M A N I T O B A	Order No. 157/08
THE PUBLIC UTILITIES BOARD ACT	
:HE MANITOBA PUBLIC INSURANCE ACT	
THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT	December 2, 2008

Before: Graham Lane, CA, Chairman
Eric Jorgensen, Member
Alain Molgat, CMA, Member

MANITOBA PUBLIC INSURANCE: COMPULSORY 2009/10 DRIVER AND VEHICLE INSURANCE PREMIUMS, PREMIUM REBATE AND OTHER MATTERS

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1.0 EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) accepts Manitoba Public Insurance's (MPI or the Corporation) application, and approves an average 1% premium reduction from basic compulsory vehicle insurance 2008/09 rates.

Average premiums in 2009/10 for vehicle classes assessed in 2008/09 are to change, as follows:

a) private passenger vehicles - an average 1.5% decrease;
b) commercial vehicles – an average 3.9% increase;
c) public service vehicles – an average 2.3% increase;
d) trailers – an average 3.4% increase;
e) off-road vehicles – an average 14.3% decrease; and
f) motorcycles – an average 7.2% increase.

Of the 912,754 vehicles (including trailers and off-road vehicles) potentially affected by the changes, 65% are to receive a premium reduction, with most to be less than $50. For 2% of vehicles, no change is to take place, and while rate increases are projected for 33% of vehicles, most are to be less than $50.

Further, while MPI's Rate Stabilization Reserve (RSR) remains above the Board's range, the Board will not direct MPI to issue rebates in 2009, because of:

a) depressed and unsettled investment markets (as of the end of October, world stock markets were down by 44% and Canada's by 31%, compared to the index values of December 31, 2007);
b) uncertainty as to the implications associated with the approaching required adherence to International Financial Reporting Standards (IFRS);
c) a paucity of information available to the Board with respect to the non-Basic operations of MPI; and, to a lesser extent,
d) an on-going divergence of views as to what constitutes an adequate Rate Stabilization Reserve (RSR).

The Board anticipates progress with each of these matters ahead of and during next year's rate hearing. The Board anticipates that the investment climate will have strengthened and stabilized by then, that further information will be available with respect to the implications of IFRS for the Corporation, an accommodation will be reached that will provide the Board with more information related to non-Basic MPI operations, and, as well, progress will be made to end the divergence of views as to what constitutes an adequate Rate Stabilization Reserve (RSR). As to the latter, within this Order the Board provides a "roadmap" towards resolving the matter.

The Board is experiencing increased difficulty in assuring itself of the Corporation's overall financial situation and prospects. This is largely because the Board's mandate is limited to the Basic compulsory program, while an increasing percentage of the Corporation's retained earnings and operations remain outside the Board's purview.

Not only are the Extension and SRE lines of business beyond the Board's oversight, but so too is MPI's significant contract with the Province concerning driver and vehicle licensing. In the absence of fuller transparency related to non-Basic operations, the Board cannot reach an informed evidence-based view as to the Corporation's financial situation and prospects. Unable to form such a view with confidence, the Board now acts cautiously, both as to the level of Basic premium levels and on the matter of a further premium rebate.

As to the future, rebates still remain the likely means by which excess RSR levels will be returned to policyholders. Rate reductions will be considered when material and sustainable increases in income and/or on-going expenditure reductions allow.

Factors to be considered in future reviews of MPI rate applications include:

a) continued progress with the anti-theft initiative;
b) the implications of the anticipated advent of the Driver Safety Rating program – which is expected to provide enhanced motivations to motorists to drive safely;

c) recently-announced (though yet to be fully outlined) Basic commission reductions – reportedly to follow the implementation of changes underway affecting driver and vehicle licensing;
d) an anticipated transition to the increased diversification of MPI's investment portfolio; and
e) the potential for future operating expense savings following the completion of MPI's now ongoing Business Process Review (BPR).

Within this Order, and as has been the Board's longstanding practice, the Board makes a number of recommendations, each proffered in the public interest, with perhaps the most significant being a recommendation that government act to either extend the Board's mandate with respect to non-Basic operations or, at a minimum, direct MPI to provide the Board with such additional information on non-Basic operations as the Board deems it requires.

The Board does not agree with MPI that including the "competitive" divisions (inclusive of MPI's contract with the Province with respect to driver and vehicle licensing matters) within the Board's purview will either compromise the Corporation's interests (which, in the end, should be the interests of its policyholders) or interfere with its service to the Province. To the contrary, an extension of the Board's oversight will serve the public interest. Such an extension is expected to improve the effectiveness of the Board's oversight (including, among other matters, allowing the Board to review the "fairness" of MPI's driver and vehicle licensing contract with the Province), while neither risking MPI's dominant position in the Manitoba vehicle insurance market nor the Corporation's ability to assist the Province in improving driver and vehicle licensing processes and services.

Times and circumstances have changed, and the Board's oversight has not kept pace. When the legislation establishing the Board's existing jurisdiction was put in place (twenty years ago), MPI issued general property and liability insurance, took on risks through reinsurance-assumed operations, private auto insurers were more active in the

non-compulsory extension market, and the government administered the driver and vehicle licensing program through a department separate from MPI.

Strong competition usually is accompanied by reduced government regulation, with regulation serving as a proxy for inadequate competition. Monopolies, full and virtual/near, usually attract increased regulation. Now, only two private insurers in Manitoba have volumes of $1 million, both just over the million mark, in the non-compulsory Extension market, MPI's general insurance business has been sold off, and the reinsurance assumed business run-off. In addition, government has transferred administrative responsibility for driver and vehicle licensing to MPI.

MPI's policy issuance, management and operational platform is based on Basic compulsory operations, and that common platform along with its non-taxable status and exemption from federal insurance regulation provides the Corporation advantages that cannot be duplicated by the private sector. What exists with MPI's Extension operations is a virtual monopoly, and monopolies are usually accompanied by regulation, this to provide the public assurance that rates, terms and conditions are fair and reasonable.

And, unlike the situation that existed until only a few years ago, MPI no longer transfers net income from Extension and SRE lines of business to the Basic RSR. At the recent hearing, MPI declined Board requests for the release of the Corporation's forecasts of future annual net income for Extension and SRE operations. With MPI's major operational overhaul (the BPR) expected to cost over $100 million, most of which is now being capitalized or deferred, and is being conducted outside the Board's "basic" purview, it has become virtually impossible for the Board to fully and properly assess MPI's overall situation.

Given the restrictions on its mandate, the Board is left with MPI's assurances that:

a) allocations of MPI's overall expenditures made to the Basic program are fair and reasonable;
b) MPI's future financial results will not be deleteriously affected by the rapid growth in both overall expenditures and employee complement; and

c) expenditures incurred by MPI to service its contract with the Province, or related thereto, will be adequately reimbursed by the Province.

While each of these assertions may be accurate, with its current jurisdiction the Board cannot examine them sufficiently to provide for the assurance the Board requires to act confidently with respect to both rate and rebate decisions.

Notwithstanding the difficulties encountered by the Board with respect to jurisdictional issues, the Board recognizes the efforts of MPI's personnel and acknowledges the difficulty the Corporation must be facing dealing with the array of diverse and significant major projects and issues now either underway or present. And, nothing in this Order should be construed to suggest that either MPI's policyholders or the public interest are being poorly served by MPI's Basic no-fault based motor vehicle insurance program.

This Order arises out of an application filed by MPI for Basic premium rates and fees for the fiscal and insurance year 2009/10, reviewed at a public hearing held in September and October 2008.

2.0 INTRODUCTION

2.1 Rate Hearing Process

MPI applied to the Board for approval of 2009/10 premiums for compulsory vehicle and driver insurance under its Basic Automobile Insurance Plan (Basic). MPI's operations are divided into two main segments:

a) Basic, that is compulsory mandatory insurance, operated as a regulated monopoly, and
b) Competitive lines (Extension, SRE) and contract services to the Province with respect to the former Division of Driver and Vehicle Licensing (DVL) (formerly a Government responsibility, now delegated to MPI) all of which are unregulated by the Board.

The evidentiary component of the Board's hearing of MPI's application for approval of the Corporation's proposed base rates and premiums to be charged for compulsory vehicle and driver insurance (Basic) proceeded with a public hearing extending over three weeks of hearing days in September and October 2008, concluding with final statements by interveners and MPI.

The process followed was pursuant to *The Crown Corporations Public Review and Accountability Act, The Public Utilities Board Act,* and *The Manitoba Public Insurance Corporation Act*.

Interveners participating at this most recent proceeding were:

a) Canadian Automobile Association – Manitoba Division (CAA);
b) Coalition of Manitoba Motorcycle Groups (CMMG);
c) Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors (CAC/MSOS); and
d) Manitoba Bar Association (MBA).

Manitoba Used Car Dealers Association (MUCDA), an intervener at many past hearings, was again accepted as an intervener ahead of the fall hearing, but the association did not participate, having advised at the hearing's outset of an intention to monitor proceedings and participate only as MUCDA deemed necessary.

In addition to the interveners, individual presentations were heard. Presentations are not considered as evidence, as presenters' views are not subject to cross-examination.

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

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

2.2 Background – the Basic Insurance Program

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

1. provide universal mandatory motor vehicle insurance (Basic);
2. provide lower premiums than private insurers for, at minimum, comparable coverage and service;
3. return at least 85% of premium revenue in claims benefits;
4. support Manitoba infrastructure through investments in municipal, hospital, education and provincial bonds;
5. provide superior automobile insurance coverage and service;

6. provide responsive, fair, courteous and convenient customer service;
7. provide an adequate Rate Stabilization Reserve (RSR);
8. provide an internal working environment attractive to productive improvement-minded people;
9. treat employees with respect and fairness;
10. lead initiatives on driver education and training; and
11. address risky driving behaviour.

MPI relies on audited financial results, its rate-setting process and customer surveys to compare outcomes with objectives. And, while the Board is able to reach an affirmative opinion on whether MPI is achieving its goals with respect to the Basic program, it cannot establish a view as to MPI's adherence to the broad financial objectives with respect to the unregulated operations, as the Board lacks the mandate to effectively test outcomes against the objectives.

2.3 Program Amendments

Since MPI's inception, there have been several amendments made to its offerings, insurance product design and practices. Very early in its existence, the Extension and SRE lines of business were added, along with general property, liability and reinsurance assumed.

However, following a major loss experienced by MPI on 1985/86 operations, government directed MPI to sell its general property and liability insurance operation and to discontinue accepting reinsurance risks. At or about the same time, MPI's Basic deductibles were increased significantly, and the Corporation implemented the *bonus malus* program that provides discounts and surcharges based on driving records that it now plans to replace.

The major increase to Basic deductibles in1987 was a significant factor in the initial expansion and growth of the Extension Division and the Extension's gross written premiums. And, to a lesser degree but still important degree, the freezing of Basic third

party liability coverage and maximum insured value lead to increased reliance on unregulated Extension policies.

With ongoing annual inflation, the significance of non-compulsory extension insurance further increased, providing MPI with a significant and ever-increasing unregulated revenue base that, having been profitable, has led to significant non-Basic retained earnings.

Beginning in 1988, and again following the major loss of 1985/86 and the changes to MPI, Basic and Extension that followed, MPI became subject to the Board's oversight, that oversight involving annual public rate hearings, though only with respect to the Basic program.

More recently, in 2004, government directed the amalgamation of DVL operations within MPI, and MPI chose to situate the newly acquired DVL functions and the contract related thereto with the Province within its Extension Division, subsequently allocating costs of its overall operations between Basic and the "competitive" programs. From the first hearing following the transfer of DVL to MPI, the Public Utilities Board has recommended that the DVL operation be placed within the Basic Division, within the purview of the Board.

As matters have since stood, the Corporation's staff, general expenditures and investment revenue and portfolio are that of the Corporation as a whole, with Basic allocated shares based on formulae approved by MPI's Board of Directors. The arrangement has partially shielded MPI's overall operations from the oversight of the Public Utilities Board.

Over the years, there have been benefit design changes to Basic, all brought about by legislative changes. Perhaps the most significant change was the 1994 adoption by legislation of "total no-fault" benefits (PIPP), an approach first recommended by Judge Robert Kopstein (*Autopac Review Commission*, 1988). PIPP is a component of Basic, and provides income compensation and medical and rehabilitation benefits to those injured in motor vehicle accidents, regardless of fault.

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

MPI became more active over the years in attempting to reduce the level and severity of claims. Through driver education and training, the introduction of graduated licensing, support provided to the Winnipeg Police Service (WPS) and Manitoba Justice, the immobilizer program, and, now, the upcoming planned advent of a new Driver Safety Rating Program (DSR), MPI seeks to achieve a reduction in claims, accidents, injuries and fatalities.

To address increasing auto theft claims (and with the support of government and the Board), MPI introduced the immobilizer incentive program. Amendments to the initial program have included:

a) free installations for vehicles considered by MPI to be most at risk (MAR) of theft;
b) an initial extension of the MAR list, and the provision of free immobilizer installations for vehicles located outside Winnipeg;
c) by regulation, the requirement for recovered stolen MAR vehicles to have immobilizers installed prior to being returned to service;
d) by regulation, the requirements that imported MAR vehicles have immobilizers installed prior to registration, and that all MAR vehicles have immobilizers installed prior to registration; and
e) most recently, an addition of 50,000 vehicles models to the MAR listing made in May 2008.

The effects of the program have been further assisted by actions of the federal government; effective September 12, 2007 new passenger vehicles and light trucks, model year 2008 and on, are required to have factory-installed immobilizers.

MPI expects that the number of annual thefts will gradually fall to a number below 4,000. Factors related to driver inattentiveness, such as "leaving the keys in the vehicle", are expected to result in what has been portrayed as a "modest" level of continuing theft experiences.

2.4 2009/10 Basic Application

MPI sought Board approval for:

a) a 1% overall reduction to premiums for Basic policyholders, with individual increases and decreases varying considerably, dependent upon vehicle and driver experience;
b) no changes to the existing driver basic premium fee, the driver merit discount program, the demerit point additional premium, the accident surcharge, service and transaction fees, fees for permits and certificates and the $40 discount for approved immobilizers; and
c) insurance use changes for Dealer trailer and Dealer moped use.

