M A N I T O B A

Order No. 157/12

THE PUBLIC UTILITIES BOARD ACT

THE MANITOBA PUBLIC INSURANCE ACT

THE CROWN CORPORATIONS PUBLIC

REVIEW AND ACCOUNTABILITY ACT

December 3, 2012

Before: Régis Gosselin, B.A., C.G.A., M.B.A., Chair
Karen Botting, B.A., B.Ed., M.Ed., Member
Anita Neville, B.A. Hons., Member

MANITOBA PUBLIC INSURANCE: COMPULSORY 2013/14 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

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EXECUTIVE SUMMARY

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

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

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

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

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

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

March 31, 2013. MPI will be required to meet with Board staff and provide a scope for the Road Safety Research Technical Conference for the Board's approval on or before January 15, 2013.

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

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

1.0 THE APPLICATION

The Corporation filed an Application with the Board on June 15, 2012 for approval of premiums to be charged with respect to compulsory driver and vehicle insurance (Basic Insurance), for the fiscal year commencing March 1, 2013 and ending February 29, 2014 (fiscal 2014) in accordance with the provisions of *The Crown Corporations Public Review and Accountability Act* and *The Public Utilities Board Act*.

The premiums generated through the Application filed by the Corporation would take effect on March 1, 2013, and were based on no overall change in vehicle premium average rate level.

The vehicle premium rates put forward by MPI included experience based rate adjustments largely ranging from -15% to +15%, and based on adjustment rules. In addition, the Corporation combined classification offsets for all vehicles except off-road vehicles, to achieve revenue neutrality and implementing rate group, rate line and classification changes for 2013.

The Corporation applied for the following vehicle premium discounts and driver license premiums effective March 1, 2013:

a) No change to vehicle premium discounts; and

b) Increase in driver license premiums for DSR demerit levels -1 to -20 to a maximum of $2,500.

In this application, major use classifications receive different vehicle premium impacts as follows:

Major Class	**Overall Percentage Change**
Private Passenger	0%
Commercial	- 5.0%
Public	+ 3.3%
Motorcycle	- 0.2%
Trailers	+ 6.3%
Off-road vehicles	+ 14.3%

These vehicle premium impacts give rise to an overall rate level change of 0%.

Pursuant to the Corporation's rate design, and as set out above, an overall 0% rate change does not translate into static rates for all motorists. Rather, the rate change proposed by the Corporation would result in a rate decrease for 42.3% of vehicles, no change in rates for 2.3%

of vehicles, and a rate increase for 55.5% of vehicles. Details of the dollar change impact by number of vehicles within the overall fleet are as follows:

$ Change	# of Vehicles	% of Vehicles
Decrease of $200 or more	266	0.0%
Decrease of $150 to $200	1,177	0.1%
Decrease of $100 to $150	6,817	0.7%
Decrease of $50 to $100	51,773	5.1%
Decrease of $20 to $50	136,523	13.4%
Decrease of less than $20	233,975	23.0%
No change	23,154	2.3%
Increase of $1 to $20	359,291	35.3%
Increase of $20 to $50	162,764	16.0%
Increase of $50 to $100	42,166	4.1%
Increase of $100 to $150	446	0.0%
Increase of $150 to $300	218	0.0%
Increase of $300 or more	637*	0.1%
GRAND TOTAL	1,019,207	

*all Taxis

Many of the vehicles experiencing increased rates are off road vehicles and trailers.

With respect to Drivers' License Premiums, the Corporation proposed that the premiums for DSR demerit levels -1 to -20 increase to a maximum of $2,500 for 2013/14. This represents the third year of a three year phase-in of increases to driver premiums for DSR demerit levels, which were originally presented to the Board in April 2009. The proposed DSR driver premiums for 2013/14 are as follows:

	DSR Level	2012 Driver Premium	2013 Applied for Driver Premium	2012 Vehicle Premium Discount	2013 Applied for Vehicle Premium Discount
Merits	15	$15	$15	33%	33%
	14	$20	$20	30%	30%
	13	$20	$20	29%	29%
	12	$20	$20	28%	28%
	11	$20	$20	27%	27%
	10	*$20*	*$20*	26%	26%
	9	$25	$25	25%	25%
	8	$30	$30	25%	25%
	7	$30	$30	25%	25%
	6	*$30*	*$30*	20%	20%
	5	$30	$30	15%	15%
	4	$30	$30	15%	15%
	3	$35	$35	10%	10%
	2	$35	$35	10%	10%
	1	$40	$40	5%	5 %
Base	0	$45	$45	0%	0%
Demerits	-1	$45	**$100**	0%	0%
	-2	$75	**$100**	0%	0%
	-3	$150	**$200**	0%	0%
	-4	$150	**$200**	0%	0%
	-5	$200	**$300**	0%	0%
	-6	$300	$300	0%	0%
	-7	$350	**$400**	0%	0%
	-8	$350	**$400**	0%	0%
	-9	$400	**$500**	0%	0%
	-10	$450	**$500**	0%	0%
	-11	$600	**$700**	0%	0%
	-12	$700	**$900**	0%	0%
	-13	$800	**$1,100**	0%	0%
	-14	$1,000	**$1,300**	0%	0%
	-15	$1,200	**$1,500**	0%	0%
	-16	$1,300	**$1,700**	0%	0%
	-17	$1,500	**$1,900**	0%	0%
	-18	$1,600	**$2,100**	0%	0%
	-19	$1,800	**$2,300**	0%	0%
	-20	$2,000	**$2,500**	0%	0%

The Corporation sought no change to fleet rebates or surcharges, service and transaction fees, permit and certificate rates, or the $40 discount provided to customers with approved aftermarket and manufacturer/dealer installed anti-theft devices.

MPI also requested that the Board approve the new cost allocation methodology for ratemaking purposes, that the Board adopt the DCAT methodology to determine the basic Autopac RSR target, and, for 2013, set an RSR target of $200 million.

2.0 PROGRAM REVENUE

2.1 <u>Revenue Requirement</u>

The Corporation derives revenue from four main sources to fund Basic, namely vehicle premiums, drivers' license premiums, service and transaction fees and investment income.

The Corporation's projected operating results for 2013/14 based on the proposed new Cost Allocation Methodology are as follows:

Revenue Requirement ($Millions)

	2013/14 Proposed Rates	2014/15 Projected
Motor Vehicle Premiums	$746.9	$779.6
Drivers' License Premiums	39.0	48.0
Reinsurance ceded	(13.7)	(15.0)
Total Net Premiums Earned	772.2	812.6
Investment Income	88.2	95.3
Service Fees & Other Revenues	21.1	20.6
Total Earned Revenues	$881.5	$928.5
Claims Incurred	638.1	661.8
Claims Expenses	113.4	117.8
Road Safety Expenses	12.1	11.8
Operating Expenses	66.7	69.5
Commissions	30.5	31.7
Premium Taxes	23.6	24.8
Regulatory/Appeal expenses	3.3	3.4
Total Claims and Expenses	$887.7	$920.8
Net income (loss) – Basic	($6.1)	$7.7

The Corporation's application projected Total Earned Revenues of $881.5 million, giving rise to an operating loss in Basic of $5.6 million in 2013/14, and an operating profit of $8.3 million in 2014/15. Because of the timing of policy renewals, rates that are approved impact financial results over two years. Based on the proposed Cost Allocation Methodology, Basic is projected to lose $6.1 million in 2013/14 and earn $7.7 million in 2014/15 as reflected in the above schedule for a projected net gain of $1.6 million over the two year time frame. A discussion with respect to the Cost Allocation Methodology can be found in section 4.0 of this Order.

2.2 **Vehicle Premiums**

The Corporation is not seeking an increase in premiums in this application. Vehicle Premiums account for approximately 83% of Basic revenue over the forecast period. Premiums earned for 2013/14 are forecast to be $746.9 million, an increase of $3.2 million from 2012/13. The revenue earned in respect of Vehicle Premiums changes due to 3 factors: rate changes as ordered by the Board, growth in the number of vehicles in the fleet, and changes in the average rate per vehicle caused by factors other than rate changes, such as the gradual upgrade of the fleet as older vehicles are replaced with newer ones.

MPI indicated that its forecast for Vehicle Premiums for 2013/14 was impacted by a 2011/12 base year increase of $18.3 million from that forecast last year because more drivers moved down the DSR scale from at-fault accidents and convictions, and consequently had low or zero Vehicle Premium Discounts. This change accounted for $12 million of the increase in Vehicle Premiums. In addition, the 2011/12 volume growth in the fleet was 3.27%, compared to a forecast of 2.5%, accounting for $6 million of the change.

MPI included two methodology changes to the Vehicle Premium forecast. The first change is that both volume and upgrade growth are forecast based on the *Highway Traffic Act* (HTA) vehicles only, excluding non HTA vehicles (trailers and off road vehicles). This change was made because there have been large increases in the volume of non HTA units, which have low average insurance premiums and as such were distorting the results for forecast premium growth. The second change is that the DSR impact (upgrade or change in discount level for individual drivers) will be forecast separately.

The combined growth of volume and vehicle upgrade (excluding DSR impact) is projected to be 4.29% per year (2.50% HTA upgrade, 1.75% HTA volume) compared to 4.81% per year (2.25% upgrade, 2.50% volume) last year. This represents approximately $8 million less revenue in 2013/14 and $14 million less revenue in 2014/15 compared to last year's forecast.

2.3 **Drivers' License Premiums**

When obtaining a driver's licence, motorists are assessed a premium based on the principle that all drivers should contribute premiums to the insurance fund, regardless of whether they own or insure a vehicle. The level of Drivers' Licence Premiums paid by licenced drivers are set based on the DSR scale which ranges from $15 (level 15) to $2,000 (demerit level 20).

MPI is proposing that driver premiums for DSR demerit levels 1 to 20 increase to a maximum of $2,500 for 2013/14. This is the final year of a three year phased-in increase to drive premiums.

Drivers' Licence Premiums are forecast to be $29.7 million in 2012/13 and to increase to $39.0 million in 2013/14, an increase of approximately $9 million.

The forecast increase is attributable in part to 2011/12 actual Drivers' License Premiums revenue being higher than forecast due to a higher than expected downward movement on the DSR scale by drivers (i.e. more infractions), as well as a growth in the number of drivers by 3%, compared to a forecast of 1.5%.

