employees' pension fund contributions;

11. Review the approach of selling securities to generate investment gains only to repurchase the identical securities; and

12. Review the current approach to livestock and wildlife collisions and related incurred claims, towards considering whether Basic deductibles should be required or reduced, and/or whether claims incurred should be pooled rather than allocated directly to the class of the vehicle involved.

5.0 BOARD DIRECTIVES:

BE IT ORDERED THAT:

1. MPI's proposed Basic motor vehicle premiums and fees for the Basic Automobile Insurance Program for the year ending February 28, 2009 be and are hereby approved.

2. The RSR range for Basic Insurance for ratesetting purposes be reset to $72 million to $109 million for the 2008/09 fiscal year, with the IIF to continue to be a component of RSR for purposes of assessing RSR adequacy;

3. MPI provide a premium rebate of 10% to all policyholders who paid Basic compulsory insurance premiums in the 2006/07 insurance year - premiums paid for 2006/07 is defined to be all Basic compulsory premiums written during 2006/07, net of any premium refunds and after any fleet rebates (the rebate is to be paid separately from the premium collection process).

4. MPI proceed with the development of claims incurred and operating cost analyses, benchmarks and comparisons, and file a report with the Board on or before February 28, 2008 as to its progress towards this goal.

5. MPI undertake a cost allocation review in consultation with the Board and file the results of the review at the next GRA.

6. MPI submit to the Board the proposed terms of reference for the planned 2008 Assets Allocation Review (pertaining to investment diversification);

7. MPI include details of planned capital expenditures in future rate applications, including the specifics of the intended acquisitions including commentary on significant variances from previous plans;

8. MPI provide an update to the Board on or before June 30, 2008 on:

a) Business Process Review and Driving Safety Rating program development;
b) progress related to auto-theft initiatives;
c) progress related to the planned expert independent reviews of investment portfolio diversification and driver education and training;
d) responses to each recommendation itemized in the “recommendations” section of this Order; and
e) an update as to MPI’s consultations with the government with respect to:
   i) the role, if any, to be played by environmental objectives in rate making;
   ii) the Province’s fees with respect to MPI’s investments in the Province’s securities;
   iii) the location of DVL operations within Basic; and
   iv) oversight by the Public Utilities Board of Extension and SRE.

The Public Utilities Board

“GRAHAM F. J. LANE, C.A.”
Chairman

“G. GAUDREAU, C.M.A.”
Secretary

Certified a true copy of
Order No. 150/07 issued by
The Public Utilities Board

Secretary

Appendix A

Appearances

Walter Saranchuk, Q.C. Candace Everard	Counsel for The Manitoba Public Utilities Board
Kevin McCulloch	Counsel for Manitoba Public Insurance Corporation
Michael Mager Donna Wankling	Representing the Canadian Automobile Association (Manitoba Division)
Raymond Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups
Byron Williams	Counsel for the Consumers' Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors
Peter Miller	Resource Conservation Manitoba/Time to Respect Earth's Ecosystem
Robert Dawson	Counsel for the Manitoba Bar Association
Nick Roberts	Representing Manitoba Used Car Dealers Association

Appendix B

Witnesses for MPI

Marilyn McLaren	President and Chief Executive Officer
Barry Galenzoski	Vice-President, Corporate Finance (retiring)
Keith Ward	Executive Director, Service and Safety Operations
Don Palmer	Vice-President Finance and Chief Financial Officer
Ottmar Kramer	Director of Finance & Controller

Appendix C

Interveners

Canadian Automobile Association - Manitoba Division ("CAA")

Coalition of Manitoba Motorcycle Groups ("CMMG")

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

Manitoba Bar Association ("MBA/CBA")

Manitoba Used Car Dealers Association ("MUCDA")

Resource Conservation Manitoba/Time to Respect Earth's Ecosystem ("RCM/TREE")

Presenters

Danna McGee (assisted by Janet Jardine)

Michael Law, President, Manitoba Bar Association

Doug Houghton