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

For all vehicles other than off-road vehicles, MPI proposed classification offset adjustments to achieve "revenue neutrality" arising from the Corporation's rate group adjustments. And, as the majority of the motorcycle rate line now approaches the target

motorcycle rate line, the most current changes now have offset adjustments applied on a revenue neutral basis.

MPI applied rate line adjustments to trailers with a declared value between $2501 and $50,000, on a revenue neutral basis, with the offset equal to the amount of the respective revenue change. In its proposal, MPI also capped all rate changes at 20%, except for mopeds (capped at 25%).

Motorcycle rates continue to be positively (i.e. downward) affected by a 2005 Board-directed change with respect to claims attribution, the change having a corresponding negative effect for premiums for commercial vehicles. Though the actuarially-indicated average premium for motorcycles (the class includes scooters and mopeds) suggested an increase of 13.2%, driven in part by "large loss" experience, the application of the overall rate making methodology, with caps, restricted the average increase to 7.2%.

MPI also proposed that the insurance portion of the driver's licence premium remain unchanged at $45; the licensing fee component, which is set by and remitted to the Province, also remains unchanged, as do service, transaction, permit and certificate fees.

2.5 Forecasted /Projected Operating Results

MPI based its Basic premium proposal for 2009/10 on forecasts for revenue, claims and operating expenses. MPI's operating results forecast for the Basic Division's fiscal year ending February 28, 2009, based on existing rates, and a projection for fiscal 2010 based on proposed rates are, were as follows:

Statement of Operations ($ millions) For Years Ending February 28	Fiscal 2009 at Existing Rates	Fiscal 2010 at Requested Rates
Net premiums earned		
Motor vehicle premiums	669.8	701.8
Drivers' premiums	35.3	36.1
Reinsurance ceded	(9.9)	(9.5)
	695.2	728.4
Service fees and other revenues	17.1	17.4
Total earned revenue	712.3	745.8
Net claims incurred	589.5	624.9
Claims expense	77.8	86.1
Road safety/loss prevention	26.8	19.8
Total claims costs	694.1	730.8
Expenses		
Operating	42.4	47.7
Commissions	37.6	39.2
Premium taxes	21.2	22.1
Other regulatory/appeal	2.8	3.0
Total claims and expenses	798.1	842.8
Underwriting loss	(85.8)	(97.0)
Investment income	80.2	91.9
Net income (Loss) from Operations	(5.6)	(5.1)
Transfer from Immobilizer Incentive Fund	17.0	0.9
Net Income (Loss) for rate setting purposes	11.4	(4.2)

("Fiscal 2009" projections, as updated at the hearing.)

2.6 Program Revenue

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

MPI's annual policyholder Basic premium revenues are expected to continue to increase as vehicle upgrades and seemingly ever increasing numbers of insured vehicles provide MPI with annual revenue increases. From the upgrade and volume factors alone, MPI consistently projects annual premium revenue growth, and this was again the case with this year's application, which projected a combined 5.0% premium increase from these factors (comprised of a 2.25% volume increase and 2.75% upgrade factor).

MPI projected that its total Basic earned revenues for 2009/10 would be $837.7 million (including $17.4 million of service fees, and, more importantly, projected investment income of $91.9 million), compared to $792.5 million most recently forecast for fiscal 2008/09.

The overall projected increase in Basic revenues is due to higher forecast premium revenue (upgrade and volume factors, offset by the proposed overall premium reduction), and projected additional investment income over forecast 2008/09 levels for 2009/10.

2.7 Program Costs

The aggregate of Basic claims incurred, claims and road safety expenses and loss prevention expenses were projected by MPI to increase in 2009/10 to $730.8 million from $694.1 million forecast for 2008/09, an increase of over 5.0%. MPI also projected Basic operating, commission, tax and other 2009/10 expenses to increase over forecast 2008/09 expenses.

After deducting projected expenses from projected revenue, MPI projected a Basic underwriting loss for 2009/10 of $97.0 million, offset by projected investment income of $91.9 million to arrive at a projected net loss from operations of $5.1 million before a

transfer from the IIF of $0.9 million to arrive at an overall projected Basic net loss of $4.2 million for rate-setting purposes.

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

Basic net claims incurred (claims incurred less recoveries including reinsurance) represent the expectations for several claim categories. Overall, Basic net claims incurred for 2007/08 were $525.3 million, with forecasts of $603.4 million for 2008/09 and $624 million for 2009/10, as follows:

Cover ($,Millions)	**2007/08 (Actual)**	**2008/09 (Forecast)***	**2009/10 (Projection)**
Accident Benefits			
Pre- PIPP	$ 2.0	$ 2.9	$ 1.5
PIPP	167.2	239.3	249.8
	$169.2	$242.2	$251.3
Collision	$241.3	$253.7	$266.5
Comprehensive	$76.3	$66.2	$63.3
Property Damage	$35.7	$36.5	$38.7
Public Liability	$2.7	$4.9	$5.1
Total Claims Incurred	**$525.3**	**$603.4**	**$624.9**

* At the hearing, MPI provided an update to its initial GRA 2008/09 forecast. MPI provided a revised forecast indicating an expectation for a reduction in net claims incurred, down to $589.5 million ($13.4 million less than the previous forecast of $603.4 million).

2.8 PIPP Accident Benefits

As the following table illustrates, there have been significant variances between the initial cost projections, the revised estimates provided at the annual hearings, and the actual results as follows:

PIPP Accident Benefits ($ millions)

Fiscal Year End	Initial Projection	Revised Forecast	Actual
1995	132.8	119.4	112.6
1996	140.2	126.6	105.3
1997	135.9	95.1	90.1
1998	118.8	115.5	132.7
1999	119.3	132.1	124.3
2000	139.0	136.3	144.0
2001	139.6	138.2	154.3
2002	139.8	162.2	182.4
2003	167.8	187.2	198.7
2004	190.1	210.4[1]	229.3
	190.1	230.7[2]	229.3
2005	206.7	212.2	154.8
2006	215.1	211.2	194.5
2007	221.2	226.2	184.6
2008	237.3	231.3	167.2
2009	242.1	239.3	-
2010	249.8	-	-

Two revised forecast scenarios were provided at last year's hearing for fiscal 2004.
1 This scenario represented a moderate level of PIPP loss count.
2. This scenario represented a high level of PIPP loss count.

PIPP "accident benefits" include weekly disability payments, death benefits, funeral and medical expenses and impairment benefits arising out of bodily injuries. Accident benefits are payable regardless of the attribution of fault. Claims Incurred also include payments and provisions made pursuant to claims under the previous tort-based system. While tort coverage for new claims ended March 1, 1994 (when MPI converted to PIPP

on a going-forward basis), the pre-existing tort claims continue to run-off (and are now at negligible levels).

2.9 PIPP Claims Run-off

During fiscal 2007/08, Basic's claim-incurred costs experienced over $58 million of favourable net runoff on the claim liabilities posted at the prior fiscal year-end for the PIPP years, this comprised of almost $20 million of unfavourable runoff on the two most recent insurance years, and favourable runoff of about $78 million on prior PIPP insurance years. .

Cumulatively, over the fiscal years from 2004/05 to 2007/08, Basic has experienced over $194 million of favourable PIPP net claims incurred runoff, the result of actuarial re-evaluation of prior years PIPP reserves, with the runoff being consistently favourable for each insurance year during each fiscal year except for the most recent two insurance years during fiscal 2007/08. In light of the experience, MPI advised that it will review unpaid claims reserves and claim development factors.

2.10 Other Costs

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

	Forecast Expenses* 2008/09 ($ millions)	**Projected Expenses 2009/10 ($ millions)**
Claims Expenses (Note 1)	77.8	86.1
Road Safety/ Loss Prevention (Note 2)	26.8	19.8
Operating Expenses (Note 3)	42.4	47.7
Commissions (Note 4)	37.6	39.2
Premium Taxes	21.2	22.1
Regulatory/Appeal Expenses (Note 5)	2.8	3.0
Total (Note 6)	**$208.6**	**$217.9**

* Forecast as updated at the hearing

Notes:

1. Overall claims handling costs are allocated between Basic and Extension based on net claims incurred before financial provisions.
2. Now classified as claims expenses, excluding the major program, immobilizers, road safety has three main priorities: occupant restraint, impaired driving and speed. The focus is on education, assistance for traffic safety programs administered by external agencies and general community work. The Immobilizer program, the largest element of this cost category, is funded from an allocation of retained earnings to offset actual period expenditures.
3. Primarily employee compensation, technology related, telecommunications, occupancy costs and amortization of capital assets. Expenses allocated between Basic and Extension based on direct premiums written.
4. Brokers' commissions, increases primarily due to increases in premiums written, though significant net increase from 2004/05 as a result of the cessation of approximately $6 million in annual commission offset payments by the Province (DVL related).
5. Represents the aggregate of costs associated with the Public Utilities Board process, Automobile Injury Compensation Commission, Crown Corporation Council, Advocate's Office and the Rates Appeal Board.
6. Non-claim expenditures for 2007/08 were $197.1 million. Current outlook for 2012/13 is $235.3 million.

The projected annual rate of increase for non-claims incurred expenditures, from 2007/08 through to and including 2012/13, approximates 3.0%, compared to the projected annual rate of increase for Net Premiums Earned for the same period of 4.75%. This suggests an opportunity for further rate reductions in the future.

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

An increase in claims handling expenses of 6.3% over 2007/08 is projected for 2008/09, with a further projected increase for 2009/10 of 10.6%. These major increases relate to the costs of ongoing PIPP infrastructure initiatives. Operating expenses attributable to the Basic program were projected to increase marginally, to $42.4 million in 2008/09 from $41.6 million in 2007/08, and are projected to further increase to $47.7 million in 2009/10; the increase attributable to higher levels of amortization and expenditures related primarily to Business Process Review (BPR) initiatives.

Compensation is the single largest expense item, and a variance between projected and actual compensation paid can have a significant effect on total operating expenses. Compensation expenses are projected to increase from $22.0 million in fiscal 2005/06 to $27.1 million in fiscal 2009/10. Projected compensation increases include economic increases, merit increases, vacancies, severances, bonuses, overtime, and costs attributable to expected additional growth in staff levels. Overall staff salaries increased by 6.5% in 2007/08 and 6.2% in 2008/09, and are projected to increase by 3.7% in 2009/10 (all in excess of the general rate of annual inflation.

Since 2000, MPI's staff complement has increased from 1,204 full time equivalent (FTE) to a forecasted 1,963.4 FTE in fiscal 2008/09 an increase of over 759.5 FTE or 63% over a ten year period, although it is noted that the overall complement is projected by MPI to decline to 1849.2 by 2010/11. The major increase is partially attributable to the merger with DVL whereby 296.7 FTE positions became employees of MPI effective October 1, 2004.

In 2007 and 2008, original DVL staff became integrated within the Corporation; former DVL staff have been redeployed among MPI's divisions, and primarily to the Claims Operations & Service Delivery division which provides services to Basic as well as the competitive lines of business.

MPI's staffing levels were forecast to increase by a further 187.2 FTE in 2008/09; the major increase was primarily attributed to special projects related to the BPR, which was indicated by MPI to account for 136.2 of the FTE additions. MPI further indicated that 50

FTE of the additions relate to Basic associated initiatives; MPI committed itself to reduce staffing levels following the completion of the BPR.

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

a) occupant restraint/seatbelt usage;

b) impaired driving prevention; and

c) reducing driving at an unsafe speed.

The largest projected road safety expenditure in 2008/09 relates to the anti-theft strategy, with Basic's allocated share for road safety projected at $26.9 million, of which $18.9 million is related to the anti-auto theft strategies.

2.11 Anti-theft Initiative

Over a period extending several years, MPI experienced significant increases in claims incurred related to vehicle theft, attempted theft and vandalism. With vehicle theft associated not only with "costs" but also with personal injuries and death, and with the overall cost to society of vehicle theft extending beyond the costs incurred by MPI and its policyholders to social services, health care, justice and corrections, MPI, with the assistance of government, seized the initiative and took action.

At the hearing, MPI reported extensively on its anti-theft initiatives, which began in earnest in 2004; with the two main components of the initiative continuing to be:

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

b) vehicle engine immobilizers, MPI's primary long term strategy toward preventing auto theft.

With respect to auto theft, and leaving aside claims incurred costs, MPI now expects to expend in excess of $1.5 million annually, funding:

a) a longstanding arrangement with the Winnipeg Police Service auto theft unit, at an annual cost to MPI of $550,000; and
b) a commitment of $896,000 per year to the provincial Department of Justice, with respect to Crown prosecutors and probation officers (recently extended to 2009, with MPI's contribution increased to $1.14 million).

MPI indicated that the combination of police and probation officers' focus on youth offenders is providing results, and those results include reducing the number of auto thefts and attempted thefts. WATSS, as one component of the overall effort, is a bridging strategy, suppressing thefts while the installation of immobilizers continues.

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

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

In addition, through regulations of the government:

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

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

Since the establishment of the Auto theft strategies, MPI has estimated that for auto-theft claims to be incurred between 2005/06 and 2010/11 a total reduction of $101.9 million in claims will be achieved, as follows:

Claims Incurred Reduction for Total & Attempted Theft (in $thousands), 12-Month Periods

	Actual			Forecast/Projection			Total
	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2005/06 - 2010/11**
Base Forecast Incurred[1]	$40,392	$41,752	$42,870	$44,040	$45,221	$46,435	$260,710
Actual Claims Incurred (with Initiatives)[2]	$29,910	$35,499	$27,845	$25,338	$20,850	$19,397	$158,839
Claims Incurred Reduction Allocation:							
WATSS	$10,482	$6,253	$6,253	$6,253	$3,127	$0	$32,368
IIP	$0	$0	$8,773	$12,449	$21,243	$27,038	$69,503
Total Reduction	**$10,482**	**$6,253**	**$15,026**	**$18,702**	**$24,369**	**$27,038**	**$101,870**

(1) Forecast/projection of claims costs (done in 2005), without auto theft initiatives

Through to 2013/14, MPI forecast that reductions in claims incurred attributable to its anti-theft initiative would amount to approximately $259.9 million (with $219.0 million related to Basic and $40.9 million to Extension), with overall annual savings projected to be in excess of $40 million each year thereafter.