In addition to the growth in its 2011/12 base forecast, the Corporation forecasts a driver growth rate of 1.75% compared to 1.5% last year. MPI based the change on improved forecasting from data received for the first two years of DSR implementation. The Corporation advised that the 2011/12 fiscal year was its first full year to see how drivers move on the DSR scale, and observe their behaviour after movement.

2.4 Investment Income

The Corporation's funds available for investment are unearned premium reserves and unpaid claims reserves. The portfolio supports both the payment of accident claims as well as the pension obligations of the Corporation. As at February 28, 2012, the Corporation had short and long-term investments, including cash and equities totalling $2.2 billion, which is forecast to grow to over $2.5 billion by the end of 2013/14.

Investment income earned from the Corporation's investment portfolio reduces the revenue that it is required to collect through premiums. Investment income accounts for approximately 10% of revenue over the forecast period provided by the Corporation. The Corporation's investment income is allocated between Basic, Extension and Special Risk Extension (SRE) lines of business based on the proportionate level of assets, with approximately 85% of the investment income allocated to Basic.

Basic realized investment income of $101.2 million for 2011/12 and has projected investment income of $80.0 million for 2012/13 and $88.2 million for 2013/14. Further discussion on MPI's investment portfolio is found in section 5.0 of this Order.

2.5 Service Fees and Other Revenues

The Basic insurance program earned $18.7 million from Service Fees and Other Revenue in 2011/12, and the Corporation projects Service Fees and Other Revenue of $17.8 million in 2012/13 and $21.0 million in 2013/14. This revenue is derived mainly from quarterly and monthly pre-authorized payment plans, late payment fees, motor vehicle transaction fees, dishonoured payment fees and pre-authorized payment default fees.

2.6 **Interveners' Positions**

CAC

CAC has formed the view that the Corporation is likely forecasting excessive Claims Incurred costs and has yet to demonstrate prudent expenditure controls to the satisfaction of CAC. As well, CAC states that the Corporation's level of retained earnings is likely excessive. Regardless of the foregoing, CAC did not seek a rate reduction or a premium rebate, because CAC advised the Board that it wished to promote a fresh start with the Corporation rather than encourage tensions, particularly given that two new witnesses were presented by MPI this year, a new external actuary was engaged by MPI, and Board panel members are relatively new to the process.

CMMG

CMMG advises that over the last decade, motorcycle premiums have more than doubled, which is not supported by the experience of the motorcycle class, such that motorcycle rates are not fair and just. CMMG states that over the last eight years, loss ratios with respect to the motorcycle class have been less than 75% of premiums collected. CMMG states that the Corporation continues to over-collect premiums, and asks that motorcycles rates be reduced by 5%, the same reduction sought by MPI for commercial vehicles, and asks that motorcycle rates continue to be monitored until the loss ratios approximate, over a decade, 100%. CMMG notes that the process of over-collection, followed by the issuance of rebates, is extremely expensive.

2.7 **Board Findings**

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

The Board notes that while no overall rate increase is being sought the Corporation has indicated that the rates individuals pay will be determined based on their driving record, the kind of vehicle (make and model and year) they drive, what the vehicle is used for and where they live. An individual's premiums will be impacted based on the actual claims experience associated with the rating factors. As a result, some individuals will experience increases in insurance rates. The Board notes that the vast majority of those who will see an increase are under $50.

The Board also approves MPI's request to increase Driver's License Premiums on the Driver Safety Rating (DSR) scale, at demerit levels -1 to -20, to a maximum of $2,500. These increases represent the final iteration in a transitional process commenced in 2009 with the introduction of the DSR system, as the replacement for the Bonus/Malus system. The Board expects the Corporation to continue monitoring the effectiveness of the DSR scale on driving behaviour, and to report to the Board about the impact of the DSR system over time.

The Board does not approve CMMG's request that rates for the motorcycle class be reduced by 5%, the same rate reduction as for the commercial vehicle class. It is the view of the Board that no evidence was provided to suggest that the treatment accorded to the motorcycle class in the derivation of the actuarial indications was either unjust or unfair.

3.0 PROGRAM COSTS

The costs associated with providing the legislated, compulsory Basic automobile insurance program to Manitoba motorists fall into the following six major categories:

	Total Estimated Expense 2013/14 ($ Millions)	Percentage of Total Program Costs
Net Claims Incurred	$638.1	71.9%
Claims Expenses	113.4	12.8
Operating Expenses	66.7	7.5
Commissions & Premium Taxes	54.1	6.1
Road Safety/Loss Prevention	12.1	1.3
Regulatory/Appeal expenses [1]	3.3	0.4
Total Program Costs	$887.7	100.0%

3.1 **Claims Incurred**

Claims Incurred represent costs that are paid or forecast to be paid to claimants for the various benefits provided under the Basic program, and are expected to account for approximately 72% of Basic's Total Program Costs in 2013/14. The Corporation's overall Claims Incurred forecast for 2013/14 and 2014/15 increased by approximately $5 million, or 0.75% per year. The Corporation cites as one of the main reasons for its proposed 0% overall rate change the stability of the Claims Incurred forecast.

[1] Regulatory and appeal expenses consist of: Public Utilities Board, Crown Corporations Council and Automobile Injury Claims Appeal Commission.

The Corporation cites the following as the key reasons for the approximately $5 million per year increase in the Claims Incurred forecast over the rating period:

- $3.6 million per year decrease in the ultimate PIPP forecast, which reflects favourable changes made in the October 2011 Appointed Actuary's report;

- $3.1 million per year decrease in the forecast of theft related perils, based on continued favourable claims experience;

- $3.6 million per year increase in the hail claims forecast, reflecting significant increases experienced in hail losses over the past several years;

- A decline in the discount rate for claims liabilities from 4.1% to 3.55%, which increases claims liabilities on a present value basis, by $5.5 million per year; and

- An increase in the interest rate provision for adverse deviation from 1% to 1.25%, for an approximate increase of $2.5 million per year.

For 2011/12, the actual Claims Incurred were $612 million, approximately $26 million more than forecast at last year's GRA, or a 4.54% variance. The Corporation cites as the reasons for this significant difference the following:

- An $84 million increase due to declining interest rates;

- A $44 million decrease as a result of the October 2011 and February 2012 Appointed Actuary's Reports caused by the removal of a 6% tail development factor on lifetime Weekly Indemnity claims;

- A $7 million increase in Comprehensive claims relative to budget, mainly due to higher than expected hail losses; and

- A combination of changes from other coverages.

The Corporation prepares three different forecasts for Claims Incurred but does not submit that all three forecasts result in rates that are actuarially based and statistically sound. The three methods prepared are the Financial, Linear, and Exponential. The Linear Method and the Exponential Method utilize historic data to forecast cost growth assumptions by coverage;the Corporation does not rely on these methods. The Financial Method uses assumptions based on forecast field, economic, and actuarial factors, as well as management judgment;the Corporation relies on this method, and has adopted it for rate-setting purposes.

Net Claims Incurred forecasts for 2013/14 flowing from each of the three forecasting methods are as follows:

Linear Method	$624 million
Financial Method	$638 million
Exponential Method	$628 million

Claims Incurred for the fiscal years 2010 - 2014 for the major coverages are as follows:

For years ending February 28/29 ($ millions)	2010	2011	2012	2013	2014	5 Year Change	
Physical Damage - All Perils							
Collision	235	275	281	296	311	76	32%
Comprehensive	61	76	70	70	72	11	18%
Property damage	35	36	38	38	39	4	1%
	$331	387	389	403	422	91	27%
No-Fault Accident Benefits	179	(58)	222	204	211	(32)	(18%)
PIPP-Third Party Liability	6	4	2	4	4	(2)	(33%)
Total Claims Incurred	$ 516	333	612	612	638	122	24%

***PIPP was implemented by legislation in 1994, pre-PIPP the tort system of compensating those injured in motor vehicle accidents predominated MPI's bodily injury claims incurred. PIPP's 2010/11 actual costs were reduced by an adjustment to Unpaid Claims of $286.1 million due to favourable "run-off" of prior year claims incurred.**

Collision claims costs, which represent the costs of physical damage to motor vehicles because of collisions, are projected to be $311 million in 2013/14, an increase of $76 million over the four year period from 2009/10. The Corporation attributed the increase in collision costs primarily to higher associated repair costs for new vehicles.

Comprehensive claims costs, which represent the costs of physical damage to motor vehicles occasioned by fire, vandalism, theft and severe weather, are projected to be $72 million in 2013/14, an increase of 4.1% from 2012/13 projections due to an increased frequency forecast.

Accident Benefits are payable to claimants regardless of fault for a collision, including Medical Expenses, Rehabilitation Expenses, Funeral Expense Reimbursement, Death Payments, Impairment Benefits, Income Replacement Indemnity and Personal Care Assistance expenses. The following table compares actual PIPP Accident Benefit costs with those previously forecast by the Corporation:

Year Ended February 28, 29	Original Forecast	Revised Forecast	Actual Cost	Difference Original/ Actual
2007	$221.2	$226.2	$184.6	$36.6
2008	$237.3	$231.3	$167.2	$70.1
2009	$242.1	$239.3	$186.1	$56.0
2010	$249.8	$236.2	$175.0	$74.8
2011	$252.9	$244.6	$(59.7)	($312.6)
2012	$253.3	$197.3	$222.8	($30.5)
2013	$203.5	$204.2		

While the tort system for recovery of damages arising from motor vehicle accidents in Manitoba ended on March 1, 1994, when MPI was converted to PIPP, pre-PIPP tort claims continue to run-off, but are now at negligible levels.

Current fiscal period Claims Incurred are affected by current year's claims activity as well as prior years' claims activity. When a claim is first incurred, claims adjusters make an estimate of the ultimate cost of that claim. Over time, as more is learned about the nature of the underlying injury, and as partial claim payments are made, adjustments are made to that prior estimate of ultimate cost. These adjustments, sometimes called runoff, flow through Claims Incurred in the fiscal year the adjustments are made. During 2011/12, Basic's net Claims Incurred were reduced by about $69.0 million because of favourable runoff. This recent favourable runoff represents a continuation of a pattern of favourable runoffexperienced for several years. In particular, during the five fiscal year period from 2007/08 through 2011/12, MPI's Basic financial position benefited from about $625.5 million of cumulative total net undiscounted favourable runoff. Most notably, during 2010/11, Basic's net Claims Incurred benefited from about $286.1 million of total net undiscounted favourable net runoff .

Under PIPP, compensation may be paid on a third party basis to individuals injured in accidents occurring outside Manitoba. The cost of this coverage is anticipated to decline to $4 million for fiscal 2013 and remain constant at that level for fiscal 2014.

3.2 Claims Expenses

Claims Expenses, the administrative costs associated with processing and settling claims, account for approximately 13% of Basic program costs, and the Corporation is forecasting increases going forward as reflected below. The Corporation attributes these increases to higher data processing costs and employee benefit costs allocated to claims staff.

Claims expenses are forecast to grow by $30.7 million or 36% from 2009/10 to 2013/14, while claims incurred have grown by approximately 23% for the same time period.

The table below compares this year's forecast to last year's forecast for claims expenses:

Claims Expenses ($000)

Fiscal Year	This Year's Forecast	Last Year's Forecast	Dollar Change	Percentage Change
2011/12	105,924(a)	106,064	-140	-0.13%
2012/13	112,622	105,498	7,124	6.75%
2013/14	114,681	106,990	7,691	7.19%
2014/15	119,070	114,178	4,892	4.28%

3.3 Costs Savings Initiatives – Injury Claims Management

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

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

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

3.4 **Cost Savings Initiatives - All Perils**

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

In addition, the Corporation has negotiated discounts with respect to glass replacement costs, and claimants are able to report a glass claim directly to a repair facility rather than the Corporaiton, enabling repair facilities to automatically validate coverage, prepare and submit invoices electronically and receive payment electronically. This process has enhanced customer service, has benefitted repair facilities due to a shorter payment cycle, and has resulted in the reduction of six FTEs within the Corporation.

The Corporation continues to negotiate fee arrangements with various trade groups in Manitoba, including the Manitoba Motor Dealers Association and the Automotive Trades Association, with a view to managing and controlling labour, paint and materials costs.

The Corporation also has in place an Estimating Compliance Audit Product, which continues to produce savings of about $1 million annually by ensuring consistency in the administration of rules used in the estimating business and enabling the Corporation to better manage estimator performance by providing robust data capture.

3.5 **Operating Expenses**

Operating Expenses are forecast to be $66.7 million in 2013/14 and to grow to $69.5 million in 2014/15 based on the proposed cost allocation methodology.

Operating expenses attributed to the Basic program have experienced significant growth; from $41.2 million in 2008/09, to $62.9 million in 2011/12. The increase in operating expenses was partly attributable to higher amortization costs from improvement initiatives, which increased from $5.3 million in 2011/12 to $8 million in 2012/13 and to $11.9 million in 2013/14. Another factor is the higher data processing costs flowing from a data warehouse outsourcing arrangement with IBM; they are forecast to increase from $12.7 million in 2011/12 to $19.3 million in 2012/13 and are to decrease to $17.6 million in 2013/14.

Compensation continues to be a major component of Basic expenses, projected to represent over 55% of the total Basic expenses in 2013/14. The compounded annual growth rate of the Corporation's compensation expenses from 2004/05 to 2011/12 was 7.9% while the CPI averaged less than 2% for that period.

MPI is forecasting compensation to grow by 1.7% in 2012/13 and 1.3% in 2013/14. This growth rate is predicated on a 0.0% economic increase in both years. The prior agreement with the MGEU had a 2.9% annual economic increase. MPI is currently negotiating a new agreement with MGEU.

The Corporation's overall staffing levels are projected to decrease from 1971.8 full-time equivalents (FTEs) in 2012/13 to 1936.7 FTEs in 2013/14.

3.6 Information Technology - IT Optimization

At last year's GRA the Corporation advised that in early 2010, it became aware that its aging technology had the potential to lead to system outages and impede its ability to provide service to Manitobans. Initially, the Corporation conducted an internal assessment, and thereafter sought out the services of Hewlett Packard (HP) to conduct a second review of MPI's IT environment. Subsequently, an IT Optimization plan was created, and to ensure that this plan was reasonable and prudent, the Corporation commissioned Gartner Inc. to assess the plan. Gartner testified at the 2012 GRA with respect to the conclusions that it reached regarding MPI's proposed IT spending and organization.

In February 2011, the Corporation's Board of Directors approved an appropriation of $75 million from the retained earnings of the Corporation ($65 million from the RSR and $10 million from non-Basic) to establish an IT Optimization Fund (ITOF) to fund proposed IT Optimization projects, including the construction and management of two data centres on MPI property.

The Board, in Order 162/11, determined that for rate setting purposes, the project should be funded from annual operations as opposed from Basic Retained Earnings and, as such, the ITOF would not be considered either for rate setting purposes or for the purposes of a future review of the RSR target.

The Corporation later opted to contract for IBM managed services instead of constructing and maintaining data centres internally. MPI's data will be maintained at two IBM data centres in Ontario.

The Corporation concluded that it would be better served by entering into a Master Services Agreement with IBM, to avail itself of the following benefits:

- A significant shift up the IT maturity curve as it relates to delivery excellence and technology deployment;
- Implementation of IBM's proven Global Delivery Model including world-class skills, processes and tools;
- Deployment of a robust business resilience by leveraging two world class data centres;
- Enabling of emerging technologies
- A scalable and flexible IT service model to support business initiatives;
- Improved IT services resilience to world class financial institution standards;
- Reduced operational and transitional risk;
- Ensuring data security; and
- Reducing IT capital.

As a result of this alternative, the Corporation has revised the $71 million budget to $45 million, with a capital cost savings of $26 million.

The Corporation has entered into a Master Services Agreement with IBM for five years (together with a five year renewal option), the costs of which are reflected in the financial projections filed with the GRA. MPI has determined that the managed services will result in a 13 percent savings on a net present value basis over the build and manage option provided to the Board at last year's GRA.

In addition, the Corporation has entered into a Master Services Agreement with HP for a six-year term, pursuant to which HP will work with MPI staff to achieve business deliverables.

The Corporation advises that its IT Optimization initiative has started to address the risks associated with its information systems and capability, including the risks associated with the key areas of applications, infrastructure, operational processes, information security, controls and disaster recovery.

As well, the Corporation has obtained ongoing assistance from the Gartner Group on a consultancy basis in the form of a “CIO Scorecard”, which reflects the results of Gartner’s analysis with respect to MPI's overall IT performance relative to its IT spending. In particular, Gartner compared MPI's spending to comparable organizations in the same industry, and benchmarked MPI against objective criteria that evaluate the effectiveness of its IT organization to deliver the needs of the business. MPI's overall "score" has improved greatly since 2010, and its performance in the areas of Infrastructure & Operations, Applications Organization, Enterprise Architecture, Open Innovation Readiness, Effectiveness/Innovation Enterprise Viewpoint are now within acceptable ranges. Gartner indicates that MPI still needs work, however, with respect to Cost Containment and Business Process Management.

The Corporation's objectives are to deliver by 2015 the following:

- A new IT Corporate risk framework reflecting the risk of doing business in a "hyperconnected" enterprise meaning doing business in an integrated fashion with customers and business partner;
- An improved network infrastructure that can support the future demands for voice, data and video;
- A revised business continuity plan;
- A revised disaster recovery plan;
- A more robust infrastructure; and
- An ability for IT to stay current while making business changes.

3.7 **Benchmarking**

The Board has commented in past Orders that MPI should conduct benchmarking with respect to its expenses which, to date, has not occurred to any significant extent beyond the analysis of the Gartner Group referenced above. In particular, Order 162/11 the Board stated:

> *The Board would like to be assured that the Corporation is doing everything possible to ensure efficiencies within its operation, and benchmarking is an important part of that. Benchmarking can and should provide a basis for establishing a cost control framework.*

In response, the Corporation has stated that it has historically utilized three benchmarks to gauge its performance, as follows:

- Rates that are on average lower than those charged by private insurance companies for a comparable price and coverage;
- Basic returns at least 85% of premium revenue to Manitobans in the form of claims benefits; and
- Lower annual increases in the Consumer's Price Index for auto insurance than the rest of Canada.

The Corporation has also stated that its intention is to establish, through time, some key metrics in key parts of the operations of the Corporation that it will track from year to year, such as, for example, Call Centre performance or the average number of claims files handled per claims employee. The Corporation stated that it recognizes the importance of demonstrating its focus on efficiency and cost containment, as well as productivity, in a transparent way, that the Board can expect progress with respect to this issue at next year's GRA.

3.8 **Interveners' Positions**

CAC

CAC seeks to develop confidence in the Corporation's claims liability estimating process after years of consistent over-estimation. CAC submits that although the Corporation has in place several checks and balances with respect to revenue forecasting, there were significant variances over the last number of years.

CAC questions whether the Corporation's forecasts of claim liabilities are reasonably reliable, though CAC recognizes a material improvement in the Corporation's approach with respect to Accident Benefits - Weekly Indemnity.

CAC reiterated concerns raised at last year's GRA that the Corporation's approach with respect to Accident Benefits - Other remains overly conservative. CAC also has a concern with the Corporation's decision to increase by 25 basis points the interest rate provision for adverse deviation (PFAD), and states that the adjustment appears to be at odds with the best estimates of the direction of interest rates and inflation. CAC also states that the Corporation was not persuasive in its argument to support the change.

CAC recommends that the Board find that there is conservatism in the move to a higher PFAD for interest rates that has a material impact on claims liabilities. CAC recognizes, however, that MPI has engaged a new external actuary and that there was a significant release of reserves in the current year. CAC asks that the Board put MPI on notice that, if current interest rate forecasts are borne out, and inflation rate forecasts as well, this provision will be considered carefully for its reasonableness at next year's GRA. CAC suggests that the Corporation may wish to seek out information from other jurisdictions, including Saskatchewan and Quebec, and asks that the Board conclude that there continues to be conservatism built into the estimate for Accident Benefits - Other, and that the Corporation be directed to investigate techniques used by other Crown Corporations operating no-fault insurance scheme for analogous lines of business.

CAC notes that at last year's proceeding, the Board expressed significant concerns in terms of Basic’s compensation expenses, large IT expenditures and Business Process Review expenses.

CAC would like to see the Corporation begin the development of productivity indicators. The divergence between the growth in claims expense per vehicle and net claims incurred per vehicle is a source of concern for CAC, as well as the divergence between operating costs, claims expenses, and CPI.

In CAC’S view, the types of performance benchmarks traditionally favoured by the Corporation are a reflection of the strength of the model rather than of the management of the Corporation. Macro indicators such as percentage of premiums returned to customers, and the lowest rates in Canada do not indicate the productivity of the Corporation.