2.12 MPI's Financial Situation and Prospects

In terms of its overall financial situation, MPI reported:

- For the 2007/08 fiscal year, Basic insurance division net income of $84.3 million, this after the transfer of $15.2 million from the IIF, compared to the updated

forecast provided at last years GRA of $31.4 million, the result representing an improvement of $52.9 million over the revised projection. MPI attributed the positive variance primarily to lower than expected incurred claims ($64.2 million), offset in part by lower than forecast investment income ($13.2 million).

- For fiscal 2008/09, the current year still in progress, MPI's application forecast a Basic net loss of $2.4 million, including a $17.0 million transfer from the IIF, compared to the forecast net income of $0.5 million originally projected at last year's GRA, including a $12.6 million transfer from the IIF. The forecast was the result of an anticipated increase in earned revenues of $7.7 million offset by increase in other expenses of $2.2 million and lower forecast investment income of $13.3 million due to lower investment yields as compared to last year's projection. However, in recent years MPI results have been considerably better than its forecasts, and the results for the six months ended August 31, 2008 were better than expected.

MPI provided an update to its forecast results for fiscal 2009 during the hearing, prompted by improved financial results indicated in MPI's second quarter report dated August 31, 2008. The updated forecast indicates a $13.9 million improvement in the expectation for Basic net income, from the results forecast in the application.

MPI's updated forecast indicated a net income of $11.4 million for rate setting purposes, which includes a transfer of $17.0 million from the Immobilizer incentive fund compared to a projected net loss of $2.5 million forecast earlier this year. The projected improved results were due to a projected reduction in both claims incurred ($13.4 million) and claims expenses ($2.2 million), as well as projected lower operating expenses ($3.2 million), all offset to some extent by a reduction in the forecast for investment income of $6.7 million.

Overall the Corporation anticipated earning $32.2 million from its Extension and SRE lines of business in fiscal 2008/09 – the forecasts, confirmed by MPI under cross examination to be based on MPI's 2nd Quarter report, lead to an updated Basic forecast

for the year. MPI has not provided the Board with any estimates of further future results for Extension and SRE.

MPI's current future outlook for the Basic program projects a $6.6 million net income for 2010/11, $27 million for 2011/12 and $41.7 million for 2012/13. The high level of projected net income for the outlook period is largely attributable to forecasted reductions in theft claims cost. As well, MPI indicated that the forecasts include projected savings to arise from the future completion of the PIPP Infrastructure Initiative. MPI also indicated that if these forecasts are sustained, the Corporation would seek rate reductions and these reductions, would reduce the net income forecasts for the years affected.

However, the projected outlook does not reflect:

- the impact on Basic Operations of the new Driver Safety Rating and a Streamlined Renewal Process, the subject of a future Application and Hearing in April 2009;
- changes in investment income assumptions from a revised investment asset mix, with the timing of the transition to the new asset allocation policy yet to be established; and
- accounting changes that may arise from the adoption of International Financial Reporting Standards – which will have an impact on fiscal 2011/12, and 2010/11 for comparative purposes.

Again, MPI indicated that if the current forecasts remain firm, rate decreases are likely to be proposed in future rate applications.

2.13 Rate Stabilization Reserve (RSR)

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

Forecast RSR balances as of the end of fiscal periods ending February 28, including the IIF balance, were:

Rate Stabilization Reserve ($ Millions)

	Actual				*Forecast*	*Projection*		**Outlook**	
Years ending February28/29	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
RSR, Opening	42.8	126.0	136.1	128.1	127.1	138.5	134.3	140.9	167.9
Total Net Income	59.9	85.7	47.8	69.0	(5.6)	(5.1)	6.6	27.0	41.7
RSR Allocation IIF	-	2.9	13.9	15.2	17.0	0.9	-	-	
Transfer from SRE	29.6	8.4	-	-	-	-	-	-	
Transfer from Extension	4.3	11.0	-	-	-	-	-	-	
Premium Rebate	-	(58.0)	(59.7)	(62.6)	-	-	-	-	
Accounting Adjustment	(10.6)	-	-	(22.7)	-	-	-	-	
Appropriation of RSR for IIF	-	(40.0)	(10.0)	-	-	-	-	-	
RSR, Closing	126.0	136.1	128.1	127.1	138.5	134.3	140.9	167.9	209.6
IIF	-	37.1	33.0	17.9	0.9	-	-	-	-
Total Basic Retained Earnings	126.0	173.1	161.1	145.0	139.4	134.3	140.9	167.9	209.6

As at the end of fiscal 2007/08, MPI had $145.0 million in Basic retained earnings, including the IIF and after a rebate of $62.6 million and an accounting adjustment of $22.7 million relating to the adoption of new accounting standards.

For the current year 2008/09, and based on a revised forecast presented at the hearing, MPI now forecasts $139.4 million in basic retained earnings, again including the IIF, following a projected net loss of $5.6 million for 2008/09. The RSR is projected to be at $134.3 million at the end of fiscal 2009/10 (after the expected full depletion of the IIF).

In assessing a sufficient level of RSR arising out of the 2005 proceeding, the Board concluded on a methodology to determine the appropriate range for the RSR. When the balance in the RSR is below the range, premium surcharges would be considered; when above, rebates will be considered.

However, in a past proceeding, MPI advanced a methodology [denoted here as the Minimum Capital Test (MCT) approach], as a more appropriate determinant of the RSR range, an approach the Board, with the support of interveners, rejected. The Corporation,

at the most current proceeding, again indicated a preference for the MCT approach and did not abandon its view that a broader range of RSR would be in the Corporation's best interests.

Projected RSR balances from 2007 onward have been negatively affected by MPI's decision not to undertake further transfers of deemed excess retained earnings from Extension and SRE to the RSR, a decision related to the Board's rejection of MPI's preferred MCT-based methodology.

MPI's rationale for withholding transfer of excess Extension and SRE retained earnings to the RSR is based on the Corporation's concern that, with the Board's lower RSR target range, transfers of Extension and SRE retained earnings would likely lead to the Board rebating those transfers to Basic policyholders.

If the Board had accepted the MCT-based methodology, the RSR target ranges would have increased substantially, and effectively resulted in neither of the premium rebates of 2006 and 2007 being made.

Coincident with MPI's change in intention as to transferring competitive line retained earnings to the RSR, MPI declined to file any forecasts of future retained earnings balances related to SRE and Extension. In doing so, MPI cited the Board's limited jurisdiction. However, MPI confirmed, in its updated forecast for the 2008/09 year, that the SRE and Extension lines of business, on a combined basis, are expected to have a net income of $32.2 million. No further details were provided.

With Basic operations generally designed to "break-even", the ability to rely on Extension and SRE retained earnings to support RSR adequacy remains an important factor in the Board's consideration of whether rebates should be paid.

The Board's RSR target range for 2008/09 was $72 - $109 million (an increase from the previously-established range, recognizing the growth of MPI Basic Gross Written Premiums). Based on MPI's current forecast for 2008/09 Basic net income, MPI's basic retained earnings will exceed the Board-allowed range by $30 million. Contrarily, the

Corporation's Board of Directors' current target level range is 50 per cent to 100 per cent of MCT ($107 million to $214 million).

The Board indicated that the current divergent views on how to determine the RSR target range, one based on Risk Analysis (the Board-preferred methodology), and the other based on MCT (as preferred by MPI), was not in the public interest.

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

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

b) Value at Risk Analysis (VAR); and

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

The Board noted in Order 177/99:

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

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

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

The DCAT takes into account the projected effect of various adverse events, combined or individual, and whether non-recurring (major hailstorm) or continuing (heightened

inflation without a quick rate-adjustment reaction by the regulator), is evaluated with respect to the risk of depleting MPI's RSR and retained earnings.

In prior orders, the Board has indicated an expectation that both the Risk and Value at Risk analyses will be updated as needed by changing circumstances, or at the initiative of MPI or the Board. The Board has also indicated a willingness to utilize the MCT in its evaluation of the adequacy of the RSR.

In Order 156/06 the Board stated:

> "The Board accepts the regular development of MCT capital requirements as a means to monitor risk trends, and the Board is willing to consider the trend line of a series of MCT in its annual evaluation of the adequacy of the RSR. That said, the Board will continue to rely on the Risk Analysis and VAR, if and when contemplating a major change in the risk profile of MPI with respect to consideration of the Board's RSR range."

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

MPI's 2007 DCAT, prepared by James Christie of Ernst & Young, identified and tested six adverse scenarios projected to have an impact on the company's future financial condition. The most severe impact related to a scenario involving material increases in price inflation.

Mr. Christie tested an adverse scenario based on the largest five-year cumulative increase in CPI (1979 -1983), when the Consumer Price Index increased by 9.8%, 11.1%, 12.2%, 9.2%, and 4.6%, in each year respectively. The test also assumed that management would implement rate increases that would lag the increase in inflation, and that it would take

three years for rates to fully catch up with inflation. Such an adverse scenario was projected to fully deplete the RSR.

Mr. Christie recommended that if rapid inflation in the insurance environment occurs, management should request permission from the Board to immediately increase rates. The Board has previously commented that in an extreme inflationary environment, MPI would still be expected to budget for break-even and that the Board would consider the possibility of rate increases to mitigate against the risk of an adverse result.

2.14 Driver Safety Rating and Streamlined Renewal Process

MPI seeks a new system to replace the current bonus/malus system, and, as well, a streamlined driver licensing and vehicle registration renewal plan (SRP) approach.

At the 2007 GRA, MPI reported on its undertaking to implement a DSR program, then-forecasting the cost of the initiative to be $7.4 million, with an additional $1.7 million to be set aside as a contingency provision. At last year's hearing, MPI indicated the estimated cost had increased to $10.3 million (plus an additional $2.5 million contingency). At this year's proceeding, the updated cost estimate further increased.

In conjunction with the streamlined renewal process, to include a one-part licence, MPI reported that it has negotiated with brokers a decrease in commission rates for Basic insurance renewals, from 5% to 2.5%, with increases in commissions on Extension policies – no indication was provided as to the projected overall effect on commissions. MPI indicated that the new commission arrangement would not have an impact on its 2009/10 application, and that further details will be presented at the 2009 DSR special hearing.

Both the Driver Safety Rating and the Streamlined Renewal Plan (SRP) will be the subject of that separate hearing. At that time, MPI reported that the cost of each of the initiatives will be provided; the application is expected to be filed with the Board on January 30, 2009.

2.15 Capital Expenditures

MPI reported that its main capital project is the ongoing Business Process Review, which includes the aforementioned DSR program.

Essentially, the BPR is to identify service improvements and cost reductions to be accomplished by amending MPI's current business practices. Included in the initiative is the integration of DVL functions within MPI's overall operations. At last year's proceeding the BPR initiative was projected to involve the expenditure of $39.9 million. At this years hearing, MPI advised that the projects were now expected to cost over $100 million, of which over $45 million was projected to be allocated to Basic.

Corporate capital expenditures for 2008/09 were projected at approximately $59.8 million. MPI revised its 2008/09 capital budget upward (presented last year to be $15.9 million), by over 375%; the majority of the increase related to a $31.3 million increase in anticipated spending on the Business Process Review and $9.3 million for the building of new service centres.

MPI provided a revised projection for its 2009/10 capital expenditures ($66.2 million), an increase of $52 million from the $14.2 million projection presented at last years GRA. The major increase is $20.2 million related to the new service centres, and $31.1 million in additional BPR-related capital expenditures.

2.16 Inter-Provincial Trucking

MPI confirmed at the hearing that there is a continued Basic policyholder annual subsidy of inter-provincial trucking; truck drivers qualify for PIPP benefits, the costs of which are borne by Basic. The subsidy is neither recovered from SRE nor disclosed in Basic premiums charged to policyholders.

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

under terms established by statute in 1994 MPI is not permitted to seek reimbursement from the WCB.

2.17 International Financial Reporting Standards (IFRS)

International Financial Reporting Standards are to replace (or be aligned with) Canadian Generally Accepted Accounting Principles (GAAP) in 2011/12. MPI will be required to adopt new accounting standards for fiscal 2011/12, with comparative information required for 2010/11.

The Corporation is currently in the process of detailed examination of the impact of IFRS. An initial assessment completed by KPMG LLP (KPMG) indicated that a high level of impact on MPI's financial position was possible. KPMG identified areas where MPI's accounting policies and financial reporting will likely change, and suggested the potential identification of an "onerous" contract. IFRS requires MPI to record liabilities representing the present value cost to the Corporation of any onerous contracts. Such an approach is not a requirement under existing Canadian GAAP.

In its IFRS Quick Scan, KPMG stated:

> "Provisions for loss-making executory contracts (i.e., onerous contracts) are also required under IFRS. Generally, provisions for loss-making executory contracts are not recognized under Canadian GAAP. The Corporation will need to evaluate agreements such as any long-term purchase and supply contracts and various leasing arrangements to assess whether additional provisions would be required under IFRS. For example, MPI's master agreement with the Province of Manitoba relating to the driver and vehicle licensing operations will need to be further analyzed. "

KPMG's Robert Kowalchuk stated that IFRS would define an onerous contract as one where the unavoidable costs of fulfilling the obligation exceed the expected benefits. KPMG advised that MPI's management will be required to determine whether a liability will be necessitated for the driver licensing and vehicle registration contract with government at that time, reflecting the present value impact of any future funding shortfall at an appropriate current interest rate. As discussed further in this Order, the

agreement with the Province related to the funding of former DVL operations currently results in an annual shortfall of over $10 million to MPI. If an adjustment were required to be made, potentially it could significantly reduce Extension Division's retained earnings.

MPI advised that a detailed assessment of the implications of IFRS will be made and a conversion plan finalized. MPI expressed a preliminary cautious view that IFRS will not have a significant impact on MPI's bottom line.

2.18 DVL and Its Importance to Basic

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

Approximately three hundred provincial civil servants became MPI staff members with the DVL transfer. Along with the compensation, occupancy and other operating costs associated with a large workforce came a deemed necessity to upgrade an outdated computer system. In the absence of the transfer, the updating of the clearly outdated DVL computer system would have been the Province's responsibility. With the transfer, MPI is making the necessary upgrading investment, and has set aside over $71 million of Extension retained earnings toward that purpose, which includes the estimated funding requirements of the BPR initiatives.