CAC recommended that the Board direct MPI to report back next year on using earned units as a productivity benchmark, including a proposed productivity indicator, proposed growth rate and base year. CAC suggests that MPI should seek some external assistance analogous to that received from the Gartner Group for the development of the productivity indicators. CAC also recommended the Board direct MPI to provide an update of current productivity measures in place, including with respect to information technology, bodily injury, call centers and proposed next steps.

3.9 **Board Findings**

The Board is concerned about the possibility of continuing conservatism within the estimation of Basic claims liabilities and provision for adverse deviations. The Board intends to examine the provision for adverse deviations at the next GRA proceeding, and to monitor closely the Corporation's Basic runoff and its effect on Claims Incurred forecasting, with a view to determining whether in fact there is excess conservatism remaining.

With respect to benchmarking, the Board is of the view that there is a clear need for further benchmarking within the Corporation, and orders that the Corporation develop productivity factors to enable the assessment of the cost containment measures. Certainly, the costs incurred by the Corporation form a significant component of rates and are directly related to decisions with respect to Basic rates. The Board is concerned in particular about the operating and claims costs being incurred at MPI, and is of the view that cost containment within the Corporation must be a priority. The Board recommends that MPI engage an external consultant as was done with the Gartner Group and information technology expenses.

The Board does not quarrel with the three benchmarks identified by the Corporation and referenced in paragraph 3.7 above, but notes that, in essence, none of these benchmarks relate to cost controls, and it is benchmarking in that particular area that the Board believes is necessary.

With respect to IT expenditures, the Board acknowledges the Corporation's current approach as reflected in the filing, including the $26 million savings in capital costs for IT optimization. The Board in Order 162/11 stated:

> *MPI to provide in next year's GRA filing, <u>and on an ongoing basis</u>, a detailed accounting of Basic IT Optimization project expenses, tracked specifically to project budgets as a baseline, as such budgets are put in place. The Board wants to track funds expended for Basic IT*

Optimization, much as it did with respect to funds expended for the Immobilizer Incentive Program.

The Board is concerned about MPI getting on an IT "treadmill", an environment in which more and more expenses are required to be incurred to upgrade and maintain systems, while productivity gains, some of which evidenced through complement shrinkage, fail to materialize. [Emphasis added]

The Board remains concerned with MPI's level of IT spending; although savings have been identified, MPI needs to remain vigilant in controlling its IT spending.

4.0 COST ALLOCATION METHODOLOGY

MPI's global corporate costs are to be allocated among the insurance and non-insurance categories of business and by automobile insurance lines of business in a way that does not give rise to cross subsidization.

In Board Order 145/10, the Board endorsed the new Cost Allocation methodology put forward by the Corporation in 2009, but did not order that the methodology be implemented for rate setting purposes. In addition, the Board ordered that Gross Premiums Written be used as an allocator instead of a Net Claims Incurred percentage, for the allocation of claims expenses to the insurance lines of business. MPI implemented the new Cost Allocation methodology for financial reporting purposes, including the use of Net Claims Incurred as an allocator, and was utilizing the approved old cost allocation methodology for rate setting purposes, maintaining in effect two sets of books.

At last year's GRA, the Board questioned the potential volatility that may occur in year over year expense allocations with the use of ratios and percentages derived from only one year's data. This concern was raised in particular as it related to Contact Centre data.

In response to concerns raised by the Board, MPI engaged Deloitte to undertake an expense allocation review to assess and evaluate the stability of the allocators used in Cost Allocation methodology. For each of the main allocators included in the scope of the review, Deloitte prepared a four year comparative analysis, revisited the underlying allocator calculations and provided observations and any recommendations regarding their future determination.

Deloitte found the allocators used to be in the main stable but recommended that in two cases the use of a three to five year average be implemented to provide stability in the allocators used.

Deloitte recommended the use of Net Claims Incurred as the preferred allocator rather than Gross Written Premiums. Deloitte concluded that Net Claims Incurred was the superior allocator as claims services are the key services provided by MPI and Net Claims Incurred was considered to provide the most reasonable comparator of actual underlying business activity required to service customers under each insurance line of business.

In addition, MPI engaged KPMG to undertake specific auditing procedures of the cost allocation methodology implemented in the 2011/12 Basic financial statements. KPMG indicated that specific audit procedures found no exceptions.

The Corporation recommended that the Board approve the new Cost Allocation methodology for rate setting purposes and requested that:

- The use of the Net Claims Incurred percentage instead of the Gross Premium Written percentage be utilized for the allocation of shared claims handling costs to the insurance lines of business; and
- The use of a four-year rolling average be implemented for the calculation of the Weighted Customer Call Centre Contact Ratio (WCCCCR) and the Net Claims Incurred percentage.

In terms of financial impact, pursuant to the new methodology for 2012/13, this would lead to an adjustment of 0.075% of Basic rates.

4.1 **Interveners' Positions**

CAC

CAC seeks a fair recognition of the true relationship between Basic and the Extension line of business. CAC is of the view that MPI has traditionally looked at this issue from a very narrow perspective, and believes that there are concepts that MPI has not examined, including the transfer pricing issue and looking at fair and equitable relationships between affiliates. CAC states that there are material revenues flowing to the Extension line of business given its relationship to Basic, and CAC expresses disappointment that no effort has been made to understand or capture this relationship. In short, CAC believes that the cost allocation analysis presented by the Corporation continues to be deficient, and looks to the Corporation's information technology expenses to determine whether improvements can be made with respect to the allocation of other expenses.

CAC prefers Gross Premiums Written as an allocator, which in its opinion is more reasonable because, within the limits of the cost allocation analysis, it more accurately captures the overall relationship than does the Net Claims Incurred cost allocator as to a certain degree; it takes into account the benefits accruing to Extension from the Basic monopoly in terms of revenues.

CAA

CAA submits that there is insufficient transparency in the cost allocation process within the Corporation.

4.2 **Board Findings**

The Board accepts that the issue of MPI's Cost Allocation Methodology should be finalized, having been thoroughly reviewed and vetted by third parties over time, such that the methodology should be used for the purposes of setting Basic rates. As such, the Board approves the new methodology for rate setting purposes.

In addition, the Board believes that incorporating averaging within the methodology will address concerns related to the volatility of allocators and should provide some stability from the results flowing from the methodology. The Board accepts that averaging should be utilized with respect to cost allocators as proposed by MPI. The Board expects MPI to monitor the stability of its allocators in future rate applications.

The Board is also convinced that the Net Claims Incurred percentage, not the Gross Written Premiums percentage should be utilized as the allocator for claims expenses to the insurance lines of business. While there are arguments in support of each approach, the Board believes that the Net Claims Incurred percentage is more directly related to the costs in terms of substance and timing.

5.0 INVESTMENTS

5.1 Investment Portfolio

The Basic Insurance program had cash, equities, short and long term investments totaling $1.89 billion as of February 29, 2012. The funds available for investment by the Corporation are primarily the assets underlying the unearned premiums and unpaid claims. The Corporation's overall investment portfolio was just over $2.2 billion as at February 29, 2012.

MPI's portfolio is comprised of 62.2% in long-term bonds, 22.4% in equities, 6.5% in cash and short-term investments, 8.5% in real estate, 0.3% in venture capital, and 0.5% in infrastructure investments. Within MPI's investment portfolio, due to its weighting to long-term bonds, the investment returns are impacted materially by changes in interest rates (when rates fall, market value of bonds rise; when rates increase, the market value of bonds fall). MPI is holding an unusually large cash balance in the portfolio due to the low interest rate environment, anticipating investing such funds when interest rate returns increase.

By the end of 2013/14, the Corporation is forecast to have an investment portfolio of over $2.5 billion with the percentage allocated to long term bonds forecast to grow to 64.2% of the portfolio.

5.2 **Investment Returns**

MPI's portfolio is weighted towards long term bonds, for which average yields have dropped from 4.5% in 2011/12 to below 3% in 2012/13 and are forecast to be at about 3% for 2013/14. An increase in interest rates would result in a reduction in the value of the bond portfolio, negatively impacting returns.

MPI has stated that it utilizes an asset liability matching program to duration match the portfolio returns with the payments of its obligations, attempting to match the approximate average cash flow of assets to liabilities. Any changes in interest rates affecting the bond portfolio value will be mitigated primarily due to offsetting changes to the claims liabilities. MPI has indicated that the strategy is 80 to 90% effective.

MPI is forecasting yields on equities of 6.1% and real estate and infrastructure of 6.0% and 7.05 respectively. Prior to 2006, MPI forecast equity returns to the average yield of Government of Canada 10-year bonds. In Order 156/06, the Board recommended that the equity return be determined by adding a 1.5% Equity Risk Premium (ERP) to the average yield of Government of Canada 10 year bonds. Until this application, MPI has adhered to this approach. Utilizing this methodology in the current low bond yield environment has resulted a calculated equity return of 4.8% which MPI believes is unreasonable given that the average annual return on the TSX over any rolling 20 year period has never been below 5.2%.

The Corporation has proposed, therefore, adding a "minimum equity return" to the existing methodology based on the 5th percentile of annual returns on the TSX over all rolling 20 year periods. The 5th percentile was 6.1% as of February 29, 2012, and the use of the revised forecast methodology yields a minimum forecasted annual equity return of 6.1%, which MPI has incorporated in this application.

5.3 **Investment Management**

The Corporation's portfolio is managed by the Department of Finance of the Province of Manitoba, which acts as the Corporation's investment manager and administers the portfolio. The Assistant Deputy Minister Finance, was scheduled to testify at the GRA proceeding, but, unfortunately, was unable to do so due to illness.

In addition, the Investment Committee of the Corporation's Board of Directors is involved in monitoring investment performance and investment policies, as is the Investment Committee Working Group (ICWG), a joint committee of MPI and Department of Finance. The Corporation advises that its CFO and other staff members sit on the ICWG together with members of the Department of Finance. The mandate of the ICWG is to act as a liaison between the Department of Finance and the Investment Committee of MPI, to develop strategies for investment exposure, to support the Assistant Deputy Minister, to monitor the performance of investment managers, to prepare draft investment policies and annual strategies, to implement investment policies and to provide regular reports to the Investment Committee.

The ICWG led the process by which the composition and risk of the Corporation's investment portfolio was reviewed in 2008, which led to the Asset-Liability Modeling Study prepared by AON Consulting (AON Report). The AON Report, which included recommended changes to the portfolio composition and target investment weightings, was reviewed by the Board at the 2009 GRA. MPI is still working through the implementation of AON recommendations flowing from that review and has advised that the Department of Finance believes that it is currently premature to update the AON Report.

5.4 **Interveners' Positions**

CAC

CAC noted that investments are a critical issue and that the record from the GRA proceeding was incomplete, given that the proposed witness from the Department of Finance was unable to attend the hearing. CAC states that the incomplete record does not demonstrate that MPI and Finance have achieved the optimal level of diversifying risk as compared to acceptable levels of return. CAC agreed with the concerns raised by CMMG that the biggest risk faced by MPI is the decline in equities. The Corporation's assertion that the Province has control over the equities begs the question whether ratepayers should be "on the hook" for risks allegedly created by choices of the Province. CAC is hopeful that this issue well be addressed next year and welcomes hearing from a witness from the Department of Finance.

CMMG

CMMG noted that MPI has over $2.2 billion in investments and that the greatest risk relates to losses in equities, which are managed by the Province. If losses do occur, CMMG suggested that it should be the Minister of Finance's responsibility to backstop the Corporation.

5.5 **Board Findings**

Though the Board is of the view that its knowledge with respect to the Corporation's investments has increased substantially as a result of the GRA process, the Board looks forward to hearing evidence from the Assistant Deputy Minister at the next GRA proceeding.

The Board notes that given the low interest environment, the current formula for determining the equity return based on adding a 1.5% ERP to a very low Government of Canada 10-year bond yield is providing an unreasonably low proxy for the return on the equity portfolio. The Board agrees with the change in the methodology providing a "minimum equity return" based on the 5^{th}

percentile of annual returns on the TSX over all rolling 20 year periods. The return of 6.1% appears more reasonable than the 4.8% return determined under the existing methodology. The Board notes that the change provides a floor return for forecasting purposes and expects the Corporation to incorporate the change and base the equity return on the greater of the two calculations for future GRA's.

With respect to rate-setting, the investment portfolio and its returns are important in maintaining affordable insurance rates for Basic customers. The Board notes that some important pension funds reflect less of a concentration in low yielding bonds than that currently held within MPI's portfolio. The Board remains concerned that the high concentration in bonds, which reflect yields of 3% or below, will dampen returns from the portfolio and that MPI remains exposed to losses on its bond portfolio if interest rates rise. The composition of the portfolio with a high concentration in bonds remains an issue that needs to be addressed given changes in the market conditions since 2008 when MPI last assessed the composition of its portfolio. The Board will review this issue at the next GRA.

6.0 RATE STABILIZATION RESERVE

6.1 **RSR Balance**

The stated purpose of the Rate Stabilization Reserve (RSR) is to protect motorists from rate increases made necessary by unexpected events and losses arising from nonrecurring events or factors.

Total Basic Retained Earnings were $213.7 million in 2011/12, after an RSR Premium Rebate of $14.1 million ordered last year. With Accumulated Other Comprehensive Income (AOCI), Basic Retained Earnings were $262.7 million as at February 29, 2012.

A summary of the retained earnings balances for the automobile division by lines of insurance business from fiscal 2010 through fiscal 2017, on the basis that the application is approved, is as follows:

	Actual		**Forecast**	**Projected**	**Outlook**
Years ending February 28/29	2011	2012	2013	2014	2015
RSR opening balance	$225	$206	$214*	$209	$203
Net income (loss)	284	22	(5)	(6)	8
Premium Rebate	(322)	(14)	-	-	-
Accounting Adjustments	19	-	-	-	-
Total RSR Basic	206	214	209	203	211
Other retained earnings	145	160	160**	160**	160**
Total retained earnings	$350	$374	$369	$363	$371

*The balance of Basic retained earnings were sourced from the Basic Annual Report AI.7 Part 1A. The balance of 2011 & 2012 Other Lines retained earnings were sourced from MPI Annual Report AI.7 Part 1B

** Forecast information for competitive lines is not provided. For the purposes of this analysis, the Board has assumed no change in the other retained earnings from 2011/12.

On an overall basis, the Corporation had retained earnings of almost $373.5 million for all lines of business on February 29, 2012 or over $433.8 million including AOCI. MPI has established a DCAT based RSR target in this application totalling $200 million which, when combined with retained earnings targets established for the other lines of business, creates an aggregate target of $272 million.

6.2 **RSR Target History**

Historically, the Corporation and the Board have, at times, had differing perspectives on the appropriate target amount for the Basic RSR.

The first public reference to the matter of retained earnings for Basic is found in the 1989 Report of the Autopac Review Commission, commonly referred to as the Kopstein Report, at which time the adequacy of Total Surplus of private sector insurers was often gauged by comparison with a 3:1 net premium-to-surplus ratio (i.e., Total Surplus should be at least 1/3 of annual net written premium). Pursuant to the Kopstein Report, there was a recommendation that Basic have retained earnings of approximately 15% of annual premiums.

The Corporation completed a review of the RSR target in June 1998, as requested by the Board in Order 93/97. A report entitled “The Basic Insurance Rate Stabilization Review” (RSR Review) was filed as part of the 1999/2000 GRA. The RSR Review used a statistical variance approach to determine the appropriate level of the RSR, which method was known as the Risk Analysis/Value at Risk (RA/VaR) methodology. In subsequent years, the Corporation presented refinements to the methodology to calculate the RSR target as directed by the Board in Orders 154/98,177/99 and 151/00 and finalized the methodology in Order 179/01. The Corporation now states that this method provides insufficient value and should no longer be used.

In 2005, the Corporation adopted the Minimum Capital Test (MCT) as the RSR target setting methodology, a test established by the Office of the Superintendent of Financial Institutions (OSFI) to measure the financial strength of private insurers utilizing a comparison of available capital to risk-adjusted required capital. While private insurers are required by OSFI to maintain an MCT score of above 150%, the Corporation proposed a target range between 50 and 100% MCT, given that it is a monopoly, and not a private insurer. MPI, at that time, proposed a range for the Basic RSR of $107 million to $214 million.

In 2010, the Corporation concluded that neither the RA/VaR nor the MCT approach truly addressed the stated purpose of the RSR, and suggested that the DCAT be implemented as it explicitly measures the potential financial impact from the Corporation's key risk factors and produces an RSR target that is directly related to the Corporation's risk level. At the 2010 GRA, the recommended RSR target based on the DCAT was $185 million for 2010/11. In Order 161/09 the Board noted that consensus could not be reached on what methodology to employ so the Board reset the RSR target based on the "Kopstein" approach, of 10 - 20% net written premiums (vehicle and driver premiums), on the basis that this methodology would be clearly understood by all parties. The RSR range established pursuant to this Order was $77 million to

$154 million, and the Board also ordered that each of the DCAT, MCT and RA/VaR be filed on no less than a triennial basis to test against the RSR established target.

6.3 **Percentage of Premiums - Kopstein Approach**

From the 2010 GRA to present, the Kopstein Approach has been used to determine Basic's RSR range, though the Corporation has continued to use DCAT for internal purposes. The pros and cons related to the Kopstein Approach as presented by the Corporation are:

Pros:

a) The indicated RSR range is easy to understand and calculate; and
b) The mathematical calculations are objective.

Cons:

a) The method assumes that the Corporation's risk level is a function of its annual premium level; however, the Corporation's main risks are from changes to assets and liabilities which are significantly larger than annual premiums;
b) It does not assist Management or the PUB in the identification, measurement and mitigation of key risks;
c) The method does not create a clear linkage between the required RSR and the amount of risk faced by the Corporation;
d) The indicated RSR range does not change when the Corporation's risk profile changes; and
e) To the Corporation's knowledge, the method is not recognized or used by any other Regulator or professional body.

6.4 **Risk Analysis/Value at Risk**

The operational and investment risk analysis is designed to provide a risk assessment relating to the financial outcomes for Basic, and incorporates calculations at both 95% and 97.5%

confidence levels, each calculation done both including and excluding operating costs. The pros and cons related to the risk analysis as presented by the Corporation are:

Pros:

a) The analysis is easy to update;
b) The operational risk calculations are transparent; and
c) The mathematical calculations of historic operational risk are objective.

Cons:

a) The operational risk calculation is based entirely on an analysis of financial outcomes over the last eighteen years without any adjustment to reflect the Corporation's current cost levels;
b) The methodology does not reflect the Corporation's current risk profile as many changes to the Corporation's policies, procedures, contracts, etc. have been made over the past eighteen years (e.g. reinsurance contracts, reserving guidelines, investment policies, etc.)
c) The operational risk analysis is not based on plausible adverse events that *could* occur. Rather, it is based on events that have actually occurred in the past eighteen years;
d) If the Corporation improves its forecasting process, it will have a lower operational risk margin, since the margin depends on the deviations between actual and forecasted results. Alternatively the risk margins can be increased by poor forecasting or other changes that are unrelated to operational risk.
e) The historical results (currently only 18 data points) do not provide a credible sample for statistical modeling. For example, a general rule of thumb for obtaining a statistically reliable correlation coefficient would be a minimum of 30 data points for normally distributed variables and as much as 100 or more for non-normally distributed variables;
f) Using Value-at-Risk (VaR) may not be appropriate for a time horizon of 2.5 years. In all of the Corporation's research regarding VaR, the Corporation has never seen an author advise calculating VaR for a period longer than one year;
g) The risk margins produced do not provide the Corporation or the Board with a clear understanding of the risks faced by the Corporation, how these risks should be mitigated, or what management or Board action may be required; and

h) The method is not used or recognized by any other insurer, regulator, or professional body.

6.5 Minimum Capital Test

The MCT was developed by OFSI to assess the key risks faced by the industry and to harmonize capital requirements across jurisdictions in Canada. It is a risk based approach that better reflects the riskiness of individual Property and Casualty insurers and is consistent with approaches in other financial sectors. MPI identifies the pros and cons of the MCT approach as follows:

Pros:

a) Is designed to "assess the key risks faced by the insurance industry", the majority of which are relevant to Manitoba Public Insurance;
b) Is used by other insurers, including SGI and ICBC, and is recognized by OSFI;
c) "Assesses the riskiness of assets, policy liabilities, and off-balance sheet exposures, by applying a consistent set of factors that were agreed upon by a task force of insurance experts."
d) Identifies risks based on the Corporation's current financial statements (or current risk profile);
e) The calculation of the MCT score is completely objective (i.e. no judgment is required); and
f) The MCT score is relatively easy to calculate.