Under the terms of the transfer agreement, MPI receives a flat annual payment of $21 million toward the now approximately $32 million annual cost of DVL operations. As the annual payment is not to vary unless additional functionality is added to functions associated with the Province's revenue stream arising out of DVL operations, MPI carries the full risk of inflation and/ or other operating cost pressures. As a result, there is a funding shortfall now being covered by the Extension line of business (which is outside the Board's jurisdiction and purview).

In 2007/08, the cost of the DVL operations shortfall was reported to be $11.8 million, reducing the net income of Extension and of MPI overall. In the previous year (2006/07), the shortfall was reported to be $10.9 million. The reported shortfall does not include the lost commission offset.

As first indicated in Order 150/05, a transaction preceding the DVL transfer also continues to result in an annual loss of $6 million in provincial commission offset payments to MPI's Basic program. This is due to the Province's decision to cease making what were longstanding annual payments to Basic with respect to services performed by brokers and paid for by MPI's Basic division. On an overall basis the annual loss (including the loss of the commission offset payment) is in excess of $16 million.

2.19 Overall Effect of DVL on Basic and MPI

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

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

a) common Board of Directors, management, staff and agent complement;
b) operations founded on and supported by the basic mandatory program infrastructure; and
c) a common investment pool.

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

DVL operations are negatively affecting the financial results for Extension operations. With recoveries from the Province projected to remain at $21 million (notwithstanding

inflation and the costs of integrating DVL), MPI continues to forecast losses on DVL operations.

However, MPI has stated that much of the current improvements in customer service (such as streamlined renewals, better service and a new driver safety rating system) would not have been possible if not for the merger of MPI and DVL, the advantages of which, in large part, will flow to Basic ratepayers.

Improved driver behaviour that may arise out of the DSR program should lead to reduced accidents and claims, with the prospect of reduced number of claims being incurred in future years. In the absence of DVL functionality, the ability of MPI to positively affect the frequency of accidents and injuries would be reduced, and MPI's mandatory basic insurance program would be left compensating the injured and fixing or replacing the "tin". MPI maintains that it has important work ahead - that of bringing down the human toll arising out of motor vehicle accidents - and the assumption of DVL responsibility should prove of assistance in those areas.

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

As compared with Canada and other provinces, the inter-jurisdictional comparison of casualty rates shows an unacceptable level of casualties related to motor vehicle accidents, as follows:

Inter-Jurisdictional Comparison for Casualty Rates (2000 - 2006)

(per billion motor vehicle-kilometers)

	Fatalities							Injuries						
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006
Canada	9.4	9.0	9.3	8.9	8.8	9.3	8.9	732.3	713.0	721.2	711.0	680.8	668.0	604.2
Newfoundland	10.6	9.3	10.0	11.0	9.7	9.8	8.5	613.7	690.2	701.2	768.5	699.1	537.1	501.3
Prince Edward Island	15.8	12.2	14.3	12.0	22.6	11.3	25.0	939.1	896.0	789.8	753.3	759.5	565.7	803.6
Nova Scotia	9.4	8.2	8.5	6.7	9.4	7.1	8.4	756.4	647.6	574.0	504.1	533.2	487.7	470.8
New Brunswick	10.5	11.7	12.2	11.8	9.6	13.6	12.3	647.0	686.5	592.3	572.5	572.9	508.5	452.3
Quebec	11.2	8.8	9.9	8.4	9.0	10.6	10.3	755.3	707.5	749.1	754.3	778.0	871.2	711.1
Ontario [1]	7.2	7.3	7.1	7.3	6.6	6.3	6.0	721.4	705.4	679.4	669.2	599.8	571.5	525.2
Manitoba	10.5	8.3	10.8	8.5	9.5	10.3	9.9	894.8	799.3	948.9	795.9	890.8	788.4	729.1
Saskatchewan [1]	12.7	13.0	12.3	12.1	11.0	13.2	12.2	656.8	547.5	652.7	618.0	647.1	612.8	604.4
Alberta	8.6	10.0	10.1	9.8	9.9	10.6	10.0	628.5	682.4	783.6	671.8	621.5	555.1	570.7
British Columbia	12.0	11.7	12.4	12.9	12.4	13.9	12.9	849.6	838.5	776.6	902.5	842.4	873.3	789.5
Yukon	21.7	10.9	25.3	14.1	9.4	12.3	24.2	745.9	836.7	572.6	468.3	397.4	396.4	434.5
Northwest Territories	16.6	7.5	8.4	8.2	9.6	5.4	5.3	738.5	512.8	643.2	471.4	485.2	505.7	294.3
Nunavut	70.4	47.6	n/a[2]	n/a	33.7	n/a	n/a	n/a	n/a	n/a	n/a	2,222.2	n/a	n/a

Sources: Transport Canada, "Canadian Motor Vehicle Traffic Collision Statistics";
Statistics Canada, "Canadian Vehicle Survey", Catalogue No. 53-223-XIE.

Note: [1] 2006 data for Ontario and Saskatchewan are preliminary, according to Transport Canada.
[2] n/a means that data are not available.

Manitoba fatalities and serious injuries remain well above the national average.

2.20 Cost Allocation Methodology

MPI's annual operating costs are allocated between Basic, Extension and SRE, though the formula supporting the allocation has not been reviewed in many years (and not since the merger with DVL), to take into account linkages between former DVL functions now performed from the Extension division and the Basic mandatory program.

In its Order 150/07, this Board ordered that MPI undertake a cost allocation review in consultation with the Board and file the results of that review at the next GRA.

The Corporation has indicated that currently there is legislation pending that will fundamentally change the way in which it transacts business, noting the implementation of enhanced identification cards and licences, one-piece driver's licences, streamlined vehicle registration and insurance renewals, and the DSR system changes. The Corporation has advised that it will file a cost allocation review with the Board at the 2010 GRA.

In support of the current cost allocation methodology, the Corporation indicated that its external auditors (KPMG) had not raised any concerns with regard to the allocation policy, or taken issue with it.

MPI further referenced its auditor's report, which states:

> "An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation."

MPI has indicated that the auditor’s statement provides the assurance that the amounts allocated to Basic have been tested, and the amounts represented in the Basic financial statements are fair.

MPI's external auditor, Mr. Kowalchuk, who testified in this proceeding at the Board's request, having been subpoenaed by the Board, advised that KPMG had provided an audit opinion on the Basic financial statements. He also indicated that KPMG’s opinion and the financial statements and notes on which the opinion was based, reflected both direct and allocated expenses. Mr. Kowalchuk further testified that the allocated amounts were based on the MPI Board of Directors’ approved cost allocation methodology, and that KPMG was unable to confirm that the allocation policy or guidelines which provided for the allocation of expenses to Basic were “fair and reasonable”.

Further, Mr. Kowalchuk advised he could not comment on whether the cost allocation policy or guidelines are “fair and reasonable”, noting that KPMG was not engaged to perform an analysis on the allocation formula but to report on the financial statements as a whole.

In performing its audit, KPMG performed an examination on a test basis of some of the amounts that were allocated to Basic, toward ensuring that the amounts were allocated in accordance with approved MPI policy.

Mr. Kowalchuk further stated that KPMG had not come to any conclusions in respect of whether any amendments or changes to the cost allocation methodology should be made, as this was not within the scope of its engagement.

2.21 Investment Income

Importance of Investment Income

Investment income is a major component of MPI's Basic income, and with annual underwriting losses now the norm, investment income is required and expected to provide for balanced budgets and results. As previously indicated, MPI’s investment portfolio is not segregated by line of business but rather co-mingled, including with MPI’s pension obligations to its employees.

Investment income is allocated between the Basic program, the competitive lines and the pension plan on the basis of a long-established formula.

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

MPI's investment portfolio exceeds $2.1 billion (fiscal 2007/08), with approximately 80 % invested in bonds and other short-term investments, and with the other 20% in equities and venture capital. The portfolio's balance and importance to rates has consistently increased over the years since the introduction of PIPP.

The investment portfolio is increasing due to two major factors:

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

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

MPI's investment policy requires a 105% ratio of market value to book value of the investment portfolio before MPI may sell securities and record a capital gain in its accounts. MPI reported an expectation of the realization of capital gains in each fiscal year.

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

The Corporation has in the past instructed managers to realize a specific amount of gains, but not specifically which securities to sell in order to realize those gains. The rationale for realizing gains is so that the increase in the market value of the assets can be reported in income. Since the implementation of the new accounting standards for Comprehensive Income, this practice has been done twice, resulting in gains of $35 million on the Canadian equity portfolio and $7 million on the U.S. equity portfolio. MPI further indicated that, generally, holdings sold to realize gains are repurchased based on the investment manager's view of the market.

Unrealized gains held within the investment portfolio as of June 30, 2008 were reported by MPI to be in the range of $18.5 million, of which $16 million was attributable to Basic. Generally accepted accounting principles have been amended and MPI now reports its unrealized gains, segregated within retained earnings under the heading "Cumulative Other Comprehensive Income."

MPI suggested that the Board ignore “other comprehensive income” in setting MPI’s rates.

As a consequence of applying the new accounting standards, the Corporation's claims liabilities were recalculated using a market value-based rate at March 1st, 2007, which resulted in claims liabilities increasing by some $22.7 million. This change was recorded as a transition adjustment, the net effect being a reduction in the opening Basic rate stabilization reserve balance.

MPI has taken the step of changing the assigned designation of bond purchases after June 1st, 2008. The risk of market value yield fluctuations having an impact on the statement of operations has been reduced, due to the classification of new marketable bonds as “held for trading”. Effective June 1, 2008, acquisitions of marketable bonds have been classified as “held for trading”, pursuant to section 3855 of the CICA handbook.

The result is that changes in unrealized gains and losses for the “held for trading” bonds will be included on the statement of operations as investment income. The unrealized gains and losses due to fluctuating market yields will help to affect the impact of market value-based yield changes on the Unpaid Claim Liabilities.

2.22 Asset - Liability Matching Study

In Order 150/07, the Board directed:

> “MPI submit to the Board the proposed terms of reference for the planned 2008 Assets Allocation Review.”

MPI engaged Aon Consulting Inc. (Aon) to conduct a study to determine whether further diversification of its investment portfolio was warranted. The purpose of the Aon study was to seek the optimal asset mix for the Corporation's investment portfolio.

In conducting the study, Aon modelled alternative portfolio mixes and their respective risks and returns against the efficient frontier (which Aon calculated), to determine the portfolio mixes that provide the highest levels of excess return for given levels of risk.

Aon conducted the study with a view to two objectives: the primary one being to minimize the tracking error of the assets relative to the liabilities; and the secondary objective being to maximize returns subject to reasonable levels of risk.

From an investment perspective, Aon considered it reasonable to determine an asset mix for the entire company, rather than testing a separate mix for the pension obligations of the Company. Aon cited the following reasons:

- “The various components of the liabilities are aggregated on the balance sheet, and thus the return difference of the assets relative to the change in pension liabilities, for example, is of little direct consequence to the company (except insofar as it affects the aggregate results of the company);
- In addition, the pension liabilities are rather small relative to the size of the company's total obligations, further limiting any possible investment benefits to the company associated with a separate investment in the pension fund.”

Thus, for Aon and from an investment perspective, growth in the pension obligation over time would not warrant a segregation of the investment portfolio.

Aon recommended to the Corporation two investment portfolio models, each differing substantially from the Corporation's current portfolio mix.

Specifically, the portfolios recommended by Aon did not have any allocation to Universe Bonds, whereas the current portfolio has an allocation of 43.5%. Secondly, the recommended portfolios suggested by Aon have no allocation to Real Return Bonds,

which act as an inflation hedge, whereas the current corporate portfolio had an allocation to Real Return bonds of approximately 13%. In addition, the portfolios recommended by Aon have 10 % allocations to real estate, and 5% allocation to infrastructure, and one of the portfolios recommended by Aon has a 20 % allocation to mortgages, all three representing new investment classes for the Corporation.

The current portfolio mix, as compared with what was recommended by Aon and the target mix ultimately adopted by MPI, is as follows:

Asset Category	Current MPI Portfolio Mix 2007/08	AON Recommended Portfolio Mix (MPI Assumptions)	AON Recommended Alternative Portfolio Mix (AON Assumptions)	MPI Adopted Target Portfolio Mix
Cash and Short Term	5.2%	0%	0.0%	0.0%
Mortgages	0%	20.0%	0%	0%
CDN Long-term Bonds	0.0%	35%	50%	10%
CDN Universe Bonds	42.0%	0%	0%	30%
Real-Return Bonds	12.5%	0%	0%	0%
Non-marketable Bonds	20.5%	20%	20%	20 %
CDN Equities	15.5%	1.5%	3.0%	12%
US Equities	3.8%	3.5%	7.0%	5%
EAFE	0%	0%	0%	3%
Canadian Real Estate	0%	10%	10%	10%
Private Equity	0.4%	5.0%	5.0%	5%
Infrastructure	0%	5.0%	5.0%	5%

2.23 Investment Mix Concerns

2.23.1 Long Term vs. Universe Bonds

MPI rejected Aon's recommendation to switch from reliance on universe bonds to Canadian long-term bonds. Rather, MPI allocated a 10% weighting to long-term bonds

while maintaining a 30% allocation to universe bonds. MPI reported that its Investment Committee Working Group (ICWG) was uncomfortable with the switch recommended by Aon, given that long-term bond yields are at forty year lows and the now relatively low spread between the yields on long-term bonds and universe bonds. ICWG reportedly also had concerns that a wholesale bond transfer would require the sale of approximately $1 billion of bonds, and the purchase of a similar amount, this to involve significant transaction costs.

With respect to MPI's Investment Mix selection, concerns were raised by Drs. Hum & Simpson with respect to MPI's decision not to accept Aon's recommended greater weighting to Long-Term Bonds, though historically Long-Term Bonds have provided higher returns than Universe Bonds.