Cons:

a) It is a private sector test. Policyholder and regulatory concerns with respect to insurer solvency are of a different magnitude and kind compared to the situation with a Crown Corporation;
b) The method uses the same risk factors for all companies, which may not be reflective of the Corporation's risk level; and

c) It requires the Public Utilities Board and the Corporation to make a judgment on the appropriate MCT score for a monopoly insurance provider (e.g. 50% to 100% MCT was recommended in the 2007 Rate Application).

6.6 **Dynamic Capital Adequacy Testing (DCAT)**

DCAT is a process of analyzing and projecting the trends of an insurer's capital position given its current circumstances, its recent past, and its intended business plan under a variety of future scenarios. This allows the Corporation to determine the implications that its business plan has on capital and identify the significant risks to which it is exposed. The RSR target put forward by the Corporation calculated using the DCAT in this GRA was $200 million. The Corporation cites as the pros and cons of the DCAT approach the following:

Pros:

a) Assists Management and the Board in the identification, measurement and mitigation of key risks faced by the Corporation;
b) Creates a 'forward looking' measure of risk (i.e. not a retrospective measure like other tests);
c) Uses company specific assumptions for adverse scenarios, ripple effects and management action, as opposed to prescribed rules that are the same for every company;
d) Produces an opinion that is based on the RSR targets set by the Board;
e) Creates a clear linkage between the required RSR and the amount of risk faced by the Corporation;
f) Is a recognized method of the Canadian Institute of Actuaries and the Office of the Superintendent of Financial Institutions Canada (OSFI); and
g) The adverse scenarios and associated assumptions can be discussed and debated at the General Rate hearings and, if warranted, modified in the next DCAT report. Since the DCAT is done in-house, the Corporation can provide the impacts of alternate adverse scenarios at the request of the Board.

Cons:

a) Certain risk factors may be difficult to quantify;

b) The results are not directly comparable to other jurisdictions; and

c) Actuaries may have different opinions on likelihood and magnitude of given risk factors.

6.7 **Interveners' Positions**

CAC

CAC seeks to achieve a consensus with respect to the methodology for setting the RSR target that is consistent with modern scientific risk analysis. CAC states that the Corporation, overall, is in a healthy financial state, with accumulated retained earnings and accumulated other comprehensive income in excess of $400 million. CAC recognizes the importance of the RSR, given a very significant rate increase proposed in the 1998 insurance year, though CAC states there are other mitigation tools utilized by the Corporation and implemented over time, including improved forecasting, an end to budgeting for a loss, and the rate stability flowing from the inherent strengths of the no-fault system. CAC states, however, that the RSR must be put into context, and in particular, that it is more of a function of the rate setting process than it is a mitigation tool in terms of adverse events. CAC also states that there has been a significant and disproportionate amount of time spent debating matters related to the RSR, given the overall business of the Corporation. It is an important debate, but there are other important debates that should take place on other issues before the Board. CAC states that in the past, when the RSR has been deficient, rate surcharges were ordered on a gradual basis, which is what CAC suggests would occur if the RSR was in a deficient state at some time in the future.

In examining the purpose of the RSR, CAC points to the prevention of rate shock, the concepts of rate predictability and stability, as well as the Corporation's denial that the RSR relates to solvency. CAC wonders whether in the view of MPI, the purpose of the RSR is also to prevent rate increases, and CAC holds the view that the purpose of the RSR is not to prevent rate increases. CAC is concerned that the Corporation has an aversion to any rate increase, which may be driving conservatism in its DCAT analysis. CAC states that the primary role of the RSR is to protect against excessive rate increases flowing from unpredicted, non-recurring events. In other words, CAC states that the RSR serves as a cushion so that, if a material and rarely occurring event takes places, the Corporation can take a measured response to recover from that event, and rebuild the cushion. CAC disagrees that the RSR should be designed to prevent any rate increases flowing from adverse events.

Professor Wayne Simpson appeared on behalf of CAC and testified that the RSR carries significant costs with it, including opportunity costs for consumers, and CAC states that money in the hand of consumers today is worth more than the same money in the hand of consumers in the future.

CAC endorses the view expressed by Professor Simpson that the Corporation should set aside roughly enough protection for a 1 in 20 year event, and that while it is understandable why, in the private sector, a 1 in 100 year event may be used, MPI is a monopoly with a much a higher risk tolerance level. CAC states that MPI is, in effect, asking that Manitobans be protected from 1 in 100 year events by requesting a $200 million RSR target on the basis of the DCAT presented.

CAC asks that the Board conclude that Professor Simpson testified in a candid and thoughtful manner, focused on moving forward the discussion towards an evidence-based, modern statistical risk assessment practice. Dr. Simpson also suggested that a technical conference take place to further discuss the DCAT, and suggested ways for MPI to improve its methodology.

CAC notes that MPI has not produced a DCAT analysis which includes a modern decline in equity scenario, which it states would result in a DCAT target of less than $130 million. CAC also states that the Corporation should have provided a DCAT analysis which included a -20% equity decline scenario.

CAC does not state that the DCAT cannot be adopted, and notes the evidence of Professor Simpson that he thought it could be a very useful tool if bounded by appropriate risk tolerances based upon assumption of appropriate management action and based upon relevant, reliable evidence.

CAC states that there is a culture shift in moving from a technique developed for a different environment, a private company and a competitive market place, to the Corporation. CAC submits that MPI did not conduct a test for a structural break prior to using historical stock market data. CAC submits that while use of historical stock market data from 1919 may be appropriate in a solvency test, the RSR has a more limited purpose, and, consequently, the use of long term stock market data is not required. CAC states that the DCAT model as presented by MPI needs to be updated and validated, and points to an inconsistency discovered within the DCAT process through the exchange of information requests, after which MPI corrected the equity decline scenario. CAC suggests that use of the DCAT methodology by MPI is somewhat simplistic. CAC advises that it is seeking an improved DCAT model that takes into account changes in equity spreads; in other words, more sophisticated model than that currently undertaken by MPI.

CAC states that correlation between risk factors is not fully captured within the current DCAT, which CAC states is central to modern risk analysis, as opposed to the selection of independent assumptions.

CAC recommends that prior to the next GRA hearing, a technical conference be initiated to better explain the DCAT model, to validate it through sensitivity analysis, and to explore cost effective mechanisms to modernize the model. CAC also suggests that the risk tolerances reflected within the DCAT, the 1 in 100 of year events, are not appropriate for the limited purposes of the RSR, and suggests that 1 in 20 year events should be adopted.

CAC also states that the decline in equity scenario advanced by the Corporation relies upon inherently unreliable data, namely TSX returns prior to 1951. CAC relies upon the probability distribution put in evidence by Dr. Simpson in support of its statement that the use of pre-1950s data will taint any future decline in equities analysis, whether for a one, two, three or four year period. In sum, CAC believes that the DCAT model is immature, that the risk tolerance as expressed by the 1 in 100 year event is extreme, and CAC is gravely concerned about reliance on pre-structural break data. CAC recommends that the Corporation utilize data from the modern period for the decline in equity scenario. CAC suggests that until the DCAT is finalized, the Risk Analysis and the Kopstein method should be presented annually as a check.

CAC does not recommend that the inclusion of AOCI for the purposes of issuing the rebate, and states that it has yet to fully consider the recommendation made by Mr. Cheng with respect to AOCI.

CMMG

CMMG states that conservatism within the Corporation's forecasts are related to the required target point for the RSR, and notes that the Corporation has over $2.2 billion in investments, plus $122 million in equipment and other property, also states that it is a Corporation that can borrow. In addition, the Corporation has $427 million in equity as at the end of the first quarter of 2012/13. It also purchases reinsurance coverage, and is backstopped by the Government of Manitoba. CMMG states that if the biggest risks to the Corporation are potential mistakes within the investment portfolio of the Corporation, which are handled by the Minister of Finance, it is the responsibility of the Minister of Finance to backstop the Corporation. CMMG is in agreement with the recommendations and opinions of Dr. Simpson with respect to the RSR.

CAA

CAA questions the purpose of the RSR, and whether it is used for the right reasons. CAA questions whether the RSR should be used for only emergency situations or unforeseen events that may cause rates to rise by unacceptable amounts. CAA suggests that the true intent of the RSR needs to be clarified, and questions whether the RSR is still necessary, though CAA concludes that the RSR is necessary to ensure that Manitobans are protected from rate shock in the event of an unforeseen event, and to provide reassurance to ratepayers.

CAA questions whether the DCAT methodology is the correct methodology to be used to set the RSR level, though CAA does not endorse one methodology over the others.

CAA is of the view that a rebate should be issued by the Board, of approximately $50 million, and if it does so, the rebate should be issued by cheque sent to rate payers, not as a discount on future premiums.

6.8 Board Findings

The Board believes that the DCAT methodology is an improved approach for determining the target for the RSR over the current methodology, however, further analysis and discussion is needed, particularly in relation to the adverse scenarios used in the DCAT and the methodology construct, before such an approach should be utilized for rate-setting purposes.

Over the course of the GRA, it became apparent that all parties seem willing to enter into further discussions with a view to achieving a consensus regarding the appropriate adverse scenarios to be used within the DCAT process. Although it was MPI's position that these discussions could take place within the framework of next year's GRA proceeding, it is the Board's view that this discussion is better suited to the less formal process of a technical conference. The Board is pleased that the Corporation is willing to be more consensus based in preparing the DCAT, and that it is receptive to aspects of the adverse scenarios being discussed and revised.

The Board directs MPI to hold a technical conference in early 2013 to discuss, as between the parties to the GRA, the adverse scenarios and methodology construct being utilized currently by the Corporation within the DCAT, with a view to refining the adverse scenarios and gaining a better understanding of the DCAT modeling process.

For 2013/14, and pending the work to be done with respect to the DCAT methodology, the RSR target range will continue to be calculated on the basis of the Percentage of Premium approach, though the Board is not ordering any premium rebate to the extent that the RSR balance exceeds the upper limit of the Board's range as at February 28, 2012.

As in the past, the Board looks to the overall financial strength of the Corporation in establishing rates. The Board notes that on an overall basis MPI is in a financially strong position with retained earnings of almost $374 million while MPI's identified retained earnings targets in aggregate are about $272 million. On a Corporate wide basis MPI has excess retained earnings of over $100 million. The Board believes that MPI should develop a strategy for the disposition of these excess funds to the benefit of its ratepayers. The Board notes that the vast majority of Extension customers are Basic ratepayers and that MPI's dominant market position supports Extension and SRE lines; the benefits that flow to Extension from this integrated relationship with Basic has been an issue raised by the Board and Interveners. The Board will further explore this issue at the next GRA and urges MPI to put forward a strategy to deal with its excess retained earnings in its competitive lines.

7.0 RATE DESIGN

7.1 **Actuarial Methodology**

This application reflects an actuarial methodology for forecasting the required rate levels which is substantially unchanged from that used in last year's application.

7.2 **Vehicle Classification System**

The Corporation continues to classify vehicle risk by considering insurance use, rating territories, and rate groups. Insurance use classifications categorize vehicles by the nature of the vehicle and its intended insurance use. There have been no changes in insurance use classifications in this application.

Vehicles are assigned to one of five territories in Manitoba, including a commuter territory in the areas adjacent to the City of Winnipeg, based on the primary residence of the registered vehicle owner. There have been no changes to the rating territories in this application.

7.3 **Major Classification, Insurance Use and Rating Territory**

The Corporation continues to determine indicated rate adjustments by Major Classification using each of three approaches: the Exponential Trend Method, the Linear Trend Method, and the Financial Forecast Method. Consistent with prior years, the Financial Forecast Method was adopted as the basis for the proposed rate adjustments.

The Corporation then developed indicated adjustments by insurance use categories within the Major Classifications and for each territory. To avoid rate shock, the Corporation continues to cap experience adjustments as follows: if the indicated experience adjustment is 10% or less in magnitude, the rate is adjusted by the indicated amount; if the indicated experience adjustment is greater than 10% in magnitude, the rate is adjusted by 10% plus one third of the difference between the indicated adjustment and 10%, up to a maximum of 15%.

7.4 **Canadian Loss Experience Automobile Rating (CLEAR)**

For passenger vehicles and light trucks, MPI uses a rating system called the Canadian Loss Experience Automobile Rating system (CLEAR), administered by the Insurance Bureau of Canada (IBC), which amalgamates actual loss data from Canadian insurers to determine relative loss cost indices for specific makes and models of vehicles. These indices take into account the varying cost of repairs, collision claims, comprehensive claims and injuries associated with different types of vehicles and are used to establish rate groups (99) on which vehicle premiums are based. CLEAR provides separate rate group recommendations for collision, comprehensive, and injury coverage. Since the Basic plan combines these coverages, the CLEAR recommendations are weighted to obtain the rate groups applicable to Manitoba's (35 rate groups) scale.

7.5 **Interveners' Positions**

CMMG

CMMG states that MPI has been overly conservative in its forecasting, and exhibits a bias in its own favour, at the expense of motorcyclists. CMMG states that pursuant to the Corporation's rate design, there are reserves, including the provision for adverse deviation, that seem to continuously increase, such that at the 2011 GRA, there was a substantial rebate ordered as a result of the tail factor being utilized by the Corporation.

CMMG also suggests that an initiative worthy of consideration in the future is a flat PIPP rate moving on to the driver's license premium. CMMG notes that some 12,954 drivers, or 1.5% of drivers, pay no PIPP related premiums. CMMG notes that interprovincial truckers do not pay PIPP premiums pursuant to the legislation, and as well that there are family transfers ongoing, which CMMG calls an abuse and misuse of the classification registration system. CMMG suggests that PIPP costs should be spread among all motorists, whether they have a registered vehicle or not.

CAC

CAC generally supports the view expressed by MPI that no flat rate for PIPP should be accepted at this time.

7.6 Board Findings

The Board does not accept the recommendation of CMMG with respect to a flat PIPP rate at this time, as, in the view of the Board, the examination of this issue has not yet been detailed sufficiently. If in a future hearing, there is a close examination of the existing framework for allocating PIPP costs, the Board would further consider the issue.

8.0 ROAD SAFETY

Road safety and loss prevention costs account for approximately 1.5% of Basic costs over the forecast period. In 2011/12, the Corporation's actual road safety expenses were approximately $15 million, which was approximately $1.8 million less than forecast at last year's GRA. Road safety expenses are forecasted to decrease, to $14.8 million in 2012/13, to $13.8 million in 2013/14 and to $13.5 million in 2014/15.

The Corporation's Strategic Plan reflects that it has always had an unwavering commitment to reducing roadway risk in a manner that is supported and expected by Manitobans, and that today, as Manitoba's auto insurer and as administrator of *The Drivers and Vehicles Act*, there may be opportunities to leverage this dual role to make a meaningful difference to the road safety effort in Manitoba.

From May to July 2011, Manitobans were invited to share their views on the Corporation's role in the area of Road Safety in a Road Safety Visioning Process, through which MPI received input from approximately 1,100 Manitobans and stakeholders. The Corporation filed with the

Board the results of this public consultation report, which included the conclusion that Manitobans want the Corporation to strengthen its role as a strategic leader in the road safety arena, and to work with partners as the single agency to coordinate the efforts of all key players. MPI advises also that there was a clear message that it should act as the central repository to facilitate the sharing of data amongst stakeholders for research and making informed decisions, and to take a much more active role in road safety research. The Corporation has stated that it will look to the future of Manitoba, and identify how its programming should change to reflect demographic trends.

In particular, and as a result of the Road Safety Visioning Process, the Corporation has suggested that it will engage consultants for both reviewing the Driver Education Program and considering expenditures in infrastructure.

Historically, the Corporation's focus has been to concentrate on education to change the attitudes of motorists in order to reduce claims incurred costs, and has focused on three areas: unsafe speed, impaired driving and seatbelt usage.

8.1 **Interveners' Positions**

CAC

CAC advised that in recognition of the fact that the Corporation has conducted some analysis with respect to road safety, it backed away from its traditional approach of a significant level of detail in terms of road safety inquiries. CAC advises that going forward, it will question whether, with any proposal brought forward by MPI, there is a measureable, positive contribution to ratepayers and to mitigating the material social costs of accidents. It will also ask whether MPI is best suited to deliver the particular programming, whether MPI is currently equipped to make judgments about the best use of resources, and whether these investments will have broadened social implications, with the risk of leading to a societal misallocation of resources.

CAC questions whether there should be some type of baseline or survey as to all road safety related initiatives available in the community, and the nature of "who's doing what" and how much has been invested. CAC suggests that MPI be encouraged to continue its discussions and consultations with respect to road safety, to develop proposals, and to produce baseline surveys of the activities of other organizations.

CMMG

CMMG expressed disappointment with the Corporation given that it has not brought forward any new initiatives, and in the view of CMMG, commits inadequate funding to Road Safety matters. CMMG states that approximately $185,000 is spent on motorcycle specific initiatives out of approximately $13 million in annual spending. CMMG states that the Corporation does not demonstrate that motorcycle safety is a priority, given that it does not appear to be conducting research, and has not identified future plans. CMMG makes the same comment with respect to wildlife collisions, which carry claims costs of approximately $30 million per year, in addition to taking the lives of some Manitobans. CMMG states that the Corporation has no plan with respect to wildlife claims, and is not putting forward any initiatives to improve matters. CMMG suggests that roadside barriers in rural areas have met with success in other jurisdictions, and could be reviewed for Manitoba. CMMG suggests that the Board order that the Corporation examine statistics from other jurisdiction in terms of a reduction of claims costs arising from roadside barriers.

CAA

CAA commends the Corporation for endeavoring to improve the driver education program, and CAA states that the program has been one of the best initiatives pursued by the Corporation for drivers in the province. CAA also applauds MPI for making the program affordable and accessible for students. CAA believes that any revised drivers education program should be subsidized in a similar way, to ensure continued affordability and accessibility. CAA also recognizes that there may be new technological elements introduced into the new driver education program, with which it agrees. CAA encourages MPI to look at what has been done in other jurisdictions with respect to driver education, and as well to consult with other stakeholders like CAA.

CAA advises that its members have advised that distracted driving due to the use of electronic devices is the number one road safety issue in their opinion, and the vast majority of CAA members advise that they do not feel that they would be caught when talking on their cell phone when driving. CAA suggests that there needs to be more significant deterrents in place for individuals to discontinue distracted driving. CAA suggests that the Government of Manitoba amend the relevant legislation, to provide for demerits to attach to convictions for distracted driving as is done in the province of British Columbia. CAA advises that it has and will continue to lobby the Government of Manitoba with respect to this issue, and continue to raise the issue in these proceedings.

With respect to older drivers, CAA believes that there is a need for retraining or retesting under certain circumstances, but that this requirement should be tied to a person's driving record, not their age. CAA applauds MPI for its relationship with Safety Services Manitoba. CAA looks forward to partnering with MPI going forward.

With respect to spending on infrastructure, CAA has many questions, and disagrees that Manitobans will support such a strategy, because Manitobans will, CAA believes, conclude that they are paying twice for the services, once through their taxes paid to Government, and once through insurance premiums paid to MPI. CAA understands that there is a consultation process that has just begun with respect to infrastructure spending, and that it will wait to pass judgment on the value of the program until after the consultant has provided recommendations.

CAA suggests that MPI consult with municipalities going forward with respect to next steps for infrastructure, and as well that MPI consult with the interveners with the GRA process.

8.2 **Board Findings**

The Board applauds MPI for conducting the Road Safety Visioning Process, which was in keeping with MPI’s Corporate Strategic Plan as restated above; the Board looks forward to seeing more from MPI in terms of road safety strategies, action plans and investments.

It is the view of the Board that matters of Road Safety need to be given a higher priority by the Corporation than has been assigned in the past, including motorcycle safety, wildlife collisions and other road safety investments, from which prioritization, the Board anticipates the Corporation will be in a position to come forward with new initiatives.

In Order 162/11, the Board directed that a technical conference be convened to discuss road safety issues and loss prevention matters, to include stakeholders to the GRA proceeding as well as other stakeholders. The Board will again order that a Road Safety Research Technical Conference take place to discuss Road Safety matters, involving interveners, community partners, enforcement and government officials, to be held on or before March 31, 2013, in furtherance of the Corporation's goal, as stated in its Strategic Plan, that it will become a community leader and act as a central repository to facilitate the sharing of data amongst stakeholders for research and making informed decisions, and to take a more active role in road safety research.

In organizing the Road Safety Research Conference, the Board expects MPI would seek to involve scientist and experts from North America on road safety issues such as distracted driving, impaired (drug or alcohol) driving, seatbelt usage, new technologies promoting safety in automobiles, programs addressing wildlife collisions, motorcycle safety, roadway bicycle safety, and the role of other road safety investments. The Board expects its staff to meet with MPI on or before January 15, 2013 to start the process for a Road Safety Research Technical Conference.