Mr. Jeremy Bell from Aon advised that Long-Term Bonds were included in Aon's recommended portfolios not because of their expected higher returns but rather for risk mitigation. Mr. Bell recommended that MPI allocate 40% of its portfolio to Long-Term bonds to advance its approach to risk mitigation, rather than the 10% allocation proposed by MPI. Mr. Bell further advised that an immediate move to Long-Term Bonds would be comparable to buying insurance that was required to address a known risk, the risk in this case being inflation.

2.23.2 Real Return Bonds

MPI accepted Aon's recommendation to divest from Real Return Bonds, and decided to replace that investment with allocations to Canadian Real Estate and Infrastructure, these new investment classes to act as a hedge against inflation while also providing for expected higher levels of return.

Mr. Bell opined that inflation would have to be in the range of 6% to 10% to allow Real Return bonds to "pay off" relative to regular bonds with expressed nominal returns, and that inflation protection could be obtained from investments in infrastructure and real estate, and have higher expected returns than that to be anticipated to come from Real

Return Bonds. Mr. Bell indicated that there is has been a fairly strong match to inflation for infrastructure and real estate investments, though not as direct as is found with Real Return Bonds.

Nonetheless, Drs. Hum & Simpson questioned the removal of Real Return Bonds from the model MPI Portfolio, with Real Return Bonds formerly having an allocation of 12.5% of the portfolio, citing that Real Return Bonds provide "perfect" protection against high inflation. Drs. Hum and Simpson claimed that MPI should continue to allocate a portion of the portfolio to Real Return Bonds, accepting that the current expected lower yield is, in effect, an insurance policy against a real inflation risk.

Drs. Hum and Simpson also questioned Aon's inflation assumption (of 2% - 2 ¼ % with a standard deviation of 1.1%), noting that the assumption assumed a continuation of low inflation that was based on relatively short "10 years" of experience. Dr. Hum described this period as one in which the Bank of Canada moved to a policy of deliberate inflation targeting, with its objective to hold inflation within a range of 1% to 3%.

Drs. Hum and Simpson considered an earlier time period, back another ten years, a time when the inflation rate was extremely high (in the 8 to 10% range), noting that there has been periods in which inflation has not been benign. Dr. Hum stated that there is no guarantee that the Bank of Canada can keep inflation within the current target of 1-3%, as world economic events may cause inflation to rise well beyond 3%, and cited that the past has shown that at times inflation has risen sharply, in spite of the Bank of Canada's best intentions.

2.23.3 Equities Weighting

With respect to Canadian equity investments, MPI rejected Aon's recommendation to reduce its current allocation of its portfolio to Canadian equities from 16% to either 1.5% or 3%. Citing superior returns on the Canadian equity portfolio over the last nine years (not including the current crisis period), MPI suggested Aon's recommended portfolio

had too low a weighting to total equities (Aon suggested 5%); MPI decided on a 12% allocation to Canadian equity investments.

Aon also recommended a higher proportion of U.S. equity investments relative to its recommended Canadian mix, recommending an allocation of 3.5% and 7% in its recommended portfolios. However, MPI selected a 5% weighting to U.S. equities and a 3.5% weighting to EAFE (Europe, Australasia and the Far East). MPI's proportional weighting of Canadian to US equities was the opposite of that proposed by Aon, and Aon also did not recommend any EAFE investments in its recommended portfolios.

Drs. Hum & Simpson questioned the 4:1 weighting of Canadian equities vs. U.S. and international equities established by MPI's revised investment policy. Dr. Hum suggested that MPI should give a greater weighting to U.S. and International investments, to allow the portfolio to benefit from further diversification.

Mr. Bell responded that while he was not "opposed" to the greater focus on Canadian and American equities made by MPI rather than what was recommended by the Aon report; however, he was not overly supportive of ICWG's rationale of looking at the last nine years of historical performance in the Canadian Market in support of its decision to maintain the higher level of Canadian equity weighting.

Mr. Bell observed that a higher weighting to U.S. equities would provide for greater diversification of the portfolio, and produce a slightly higher expected return than would be expected from investment in Canadian equities.

With respect to the equity weighting selected by MPI, Mr. Bell stated that it represented a slight tilt towards Canadian equities, relative to what the average investor would do. For Mr. Bell and Aon, an average investor might, as a "rule of thumb", have 50% of their equity money in Canadian equities and 50 % in foreign equities (with the 50 % in foreign split 50 % US, 50 % EAFE). Mr Bell indicated that while the Corporation's allocation was "reasonable", in his opinion it over-weighted Canadian equities relative to what the average investor would do, and under-weighted EAFE equities.

2.23.4 Overall Assessment of New Investment Asset Mix:

MPI defended the ICWG-selected portfolio as one that provides the best ratios of return-to-risk. And, MPI held that the return-to-risk ratio was significantly higher than the current portfolios return-to-risk ratio, and also higher than the portfolio most highly recommended by Aon (Aon's modeled portfolio # 5).

Drs. Hum and Simpson suggested that MPI's selected portfolio allocation was an improvement from the previous MPI portfolio mix, in the sense that, according to "modern" portfolio theory, it could be expected to develop a higher rate of return.

Mr. Bell suggested that MPI's selected portfolio was not on "the efficient frontier" (i.e. represented a portfolio mix that provided an optimal mix of expected return versus risk). Mr. Bell did state that MPI's selected portfolio was "reasonably close" to the [efficient frontier] curve. He concluded: "It's effectively an optimal portfolio, being that close to the curve."

The size of MPI's investment portfolio for 2009/10 is projected to grow to $2.3 billion, and to be comprised of roughly 76.1 % in long-term bonds, 20.6 % in equities, 3.1 % in cash and short-term investments, and 0.3 % in venture capital. The portfolio is expected to grow to over $3 billion by 2012/13.

MPI indicated that while its Board of Directors have adopted the new investment policy with the amended investment mix, that there has been to date no movement toward achieving the new portfolio mix. The Corporation indicated that its transition timeframe to the new portfolio mix has yet to be established, and that it will likely take a number of years.

MPI further noted that the transition would be at the discretion of the Department of Finance, as the Province has the authority and responsibility to manage MPI's investment and actively trades the bond portfolio.

2.24 Sustainable Development

At last year's hearing, MPI provided its initial internal research into the premium concept known as PAYD (Pay-As-You-Drive insurance), an insurance approach based on a vehicle's odometer readings. The approach has been employed in several jurisdictions in the western world, with the twin objectives of reducing accidents and green house gas emissions (GHG). MPI then-advised that it would review the option in more depth over the coming year.

The advantages attributed to PAYD by its proponents include reductions in discretionary driving and accidents, with more equitable premiums for some motorists. In Order 150/07, the Board recommended that MPI "seek direction from government concerning the potential use of the rate setting model to further environmental objectives, inclusive of the reduction of GHG emissions".

MPI's position is that the use of the rate-setting model to further environmental objectives is an issue of social policy, and, further, that any discussions between MPI and government relating to social policy are confidential. That said, MPI participated in a workshop held on June 17, 2008 hosted by the Centre for Sustainable Transportation, an event attended by various groups. Among the topics addressed were the need for more research on PAYD, particularly with respect to non-commercial vehicles, the potential for rewarding trucking companies that have introduced innovative freight practices, and the option of Car Share Insurance. MPI reported to this year's hearing that it was in the process of drafting a response to the workshop.

3.0 INTERVENERS AND PRESENTERS

3.1 Presenters

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

Ms. Ruth Adams made a presentation to the Board relating her personal experience with an MPI claim.

Mr. Mike Law, Past-President of the Manitoba Bar Association, reiterated the MBA's opposition to no-fault insurance, in that claimants are denied access to legal counsel. Mr. Law expressed concern that, by not complying with Board Orders, particularly last year's order with respect to PIPP claims, MPI is not being tested on its statutory obligations with respect to injury claims.

Mr. Doug Houghton, a policyholder and motorcycle owner, current president of the CMMG, and a presenter at previous hearings, brought to this year's hearing attention to a number of perceived anomalies and concerns related to MPI's service to motorcycles.

Mr. Andrew Chimko presented to the Board some facts which he felt would be relevant for the Board to consider in this hearing.

Mr. Virgilio Ramos (via email) expressed several concerns with MPI and suggested courses of action.

Ms. Anita Bowden provided a written presentation expressing concerns with MPI and in particular her insurance claim with the Corporation.

Mr. Hugh Arklie provided a submission urging that future rebates of surplus premiums occur via an electronic credit to MPI customer accounts in order to reduce the resource waste and extra costs associated with the mail out of physical cheques. Citing a letter

from Mr. Kenton Lobe, President of Resource Conservation Manitoba dated April 14, 2008 which stated, with respect to the provision of vehicle insurance premium rebates, ”given the desirability of greening business practices and in light of the principles of sustainability, RCM’s respectful suggestion would be that, to the greatest extent practicable, such rebates be distributed by electronic means so as to reduce the use of paper, not to mention expense and effort on the part of MPI”.

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

3.2 Interveners

3.2.1 CAA

CAA’s closing argument is summarized, as follows:

Vandalism and Auto Theft

CAA reiterated its comments made in last year’s application that the success of the immobilizer program will be offset by an increase in vandalism and attempted thefts. CAA is concerned that the issue of vandalism has not been addressed, and that the cost of same will be borne by policyholders by way of the deductible.

Forecast Accuracy

CAA stated that the entire rate process is contingent upon forecasts. Recognizing that these forecasts must be made some 18 months in advance, CAA has sympathy with MPI's ability to forecast accurately. However, it is somewhat curious that income for the last 4 years has been consistently higher than forecast, while expenses have been consistently lower than forecast. This can only be attributed to a bias in the forecast methodology.

Cost Allocation Methodology

CAA submitted that the failure of MPI to undertake a cost allocation review as ordered by the Board is compromising the transparency and the fairness of costs allocated to Basic. In particular, it is concerned with the shortfall of funding from the Manitoba

Government with respect to the DVL operations, and the amount of these costs being allocated to Basic. CAA also raised its concern about the absence of a management letter from MPI's auditors, KPMG, and that the audit findings submitted to MPI's Board are not being shared with this Board. CAA is unable to comment on the Business Process Review nor the trend in escalated operating costs until the cost allocation issue is resolved.

Inter-Provincial Trucking

CAA believes that the time has come for inter-provincial truckers to pay appropriate rates, so that trucker PIPP benefits are not subsidized by the premiums of private passenger vehicles. The issue was noted as being particularly troubling to CAA as many of the truckers obtaining the benefits for which premiums are not paid are not resident in this Province.

Investment Portfolio Mix

CAA expressed a concern that MPI had deviated from the optimal portfolio recommended by Aon, and, in particular, was concerned that investment portfolio selections are being influenced by the Manitoba Government (which makes the final decision about where and how funds are to be invested). CAA's concern relates in part to MPI having 20 % of its investment portfolio invested in Municipal, University, Schools and Hospital (MUSH) bonds, plus plans for further investments in Manitoba real estate and infrastructure.

Rate Direction

CAA continued to oppose rate reductions expected to result in a budgeted Basic loss; MPI's initial filing projected a loss of $4 million for fiscal 2008/09 for Basic operations, a forecast subsequently amended to a positive view at the hearing.

Jurisdiction of the Board

CAA submitted that the Board's jurisdiction should extend to Extension and SRE. CAA further noted that the new contract with brokers will provide for enhanced payments for

the Extension line of business, and consequently, will further solidify MPI’s monopoly in this market.

CAA advised that more than ever it believes that the Extension line of business and its subsequent reserves have been generated through the operation of the Basic line of business, and therefore, as a virtual monopoly, Extension should be part of annual Board hearing processes.

RSR Rebate

CAA recommended that the Board consider rebating some portion of the RSR found to be presently in excess of the allowed maximum set by the Board, and that this be done by crediting motorists' accounts, rather than by separate rebate cheques, which require the expenditures involved in sending cheques to motorists.

3.2.2 CAC/MSOS

PIPP Claims Forecasting

CAC/MSOS questioned the accuracy of MPI’s forecasting, in particular the Corporation’s forecasts of PIPP claims incurred, noting that that the projections have been higher than the actuals for each of the last four years, with the largest variance being that of the last fiscal year.

The latest variance was the result of the evaluation of liabilities, where the runoff of prior claims involved less expenditure than was expected. CAC/MSOS stated that a strong argument can be advanced, one made without suggesting motives, that, currently, systemic bias exists within the forecasting methodology of MPI leading to overestimates of expected annual claims incurred costs.

CAC/MSOS noted the reported introduction of a new reserving practice in recent years supports the concept there may be a structural problem with the Corporation’s methodology, which would explain why the apparent excess-forecast bias occurs.

CAC/MSOS recommended that the Board not accept the MPI forecast for PIPP incurred

for the 2009/10 year, and reduce the projected claims costs (increasing the forecast of net income).

Expenditure controls

In addition, CAC/MSOS submitted that MPI has demonstrated a lack of fidelity over the past two years in controlling its expenditures by a lack of confining its actual expenses to the projections that supported its past rate applications.

CAC/MSOS expressed concern with the growth in annual operating expenses, in particular the growth in compensation, data processing, amortization, and building expenses. CAC/MSOS noted the Corporation is projecting expansion of non–claims-incurred expenses to the range of $156.6 million, that close to 19% higher than the level in 2006/07.

CAC/MSOS expressed concern that MPI is having difficulty keeping its non–claims-incurred expenditures under control, and submitted that the Corporations is spending beyond its means.

Cost Allocation Methodology

CAC/MSOS noted that the current cost allocation methodology had last been submitted to a review in the 1990s and submitted that the methodology is outdated, having not changed or reflected material changes in the Corporation's operation, such as the merger with DVL. CAC/MSOS also expressed concern that a significant portion of the business process review expenditures relating to program management (over $10 million in two years), streamlined renewals (over $5 million in two years) and enterprise data warehouse (over $1 million in two years) are shared costs with the non-regulated portion of the company.

For CAC/MSOS the BPR project and its materiality underscores its concerns about the level of regulatory scrutiny for the segments of MPI that are outside the purview of the Public Utilities Board.

CAC/MSOS observed that the Board has been essentially hamstrung by MPI's opaque corporate structure, and that, in these circumstances, it is reasonable to assume that MPI is unable to substantiate its claim of exercising cost prudence and reasonableness.