Consistent with MPI's desire to develop a redefined road safety mandate, the Board believes that the Road Safety Research Technical Conference will assist MPI in developing new road safety initiatives that are broadly supported by road safety experts and stakeholders and will focus on reducing risk on Manitoba roadways which in turn should lead to lower claims costs.

The Board anticipates that at the next GRA proceeding, MPI will come forward with new road safety initiatives, including with respect to distracted driving, motorcyclists, bicyclists and wildlife claims, in addition to its ongoing initiatives relative to unsafe speed, impaired driving and seatbelt usage.

The Board also understands that MPI is considering road safety/infrastructure investments and has engaged a consultant to assist in assessing the feasibility of such investments. The Board further understands that no such investments are currently contemplated and expects that MPI will put forward any plans of this nature for the Board's review and approval in advance of committing to undertaking any proposed investments. The role of other road safety investments should be explored at the Road Safety Research Technical Conference.

The Board recommends that the Corporation review and act upon the recommendations put forward by the presenters from Bike to the Future and the Manitoba Cycling Association with respect to Road Safety, and in particular the recommendations regarding messaging. It is the view of the Board that bicycling is an activity that will only increase in volume over time, and as such it is an important consideration for future Road Safety initiatives.

9.0 Presenters

The Board heard from eight presenters at the hearing of the Application, namely Mr. Jason Carter, Mr. Alcid Delaurier, Mr. David Grant, Mr. Robyn Gray, Mr. Doug Houghton, Mr. Tom McMahon, Mr. Ed Toker and Mr. Terence Zimmerly. The presenters are not sworn witnesses and were not cross-examined. As such, although the content of the presentations is not evidence, the Board, MPI and the interveners received the information presented for consideration.

Mr. Jason Carter, President of the Manitoba Cycling Association expressed concern with road safety including communication and coordination between cyclists and motorists and recommended that the PUB encourage MPI to be proactive, to think about preventative efforts through branding, marketing, or any type of education of both cyclists and drivers on how to communicate and how to cooperate in the use of the roads.

Mr. Alcid Delaurier presented to the Board with respect to the injuries that he sustained as a pedestrian and his experience dealing with MPI in that regard.

Mr. David Grant expressed, in writing, that MPI must change their practices to improve the stewardship of ignition keys in their hands in order to avoid foregoing auction income by losing keys. Mr. Grant also stated that hail and storm claims should be an optional coverage with a minor extra premium as is the case with extra cost glass coverage.

Mr. Grant also raised concerns with MPI’s policy to scrap vehicles older than 1995. The rule doesn’t improve road safety nor reduce greenhouse gases, and is the detrimental to low-income Manitobans.

Mr. Robyn Gray expressed concern with the methodology used by MPI to determine the buyback value of motorcycles that are written off. Mr. Gray indicated MPI's brochures are misleading when it comes to permanently attached equipment to a vehicle because if a total loss occurs, MPI only pays what it determines to be the fair market value. Mr. Gray recommends that either MPI has to be fair and change the system or change the brochure.

Mr. Doug Houghton expressed concern with current motorcycle premiums being still very high, causing an extreme financial burden for pensioners and others on moderate incomes, especially when coupled with premiums on other vehicles. Mr. Houghton also stated that MPI should review its methodology for assigning PIPP costs to premiums and spread them equally across all vehicle groups, to either establish a flat rate for PIPP premiums with increases based solely on driving record, or consider the larger vehicle's potential to inflict serious injury to occupants or riders of smaller vehicles and bear a larger share of the PIPP costs. Mr. Houghton stated it would be a much more equitable system if PIPP premiums were transferred all or in part to the driver's licence rather than placed solely on the vehicle.

Mr. Tom McMahon is the current co-chair of Bike to the Future and expressed concerns about the safety of cyclists on Manitoba roads. MPI teaches drivers to enter the lane with a cyclist, the same lane, not giving cyclists enough space, creating dangerous situations.

Mr. McMahon urged the PUB recommend MPI to improve and increase its efforts in teaching and telling drivers how to get around cyclists more safely, and thinks that MPI can do a better job in encouraging drivers to change lanes.

Mr. McMahon stated that 21 jurisdictions in North America have now passed laws to say that passing safely means at least 1 metre with respect to bicycles and that MPI can give information, advice and recommendations in that regard.

Mr. McMahon also indicated the "Share the road" signs and sharrow markings are not clear as to their meaning and to whom they are addressed and that although MPI is coming to a new understanding of cycling and cycling safety, more needs to be done.

Mr. Ed Toker expressed, in writing, concerns with respect to MPI rates. In his opinion, the merit/demerit system is discriminatory, and stated that he was involved in a fender-bender in

2010, with $900 total damage and was deemed at fault. In order to re-establish his 15 merits, Mr. Toker must have a clear driving record for 4 or 5 years.

Mr. Terence Zimmerly stated, in writing, that he moved to Manitoba in 2008, when the DSR system was being set up and his initial placement on the scale was too low, at least 3 points lower than if he had moved from Saskatchewan 2 years later as the same driver. Mr. Zimmerly indicated that the placement did not reflect accurately safe driving.

10.0 IT IS THEREFORE RECOMMENDED THAT

1. MPI engage an external consultant to assist it with the development of productivity factors to enable the assessment of cost containment measures.

2. MPI develop and articulate a strategy for the disposition of retained earnings in the competitive lines of insurance that significantly exceed MPI target levels set out in its Corporate Strategic Plan to the benefit of Basic ratepayers, given that these earnings are generated largely as a result of its dominant Basic monopoly.
3. MPI review and act upon the recommendations put forward by the presenters from Bike to the Future and the Manitoba Cycling Association with respect to road safety and messaging to motorists regarding cyclists.

11.0 IT IS THEREFORE ORDERED THAT

1. Motor Vehicle premiums for the Basic Automobile Insurance Program, for the year ending February 28, 2014, as applied for by the Corporation, BE AND ARE HEREBY APPROVED.
2. The Board approves MPI's request to increase Driver's License Premiums on the Driver Safety Rating (DSR) scale, at demerit levels -1 to -20, to a maximum of $2,500.00 IS APPROVED as set out in Appendix A.
3. The Corporation develop productivity factors to enable the assessment of the cost containment measures and file those factors at the next General Rate Application.
4. The implementation of MPI's new Cost Allocation Methodology, as proposed, for rate setting purposes BE AND IS HEREBY APPROVED.
5. The Net Claims Incurred percentage be utilized as the allocator for claims expenses to the insurance lines of business.
6. The change proposed by MPI with respect to determining the equities yield BE AND IS HEREBY APPROVED.
7. A technical conference take place in early 2013 to discuss the adverse scenarios and methodology construct being utilized currently by the Corporation within the DCAT, with a view to refining the same.
8. A Road Safety Research Technical Conference take place to discuss Road Safety matters, involving interveners and community partners, to be held on or before March 31, 2013.

THE PUBLIC UTILITIES BOARD

"RÉGIS GOSSELIN, B.A., C.G.A., M.B.A."
Chair

"H. SINGH"
Secretary

Certified a true copy of Order No. 157/12 issued by
The Public Utilities Board

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Secretary

APPENDIX "A"

Driver Safety Rating Driver Premiums Effective March 1, 2013	
DSR level	Driver Premiums
-1	$100
-2	$100
-3	$200
-4	$200
-5	$300
-6	$300
-7	$400
-8	$400
-9	$500
-10	$500
-11	$700
-12	$900
-13	$1,100
-14	$1,300
-15	$1,500
-16	$1,700
-17	$1,900
-18	$2,100
-19	$2,300
-20	$2,500

Appendix "B"

Glossary of Acronyms and Terms

Application	2013 General Rate Application
AOCI	Accumulated Other Comprehensive Income
Basic	Compulsory motor vehicle insurance
Board	Public Utilities Board
Bonus/Malus	Incentives/penalties to encourage good driving
CAA	Canadian Automobile Association (Manitoba Division)
CAC	Consumers' Association of Canada (Manitoba) Inc.
CLEAR	Canadian Loss Experience Automobile Rating
CMMG	Coalition of Manitoba Motorcycle Groups Inc.
Corporation	Manitoba Public Insurance Corporation
DCAT	Dynamic Capital Adequacy Testing
DSR	Driver Safety Rating (replacement for the bonus/malus program)
Extension	Optional motor vehicle insurance
Government	Government of Manitoba
GRA	General Rate Application
ICWG	Investment Committee Working Group (MPI)
MCT	Minimum Capital Test
Monopoly	Policies that can only be sold by one corporation (MPI)
MPI	Manitoba Public Insurance Corporation
No-fault	Accident benefits not related to the fault of the driver
OSFI	Office of the Superintendent of Financial Institutions Canada (federal)
PfAD	Provision for Adverse Deviations (an element of Unpaid Claims)
PIPP	Personal Injury Protection Plan
Province	Government of Manitoba
RA	Risk Analysis
RSR	Rate Stabilization Reserve
SRE	Optional Special Risk Extension motor vehicle insurance
Tort system	Benefits paid take into account the allocation of fault
VAR	Value at Risk

Appendix "C"

Appearances

C. Grammond	Counsel for the Public Utilities Board (the Board)
K. L. Kalinowsky	Counsel for Manitoba Public Insurance Corporation (the Corporation)
B. Williams / M. Menzies	Counsel for the Consumers' Association of Canada (Manitoba) Inc. (CAC)
R. P. Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups Inc. (CMMG)
L. Peters	Canadian Automobile Association (Manitoba Division) (CAA)

Appendix “D”

Witnesses

Witnesses for the Corporation

L. Johnston	Chief Actuary and Director of Pricing and Economics
M. McLaren	President and Chief Executive Officer
H. Reichert	Vice-President Finance and Chief Financial Officer

Witness for CAC

Dr. W. Simpson	University of Manitoba

Appendix "E"

Interveners

Canadian Automobile Association (Manitoba Division) (CAA)

Coalition of Manitoba Motorcycle Groups Inc. (CMMG)

Consumers' Association of Canada (Manitoba) Inc. (CAC)

Insurance Brokers Association of Manitoba (IBAM)

Presenters

J. Carter		President of the Manitoba Cycling Association
A. Delaurier		Private Citizen
D. Grant	(by letter)	Private Citizen
R. Gray		Private Citizen
D. Houghton		Private Citizen
T. McMahon		Co-chair of Bike to the Future
E. Toker	(by letter)	Private Citizen
T. Zimmerly	(by letter)	Private Citizen