CAC/MSOS further noted that it's not clear that MPI preparing and filing a revised cost allocation methodology will satisfy its concerns about the opaque nature of the Corporation.

CAC/MSOS recommended that the "Board find that MPI has not demonstrated that its proposed expenditures for 2009/10 are reasonable and prudent. In addition, the Board should order that MPI file a substantive review of its costs allocation procedures prior to the next GRA".

Rate Direction

CAC/MSOS reiterated its objections to MPI budgeting for a loss, and submitted that the drawdown of the RSR that would be expected by the combination of MPI's 1% rate decrease proposal for 2009/10 and its initial projection of a loss for the Basic Division for that year.

CAC/MSOS indicated that it did not support the notion of adopting a two-year outlook period, with budgeting for a loss in the initial year considered acceptable to MPI as long as the second year was expected to produce a net income at least offsetting the projected initial year's loss. CAC/MSOS noted that MPI's application was not a multi-year rate application; and opined that the 2009/10 application should be judged based on the expectations for 2009/10.

CAC/MSOS submitted that if the Board was to arrive at the conclusion "that the Corporation's forecasts (the initial forecast for 2009/10) are considered reliable and its forecast expenditures are considered prudent, CAC/MSOS will recommend that the 1% rate decrease should be denied, and the overall rate should be unchanged."

CAC/MSOS qualified its view by advising the Board that "if the Board accepts CAC/MSOS's contention that there is a directional bias with regard to the claims

incurred forecasts of MPI, especially with regard to PIPP, the Board should consider granting the 1% rate decrease".

CAC/MSOS further noted that "if the Board also shares CAC/MSOS concerns and conclusions that MPI has not demonstrated that its rapid and inadequately explained growth in expenditures are reasonable, prudent and necessary" the Board consider directing an additional 0.5 to 1 percent overall premium decrease (rather than the 1% sought)."

RSR Rebate

CAC/MSOS noted that MPI's RSR balance as at the end of fiscal 2007/08 was in significant excess of the Board's maximum. In addition, leaving aside issues related to possible "onerous" contracts, CAC/MSOS opined that the Corporation's health as a whole was in quite good shape, with reserves at or in excess of $300 million forecast at the 2008/09 yearend.

CAC/MSOS stated that by the end of fiscal 2008/09 MPI is forecast to have $139 million in RSR, that approximately $30 million in excess of the Board's target range. CAC/MSOS also submitted that a modest RSR rebate of the excess over the 2007/08 level should be granted, but only after the Board has given consideration to recent economic events.

Jurisdiction of the Board

CAC/MSOS agreed with CAA that MPI has a near-monopoly in terms of Extension, and that MPI is in a position to exercise market power in terms of the Extension product. CAC/MSOS also noted a jurisdictional "tug-of-war", and suggested that regulatory intent is being frustrated by the opaque nature of the integrated corporate structure.

CAC/MSOS noted tremendous difficulties in disentangling the Basic regulated part of the program from the rest of MPI's operations.

CAC/MSOS acknowledged that many parties have previously opined that the Public Utilities Board should have jurisdiction over rates for Basic and Extension, and that DVL

should come under the purview of Basic and the Board, and expressed the view that CAC/MSOS has increased "sympathy" with that perspective.

CAC/MSOS stated that nonetheless it recognizes that the government may not direct or legislate an extended jurisdiction for the Public Utilities Board. In light of these circumstances, CAC/MSOS requested that the Board direct MPI to meet with representatives of the Board and interested Interveners to discuss ways by which the regulator can be provided with sufficient information to allow it to exercise its statutory mandate to set just and reasonable Basic rates for MPI.

Investment Portfolio Mix:

CAC/MSOS supported and adopted the perspectives of its witnesses (Dr. Hum & Dr. Simpson), and stated that the way the investment portfolio is currently structured is sub-optimal, suggesting that the Corporation has been less efficient than it should be in terms of maximizing return, and that while the newly-adopted investment portfolio may yield higher returns, it will remain sub-optimal for a given reasonable level of risk.

CAC/MSOS agreed with the technical issues raised by Dr. Hum and Dr. Simpson with respect to the Aon report. CAC/MSOS recommended that the Board expressly find that there was a design flaw in the Aon modelling, that related to the assumption that the low inflation environment assumption was the appropriate assumption to model, though only after 10 years of recent inflation experience, and that a longer time-frame should be utilized, one that would acknowledge earlier periods of higher and high inflation.

With respect to MPI's decision to divest from Real Return Bonds, CAC/MSOS recommends that the Board expressly find that Real Return Bonds have a perfect positive correlation with inflation and that real estate investments would have a reduced correlation from that of Real Return Bonds.

CAC/MSOS recommended that the Board should recommend that MPI reconsider its decision to divest from Real Return Bonds. CAC/MSOS also recommended that, for transparency purposes, MPI should track and manage its pension assets separately.

Road Safety

CAC/MSOS addressed the tragic social and economic costs of accidents, forecasting that there will be 100 or more deaths associated with motor vehicle accidents in Manitoba in 2007.

CAC/MSOS suggested that the factors attributable to annual traffic deaths have been:

- 21 deaths associated with speed-related factors;
- 33 fatalities where there was some relationship to alcohol or drugs;
- 29 fatalities were circumstances where occupant restraint was not in use; and
- 15 fatalities where it was not clear whether occupant restraint was in use.

CAC/MSOS noted that about two-thirds of 2007 fatal crashes took place in rural Manitoba, and suggested a relationship with the relative absence of seatbelt usage in rural Manitoba.

CAC/MSOS suggested that MPI was not performing (on average) as well as the rest of Canada on various measures, such as fatalities and injuries per billion kilometres travelled, fatalities and the injuries per 100,000 persons in the population, and fatalities and injuries per 100,000 licensed drivers.

CAC/MSOS noted that seatbelt usage in Manitoba is below the national average, and observed that MPI has not engaged in much general safety advertisements except for auto theft issues, and questioned whether MPI had demonstrated that its road safety budget is optimally designed to minimize the tragic social and economic cost of accidents.

CAC/MSOS recommended that the Board expressly find that there are unrealized opportunities for the Province and MPI to assist in mitigating the tragic social and economic costs of motor vehicle accidents in Manitoba.

3.2.3 CMMG

Use of Comparative Data and Information

CMMG criticized MPI by suggesting that "the Corporation appeared to be hesitant to provide information relating to other jurisdictions, specifically and in particular other public insurance corporations." CMMG provided examples of where it claimed MPI had, in the past, made use of comparisons to other organizations to support its claims, while refusing to provide comparisons for other areas of its application, that on the basis that such information would be outside the Public Utility Board's jurisdiction.

CMMG expressed concern that, without such comparisons to other utilities, intervenors must obtain this information on their own, even though it may have already been compiled by MPI, which drives up the cost of the regulatory process. It also expressed a further concern that an intervener's limited resources may inhibit its ability to fully present its case.

> "The CMMG suggests that comparative information relating to other public and private insurance companies should be considered germane."

It also recommended "that the cost implications of coverage changes suggested by Intervenors should be made available" and that "the total cost of insurance inclusive of monopoly, MPI extension products may be considered germane."

Motorcycle Rate Increases

CMMG observed that the average rate increases over the years for the motorcycle class have been well above increases instituted for all other major vehicle classes. CMMG suggested that there are a number of actions MPI could take to "mitigate those (rate) increases".

CMMG noted that the claims costs increased 8% annually since 2001, and that operating costs increased 9% annually over this same period. CMMG further noted that MPI's operating cost increases were well in excess of the increases experienced by other

comparable public insurers. CMMG recommended that “the Board establish inflation targets as allowable growth rates for expenses, and adjust rates downward accordingly” in an effort to control MPI’s expenses.

CMMG expressed concern over MPI’s overestimation of its various reserves, including the IBNR, PfAD, and PIPP claims, and the effect that this overestimation has on rates. “The coalition suggests to the Board that over-estimation be considered in its final analysis of requirements, and (it) reduce rates accordingly.”

Motorcycle Vehicle Claims:

CMMG expressed concern with MPI’s use of data to establish single vehicle accidents experience and forecasts for motorcycles, and noted that the results as portrayed by MPI was of much higher costs attributable to motorcycles than are found in other jurisdictions, and also higher than the data provided by the 2004 motorcycle risk study. CMMG was concerned that the data base being drawn on is wrong, and results in higher rates for the motorcycle class than are justifiable.

CMMG “suggests further analysis and research either by the Corporation or an independent organization.

With respect to incurred claims due to wildlife based accidents, CMMG noted that such claims are considered by MPI as at-fault single-vehicle accidents, with costs assigned to the motorcycle class, while not being so designated by SGI. CMMG requested the Board order MPI to remove these costs from each specific class and, instead, allocate costs on equal amounts across the board to each class.

Credibility factor regarding Sport Bikes

CMMG requested that the Corporation explore and provide analysis to the Board related to other potential methods of calculating credibility, especially concerning the use of the prior rate as the complement.

Classification of motorcycle risk

CMMG expressed concern over MPI's classification of motorcycles into three categories based on displacement. CMMG held that the Board should order the Corporation to prepare additional analysis indicating the current declared value ranges and the relativities, to ensure that the result is fair and equitable rates for motorcycles, or that MPI should come forward with a new classification approach for motorcycles by 2010.

Road Safety Initiatives:

CMMG opined that MPI's road safety initiatives for motorcycles are greatly underfunded, relative to premiums paid, and requested that the Board "direct MPI to undertake additional motorcycle safety-related activities and report back on the effectiveness of those initiatives."

Motorcycle Declared Values:

CMMG recommended that MPI make available at brokers' offices information related to declared value of motorcycles, to help customers in their selection of what they conclude represents the correct level of coverage.

CMMG noted that the discount currently provided for "family" cars does not extend to motorcycles, and recommended that this "inequity" be corrected, and that motorcycles not being used for business or regular school attendance be provided a discount from regular rates just as is the case for passenger cars.

Comprehensive Coverage:

CMMG stated: that "MPI should add comprehensive coverage to the Basic plan for motorcycles, and suggest(ed) the Board order an analysis of the rate impact of that change".

3.2.4 MBA

In its closing argument, MBA addressed three specific issues with respect to MPI's 2009/10 Basic application: the Aon report; MPI's track record with respect to personal injury claims; and what MBA considers MPI's non-compliance with previous Board Orders.

Aon Report

MBA opined that Aon, in developing its portfolio allocation recommendations, did not take into account the fact that MPI has a virtual monopoly. As a result of this claimed deficiency, MBA suggested that Aon's report "through no fault of its writer, seems to be of limited usefulness to the Board in assessing the investment approach of the Corporation".

MBA cited the testimony of Dr. Hum that there are four relevant considerations when selecting an investment strategy for a monopoly: absence of taxation; equalization payments; infinite planning horizon; and, societal objectives through investment policies.

MPI's handling of Personal Injury Claims

MBA asserted that "the way in which (MPI) handles personal injury claims is not sufficient to discharge (in all cases) its compliance with statutory and contractual obligations to persons who are entitled to insurance benefits".
MBA stated that MPI's own standards for assessing its corporate performance in the area of personal injury claims is low, and that MPI's failure to provide the comparative benchmark study (referred to in Section 11 of Board Order 148/04) prevents the Board from assessing MPI's compliance with the Corporation's statutory and contractual obligations to Basic policy holders.

MPI's non-compliance with previous Board Orders

MBA provided various examples where, in MBA"s view, MPI had not complied with the directions provided in previous Board Orders. MBA opined that "the attitude (MPI) … displays to (the Public Utilities Board) is one of polite tolerance at best."

MBA asserted that MPI's approach to the annual hearings "Effectively … undermines the authority of (the Public Utilities Board) … and it brings into disrepute the administrative law that this Board is trying to put forward and govern."

MBA observed that the Board is a proxy for competition in a monopoly situation, and, as such, its Orders should be complied with. MBA also expressed the view that the purview of the Board should extend to include Extension and DVL, and the intervener urged the Board to be "as loud and forceful as it can in having the legislation changed to extend its jurisdiction".

4.0 BOARD FINDINGS

4.1 Preamble

Now for more than twenty years, the Board has regulated MPI's Basic rates, employing annual rate hearings involving interveners. Interveners have made many contributions, and these have beneficially affected both Board directions and recommendations.
MPI is important to Manitoba, not only for its insurance offerings and related services, but also for its investments in personnel and contracts with insurance brokers, auto body shops and health care providers. MPI's investment pool is one of Manitoba's largest, with approximately 20% of a $2 billion plus portfolio devoted to the bond debt of Manitoba's public sector. Absent MPI's purchases of local debentures, municipal governments would experience more difficulty borrowing, higher interest rates and increased issuance costs – particularly times of market turbulence.

The Board's findings reflect the evidence provided throughout the proceeding, and represent the Board's determination of the public interest. The Board interprets the "public interest" to include the general interests and pocketbooks of policyholders, MPI's own finances, and the broader interests of society (the latter inclusive of the objectives established by the legislature for the Basic compulsory motor vehicle insurance monopoly).

4.2 Rates

The Board finds MPI's proposed 1% overall rate reduction acceptable, and will approve the application as submitted. No other fee and transaction charge changes were proposed, and the Board accepts this as well.

MPI's rate setting methodology is well established, thoroughly tested at the annual rate hearings and actuarially sound and statistically driven. That said, ensuring fair rates across major classes and rate groups is a difficult task requiring judgment as well as

statistical analysis, particularly with the reduced statistical credibility associated with the low vehicle "populations" of certain vehicle categories.

The design of the rate model is subject to annual review and amendment (a review that includes the services of the Board's actuarial advisor) and provides sufficient support to allow adequate confidence. The overall cap of 20% (the maximum increase that is allowed in any year) provides continued assurance of attention to rate shock. That said, if a future situation requires the Board to revisit the cap, it would do so after receiving the evidence and the views of MPI and interveners.

4.3 General Comments

Other than the rate proposal, the elements of this year's hearing that were of particular interest to the Board were:

4.3.1. Evidence of progress on matters raised by the Board in previous orders:

a) Auto theft issue – Thefts, attempted thefts and vandalism claims have fallen sharply, with the annual cost savings to date having a monetary value alone sufficient to justify a 1% average decrease in premiums;

b) Driver Safety Rating program – A special spring 2009 hearing is scheduled to review an expected application from MPI to replace the too-long-outstanding current bonus/malus approach to motivating improved driving behaviour. There is an evident need for improvement in accident counts, with Manitoba's accident levels remaining in the top group of Canadian jurisdictions, representing undue levels of human suffering and unnecessary costs (health, justice, and to the general economy);

c) Traffic law enforcement - MPI reported on its dialogue with the RCMP and City of Winnipeg Police with respect to those agencies increasing traffic law enforcement (red light cameras in Winnipeg do not replace the overall provincial need for increased traffic law enforcement);

d) Investment diversification – MPI has amended its investment policy to provide for increased diversification, that diversification to include three new asset classes (private issues, infrastructure investments and real estate), with the change in emphasis, once implemented, projected to eventually result in a gain of 75 basis points in annual yield -- representative of a potential $14 million of additional annual revenue on a portfolio of $2 billion. The unresolved issue relates to the time required to transition to the new allocation;

e) PIPP analyses and benchmarking – MPI is engaged in a PIPP infrastructure development project expected to lead to efficiency and effectiveness gains, benchmarking and other analyses, all to allow for a fuller understanding of situations, trends and opportunities;

f) Cost allocation - MPI committed to file a review of the cost allocation formulae that establishes Basic's annual operating costs at next year's GRA.. Reportedly, the review has been delayed due to the integration of DVL into MPI's overall operations and the ongoing BPR. Completion of the cost allocation review should allow for improved assurance of appropriate cost allocations, and will assist in the future benchmarking of operating and claims costs with other no-fault and public auto insurers; and

g) Claim development factors – Noting four plus years of significantly inaccurate PIPP claims incurred forecasts (while MPI "budgets" for break-even for Basic operations, over the past four fiscal years net income for Basic exceeded the initial forecast by approximately $300 million), MPI is reviewing PIPP claim development factors.

4.3.2 Board regulatory oversight – MPI is incorporated as one entity, with its divisions and objectives established and affected by policy, legislation, regulation and, of course, current events. While Basic insurance operations represent approximately 80% of overall annual non-investment/non-insurance revenue, and remain the

primary basis for MPI's existence, a significant portion (almost half) of MPI's retained earnings are earned and segregated within its "competitive lines", outside of the Board's purview and current jurisdiction.

With MPI's now-three-year-old cessation of transfers of excess Extension and SRE retained earnings to Basic RSR, a step taken by MPI in response to the Board's disagreeing with the Corporation's proposed conversion to a MCT-based RSR range, MPI also withholds forecasts of future Extension and SRE annual net income, the former affected significantly by the DVL contract with the Province.

The situation is such that the Board finds it impossible to reach an "educated", firm and "thoroughly-arrived-at" conclusion on the Corporation's overall financial strength and prospects, an assessment critical to reaching sound conclusions on Basic rates and rebates.

The Board understands that the share of the Manitoba extension auto insurance market held by private insurers has fallen to 5% or less, and that MPI has a virtual monopoly on that market such that any argument that may have existed for a continuation of the Board's limited jurisdiction over that area of business is now less valid. The lack of transparency affects the ability of the Board to assess non-regulated results and prospects, and far outweighs the worth of the contention that MPI's competitive position would be negatively affected by the Board having access to financial information other than for Basic only.

Drs. Simpson and Hum have properly described MPI's Extension business as being a near monopoly – and, beyond that, virtually all Extension policyholders are Basic policyholders (those that are not may be "layup" customers or national companies with fleets insuring the extension part outside MPI as part of overall corporate policies with national private insurers).

MPI's contract with the Province with respect to former DVL operations is also outside the Board's purview (though what can be more "basic" than driver

licensing and vehicle registration for motorists)? This exclusion makes it impossible for the Board to be fully assured that operating expenditures being incurred by MPI (net of the annual payment from the Province required by the contract) which are now reducing current and future overall MPI net income, are not at least partly attributable to the Province.

Currently, it appears MPI is meeting all of the costs of the BPR, including for software development and related capital expenditures, for driver licensing and vehicle registration system changes. Those areas generate material revenue for the Province.

4.3.3. BPR involves projected expenses of over $100 million, excluding material capital expenditures.

As indicated, the expenditures are occurring within Extension, outside the Board's purview, and, because of the unfinished state of the allocation formulae review and the current deferral of the expenditures, the Board cannot be assured of Basic's future finances.

4.3.4. Auditor reservations, Basic cost allocations.

MPI has suggested (and the Board had anticipated) relying on KPMG's audited financial statements of Basic for assurance that expenditures are being fairly made against Basic. However, while KPMG provided a unqualified audit opinion on the special purpose financial statements representing Basic operations, Rob Kowalchuk of KPMG, subpoenaed by the Board to testify at the hearing, did not confirm that the allocation of operating and claims expenses against Basic were "fair and reasonable." Instead, Mr. Kowalchuk informed the proceeding that the allocation was done in accordance with formulae approved by MPI.

With Basic's costs being set by allocation, and an examination of the overall Corporation's costs denied due to the jurisdictional issue, and with the Corporation's external auditor unable to provide assurance, citing reliance on the

Corporation's policies with no testing carried out to or assess reasonableness and fairness, the Board is unable to confidently conclude on an evidence-based basis the efficacy or fairness of either MPI or Basic expenditures.

4.3.5. Staff complement and operating cost increases (since 1999/00, the overall staff complement has increased from 1,204 FTE to a forecast 1,963 FTE):

A comparison of MPI operating costs and staff complements with those of ICBC, SGI and private industry does not flatter MPI, with ICBC reportedly having reduced staff complement and operating costs since 2000, and SGI and private insurers having increased operating costs but at much lower percentage of increase than MPI (not taking into account the deferral of significant expenditures by MPI with respect to the BPR). MPI has projected that its personnel complement will decline to about 1,850 by 2011, following the completion of the BPR.

4.3.6. Deferral of operating costs:

MPI is recording significant cost deferrals related to the BPR (these costs will only be charged against net income as they are amortized in future periods). The Board is concerned that these deferred costs, in whole or in part, may be required to be expensed upon the implementation of IFRS. Again, KPMG provided no assurances, indicating that to be able to provide assurance it would first require the assessment of management, which KPMG would then review. With over $100 million to be spent on the BPR (the largest investment by the Corporation in its history), if BPR expenditures have to be expensed under IFRS, rather than deferred for later amortization, the Board suspects that adjustment may offset/eliminate the current balance of retained earnings of the competitive lines.

4.3.7. DVL contract and IFRS:

KPMG suggested that the DVL contract, which was reported by MPI to have resulted in a net loss of $11.8 million for MPI's Extension division in fiscal

2007/08, after a recovery of only $20.5 million from the Province (the recovery was reduced from the agreed-upon annual $21 million by $500,000 in fiscal 2007/08 on a one-time basis, reportedly due to unilateral action by the Province, such action apparently related to defray the cost to the Province for aligning the staggered renewal of driver licenses with motor vehicle registrations. In addition, an earlier annual loss to Basic of $6 million of commission offset payments from the Province (implemented ahead of the transfer), the DVL contract may be at risk of being considered an "onerous" contract for accounting purposes upon the implementation of IFRS.

If the concern is realized, and the present value of the DVL contract shortfall “booked”, i.e. charged against net income, it could potentially eliminate the retained earnings of the competitive lines of business. This is a risk separate from the risk of expensing deferred costs, as raised in item 4.3.6.

While a potential "balancing" item may come with the new contract with brokers (that MPI has advised is to result in a commission rate of 2.5% instead of 5% for Basic, potentially bringing over $10 million a year in future savings), the Board is not sanguine as to whether commission savings arising out of MPI’s relationship with its brokers would or should be considered as an offset to an annual loss related to a contract with the Province.

Once again, the Board's consideration of these matters is made more difficult by the jurisdictional issue, and once again, KPMG was unable to provide assurances. Mr. Kowalchuk stated that the auditor’s view would have to await MPI establishing a view on the implications of IFRS, and the details of the contract with the Province. The Board is unaware of any independent review of the contract having taken place, and with the contract having been entered into “outside of” Basic and the Board’s purview, the Board is unable to test the details to determine and/or confirm the fairness of the arrangement to MPI and its

policyholders, and thus is unable to provide an opinion on KPMG"s "onerous contract" concern.

4.3.8. Claims incurred forecasting differences:

Over the past four years, MPI's forecasts of Basic claims incurred have varied from actual claims by $172 million (PIPP claims forecasts have been higher than the actual result), and MPI's actual Basic net income has been $297 million higher than its forecasts.

These material differences between forecast and actual continue into 2008/09. The release of 2009 second quarter results and a new forecast for Basic 2008/09 results indicate that Basic will once again materially out-perform MPI's forecast (with the difference again largely due to over-forecast claims incurred). It is important to note that MPI "budgets" for Basic to break-even each year, and rates are proposed based on those assumptions of break-even. The forecasts also affect the actuarial reviews of capital adequacy, performed annually by MPI's external actuary, Mr. Christie.

These very large differences between forecasted versus actual net income were major contributors to the rebates of the past three years, and raise concerns for parties to the proceeding about MPI's forecasting ability. For the upcoming fiscal years, MPI is again forecasting only modest Basic net income (or deficits) results, and there are ongoing doubts as to the accuracy of these forecasts, substantiated most recently by the amended projections for fiscal 2008/09 and the overall experience of the past five years. (MPI argues that the difference in aggregate forecast versus actual income in Basic net income, going back to the 1994 implementation of PIPP, is negligible; the large differentials of more recent years are offset by differences in the other direction in the earlier years. While this may be an accurate statement, the PIPP came into effect in 1994, and the early years of PIPP operation could be fairly assumed to be much more susceptible to wide variations between actual and forecast results than the last five years.)

MPI has suggested that PIPP loss development factors may be "too high" and that the Corporation plans to review and possibly adjust them, although no estimate of the likely effect was given. With the magnitude of the Unpaid Claims liability related to PIPP being as it is, this suggests that further major differences between MPI's future forecasted and actual net income may occur.

4.3.9. Trucker situation:

Inter-provincial truckers have an option to claim against either WCB or MPI for their accident benefits, and as MPI doesn't collect premiums for the loss exposure on trucker claims (many other provinces do not allow for an option and require claimants to access WCB). MPI incurs a net cost every year that must be subsidized by the rates of non-trucker policyholders. The Board imagines it quite possible that some trucking companies may encourage their employees to file claims against MPI rather than WCB, since such claims have no WCB or MPI premium consequences. The current situation is "costing" Basic policyholders, with costs incurred for truckers for which no premiums having been assessed being in essence subsidized by other motorists, despite continuing profit projections for SRE - a "fix" appears to require legislation.

4.3.10. The government's environmental goals and MPI's rate model:

MPI asserts that changes to the rate model to benefit the environment and reduce green house gases (such as pay-as-you-drive insurance, surcharges on large and/or older vehicles, and premium credits for smaller vehicles) would have to be mandated by government. The Board is not assured that the new advisory committee on "comprehensive emission reduction", with MPI's President a member, will consider such matters for recommendation to government.

The Board appreciates that MPI participated in the Centre for Sustainable Transportation's workshop and that the Corporation intends to respond to the

workshop's recommendations and possible comments on the potential role for the insurance rate model in furthering environmental objectives.

The Board will direct MPI to file a copy of its response with the Board at the next GRA.

4.3.11. Divergence of views, RSR range:

In its 2008 annual report, MPI again criticized the Board, claiming that the Board, with its approved RSR range, risks the Corporation's financial strength. Yet the Board has made it clear to MPI that it is willing to accept MCT as a trend indicator, and that a significant deterioration in that trend could lead the Board to consider amending its RSR range.

By Order 156/06, the Board indicated a willingness to explore ways to eliminate the divergence of views:

> *"The Board accepts the regular development of MCT capital requirements as a means to monitor risk trends and the Board is willing to consider the trend line of MCT in its annual evaluation of the adequacy of the RSR. That said the Board will continue to rely on the Risk Analysis and VAR if and when contemplating a major change in the risk profile of MPI with respect to consideration of the Board's RSR range."* (Page 60, Order 156/06)

This issue is reviewed in more depth in item 4.4 below.

4.3.12 Unsettled investment situation:

A global 'credit crisis" has led to a dramatic decline in equity values, and the market malaise has affected MPI's equities value. These unsettled market and economic times provide a substantial reason for the Board to be cautious in considering a 2009 rebate, MPI has reported having approximately 20% of its $2 billion portfolio invested in equities.

4.4 RSR, Divergence of Views

The Board finds the divergence of views between the Board and MPI (as to what should be the RSR range) not to be in the public interest, and will attempt to bring about a consensus on an RSR range that can be accepted by all parties (Board, MPI and interveners). The RSR range is important, as the RSR is to represent an "adequate" financial backstop against the risk of a future rate shock.

The time is opportune. While MPI's RSR is in excess of what the Board considers to be an adequate range (a condition that would generally be expected to result in the Board directing a premium rebate be paid), unsettled investment markets, Board concerns related to the implications of the upcoming adherence to IFRS accounting standards, and the ongoing issue of the Board's jurisdictional oversight of MPI have led the Board not to direct a rebate to be paid in 2009.

When the question of rebate arises again (likely at the 2010/11 GRA hearing in the fall of 2009), the Board would prefer that the divergence of views will be capable of being resolved. While the Board will make the final call on the matter, it nonetheless prefers a consensus on this important issue.

MPI began in 1971 without any RSR, fully dependent for financial assurance on its insurance monopoly, and backed by the legislature and government that put it in place. The experience of generally-careful actions and monitoring over three-plus decades by different governments provides confidence (for example, the introduction of the good driver discount program in 1988 to address what appeared to be a structural deficit, and, in 1994, the implementation of PIPP on the apprehension of the risk of future unacceptable rate increases) and it therefore suggests that the RSR is only one mechanism by which unacceptably-high premium increases have and can be avoided.

Accordingly, the Board does not agree that the RSR should be so large as to make it a virtual impossibility that a premium surcharge would ever be required. Both the potential

for rebates and that of premium surcharges play a role in providing the balance between the interests of MPI and the interests of its policyholders.

Some of what follows in this section may prove difficult for the majority of MPI policyholders to fully understand, and for this the Board apologizes. If a consensus is to be reached through the Board's transparently open process, it is important that the Board expound on the topic in a way that the regular parties to MPI proceedings (the Corporation and the interveners and their expert advisors) can work with.

The Basic program's Rate Stabilization Reserve is intended to be sufficient so as to avoid occasions of rate shock. While rate shock has been defined in other Board proceedings as an annual overall average increase in premium rates of 10% or more, the "common understanding" of a rate shock in MPI's case, particularly in these times of low inflation, would likely extend to an overall rate increase lower than 10%. And, of course, policyholders experience different levels of premium change regardless of an overall change. In short, to some extent rate shock is "in the eye of the beholder", or in other words, different perspectives are present in different circumstances, and there is no concrete definition of rate shock.

A rate level increase in the magnitude of 10% or more has never occurred since Board regulation began in 1988, and presumably would occur only under dire circumstances, such as an outbreak of severe and sustained inflation, a sustained and dramatic fall in investment values (so severe that it appeared unlikely that full recovery in values would occur), or a catastrophic claims event not adequately covered by reinsurance (the latter potential event would not necessarily lead to a required rate level increase, although it, like the other examples, would most certainly diminish the RSR). Under such circumstances, an already-diminished balance in the RSR might then need to be further "drawn on" to reduce a significant overall rate level increase. Subsequent to the event requiring the RSR to be "drawn on", the RSR balance would be re-built through a measure such as a premium surcharge for a period of a year or more.

In past years, the Board has demonstrated a willingness to rebuild the RSR through premium surcharges. A multi-year RSR plan involving surcharges was approved in 1995, this to rebuild the Corporation's then RSR, which was then in a deficit position. The plan consisted of including an RSR adjustment in rates with consecutive 2% annual surcharges until the RSR was re-built. The Board approved a 2% RSR adjustment in 1995/96, an additional 2% RSR adjustment in 1997/98, and a 1% RSR adjustment in 1998/99 (for a total surcharge of 5%). Subsequently, MPI's results and the RSR recovered and no further surcharges have since been applied.

In the case of a diminished RSR at the time of a large rate level increase required to meet expected future costs and avoid a deficit on annual operations, capping (to avoid rate shock) would lead to the risk of a further RSR decline, giving rise to a challenging situation where an already large (although capped) rate level increase might have to be augmented by an RSR re-building surcharge.

With an investment portfolio in excess of $2 billion (and notwithstanding the divergence of views concerning the proper range for the RSR), the general operative assumption is that MPI is unlikely to ever be at risk of lacking funds to settle claims and pay operating costs.

The question is: how large need the RSR be to serve as the rate buffer outlined above?

Similar (yet different) concerns have led the Office of the Superintendent of Financial Institutions Canada (OSFI) to establish capital requirements for private insurers, through the mechanism of the Minimum Capital Test. Similar, because the types of "catastrophes" that could bring MPI's RSR into play can also occur in the case of private insurers. Similar again, in that both MPI's and private insurers' unpaid claims liabilities include a Provision for Adverse Deviations (PfAD), are subject to the opinion of an actuary, and are audited by an independent external auditor.

Different, however, because:

a) Unlike a Crown corporation such as MPI, private insurers cannot count on legislative and/or government support at times of catastrophe (in short, while a private insurer can and has failed, MPI is extremely unlikely to ever face that fate);

b) MPI operates a mandatory monopoly "Basic" insurance program with an assured market, unlike private insurers which risk the loss of policyholders to competitors when raising premium rates; and

c) MPI's premiums are set by a regulator, the Public Utilities Board, which is mandated to be concerned not only with the position of policyholders but also the financial strength of MPI (realizing that MPI has no specific statutory capital requirement, whereas private insurers' premiums are set in a competitive environment, the growth of which is limited by capital requirements).

Each of the rebates of the past three years resulted from MPI's RSR balance at the end of the preceding year being in excess of the Board's approved RSR range. The Board's range was initially established from the use of the Risk Analysis / Value at Risk (RA/VAR) approach, and has been updated since then to reflect changes in the level of total Basic gross written premiums.

While MPI originally developed the RA/VAR approach (which was accepted by the Board) and originally opposed developing the RSR range by the use of the MCT employed by private insurers subject to the jurisdiction of OSFI, the Corporation later changed its view and adopted MCT as the methodology for determining its range. The Board continued to rely on the RA/VAR approach, considering it to be more relevant for a Crown corporation enjoying a rate-regulated monopoly, and, accordingly, MPI criticized the Board's approach as one representing a risk to the Corporation's future financial condition.

The Board has indicated that it is prepared to rely in part on MCT as a bona fide factor in adjusting the Board's RSR target range, rather than continuing to amend the RSR range solely on the basis of changes in Basic gross written premiums. The Board has also determined that it is in the public interest for a consensus to be reached as to how to set and amend the RSR range, because that range is a major determinant in both rate and rebate decision-making. Both MPI and the Board have a role in protecting the insurer's future financial condition.

At next year's GRA, the Board believes that this process would be best served if MPI again brings forward the idea of expressing RSR target levels in terms of MCT ratios, but separating this from the specification of those target MCT ratios. In other words, progress towards redefining the RSR target range would best be addressed in two distinct steps rather than one.

Such an approach would be consistent with last year's Board order, which invited MPI to come forward with a way to use movement in MCT ratios to update the Board-approved RSR target range, either as a replacement for, or a supplement to, reliance on the change in gross written premium (as the Board now does), but otherwise remaining with the RA/VAR approach for responding to major changes in the Corporation's risk profile.

With a range defined in terms of MCT ratios, there would be no need for annual updates to the RSR range (unless also expressed in dollar terms), only monitoring of actual and forecasted MCT ratios relative to that range. MPI has previously indicated that it would be possible to include actual and even forecasted MCT ratios in a retained earnings schedule similar to schedule TI.14 that has been included within its annual applications.

What would then remain unresolved would be the methodology for independently setting the range (vs. updating the range). The current Board-approved methodology is the RA/VAR approach, while MPI's preference has been to judgmentally select the range after considering the Dynamic Capital Adequacy Testing (DCAT) results and federal regulatory targets for private sector property-casualty insurers.

Ultimately, the choice of RSR target range should be reduced to:

a) choosing and measuring the factors to be considered as contributing to MPI's risk; and
b) deciding on the degree of tolerance for that risk.

With respect to a) above, it is important to realize that the RA/VAR approach and the MCT ratio neither consider the same risks, nor measure risk in the same way (the former being more income statement focused, the latter more balance sheet focused).

To this point, the Board has not been convinced to adopt MCT ratios as the "measuring stick." Perhaps the outcome would be different if more effort was expended explaining the risks the MCT ratio considers, how they are measured, and how this differs from the RA/VAR approach. With next year's GRA, and assuming MPI also wishes to end the divergence of views and arrive at a consensus with the Board as to RSR target issues, the Board anticipates MPI framing its MCT "case" in this way, and accompanying MCT-based information with an updated RA/VAR (using the previously-approved approach), to provide context for a proposed change in approach.

With respect to the tolerance for risk, objective evidence to provide context for this decision would come from responses to specific interrogatories (IRs) prepared to be relevant to the assessing of the variability of capital and earnings, to supplement whatever evidence MPI independently chooses to introduce in this regard.

Subsequently, the evidence provided through the IRs, supplemented by such evidence as MPI may independently place on the record, would be tested through the hearing process (by the Board, interveners and MPI). Ultimately, the choice of a tolerance level for risk will rest with the Board, though it would be hoped that a consensus (such as the one that exists with the Board, interveners and Manitoba Hydro as to what represents adequate capitalization in that case) will form with respect to MPI and its Basic program.

In MPI's closing argument, the Corporation suggested that "… the MCT analysis indicates a 39 percent increase in the top of the range for 2009/10 over the 2007 range." An explanation for such a rate of growth is required.

Firstly, the Board understands that the increase should have been cited as 36%, and was derived from Mr. Christie's Basic DCAT report, completed in December 2007 and filed as evidence in the recent proceeding. It is important to remember that that DCAT report shows actual results up to and including the 2006/07 fiscal year, while projecting results for 2007/08 and subsequent fiscal years. In other words, in a sense the DCAT cited by MPI in its closing argument precedes the latest GRA by one year.

The DCAT report tests the resiliency of MPI's capital position against a series of plausible adverse scenarios, those scenarios viewed as departures from a base scenario. The base scenario, which is summarized in Appendix A to the DCAT report, represents Mr. Christie's modeling of MPI's business plan -- as that plan was at the time of that DCAT. The appendix shows the evolution of retained earnings (comprised of the RSR and the Immobilizer Incentive Fund), and documents the corresponding movement in MCT ratios.

Appendix H to that DCAT report provides a special illustration of the capital levels required to maintain an MCT ratio of 100% throughout the forecast period, a ratio which happens to correspond with the upper limit of MPI's adopted RSR target range. MPI's cited 36% (amended from the 39% to correct for an error) as a required increase to the maximum of the RSR range, to bring the required balance at fiscal year end 2009/10 to $280.7 million. The level of retained earnings projected for fiscal year end 2009/10 results from "modeled" capital injections of $45 million and $36 million in fiscal years 2008/09 and 2009/10, respectively, being necessary to maintain the corresponding fiscal year end MCT ratios at 100%, accepted the assumptions as made.

The MCT ratio is the ratio of *Capital Available* over *Capital Required*. The variable part of MPI's *Capital Available* over the forecast period is the total of retained earnings and Accumulated Other Comprehensive Income (AOCI), the latter being the amount of

unrealized gains and losses on Available for Sale assets. MPI's *Capital Required* is mostly comprised of the sum of the product of prescribed margin factors applied to various balance sheet asset and liability amounts, where the margin factors vary with the level of risk or uncertainty associated with the various statement amounts. The liability amounts involved in this calculation are the unearned premiums, premium deficiency and unpaid claims provisions. Fixing the MCT ratio at 100% as in Appendix H of that DCAT then leads to using the modeled capital injections as required to keep *Capital Available* in step with *Capital Required*.

Appendix H projects that *Capital Available* will increase by about $35 million between fiscal year ends 2007/08 and 2009/10. This is comprised of projected retained earnings growth of about $75 million, to be offset in part by a projected decline in AOCI of about $40 million (the latter all relating to debt securities, mostly bonds). The projected growth in retained earnings is comprised of a projected deficit in net income (before transfers from the Immobilizer Incentive Fund) of about $6 million and the modeled capital injections of $81 million, which in combination with a modeled capital injection of $88 million in fiscal year 2007/08 added about $14 million of investment income to the bottom line over fiscal years 2008/09 and 2009/10.

Appendix H's *Capital Required* increases by about the same $35 million between fiscal year ends 2007/08 and 2009/10. This is comprised of a projected increase of about $7 million on the margins on balance sheet assets, and an increase of about $28 million on the margins on balance sheet liabilities. The latter amount is comprised of about $2.3 million, $0.3 million and $25.4 million, for changes in unearned premiums, premium deficiency and unpaid claims provisions respectively.

Based on this, most of the need for the modeled capital injections arises because of modeled declines in AOCI and modeled growth in the unpaid claims provision, both representing areas of demonstrated significant forecasting uncertainty in the past (e.g., over the past four years, MPI has over-forecast claims incurred by approximately $200

million). This uncertainty was considered when the Board determined the weight to be given to MPI's closing argument in this regard.

As a preliminary and non-binding view of the Board, much like final premium rebates are predicated on retained earnings levels after being booked in financial statements (the initial estimates are based on forecasts), the same practice could apply to the updating of RSR target levels (expressed in dollar terms) should they come to be based on MCT calculations.

If one goes back to the year of the Board's last decision in setting RSR target levels based directly on the RA/VAR approach, one could equally examine the components of the MCT calculation as at the corresponding most recent prior fiscal year end, relating the actual retained earnings level to that implied by the chosen RSR target levels. Going forward from that date, as each subsequent year end MCT calculation is substantially completed, one possible approach to updating the RSR target levels is illustrated below:

MCT-Based RSR Target Range Update (Illustration)
(millions of dollars)

Description	Year End 1	Year End 2
[1] Retained Earnings (RSR + Immobilizer Incentive Fund)	$120	
[2] MCT Capital Available Other Components	$25	$20
[3] MCT Capital Available Total = [1] + [2]	$145	
[4] MCT Capital Required Total	$200	$210
[5] MCT Excess of Capital Available Over Capital Required = [3] – [4]	-$55	
[6] MCT Ratio = [3] / [4]	73%	
[7] Target RSR Range – $	$95 - $125	$106 - $138
[8] Target RSR Range – MCT %	60% - 75%	60% - 75%

Notes:
[7] at Year End 1 is only illustrative
[8] at Year End 1 = {[7] + [2]} / [4]
[7] at Year End 2 = [4] x [8] – [2]
[8] at Year End 2 is carried forward from Year End 1

In this illustration, once the Capital Available Other Components and Capital Required at Year End 2 are finalized, then the RSR range in dollar terms can be updated, carrying forward the RSR range MCT ratios from the prior year-end.

The illustration demonstrates that this can be a much more leveraged calculation for updating the RSR target range than is currently the case (by using the percentage movement in written premium). This is not surprising, given the differing magnitudes between premiums and retained earnings.

This also suggests the RA/VAR approach responds to changing circumstances differently than the MCT, which takes the Board back to the earlier point about the importance of understanding what "risks the MCT ratio considers, how they are measured, and how this differs from the RA/VAR approach".

In summary, the Board concludes that there is reason for optimism that the divergence of views with respect to the RSR target range can be closed through further research, collaboration and review at next year's GRA proceeding.

A consensus on the range would be in the public interest.

4.5 Jurisdiction

As indicated previously, the Board concludes that it would be in the public interest if its jurisdiction were to be extended to allow for the testing of MPI's currently unregulated operations, with the extension in jurisdiction to come either by amended legislation or by direction from government.

With 90% or more of mandatory Basic policyholders purchasing Extension insurance from MPI, and with certain aspects of Basic coverage being consistently found (by the vast majority of policyholders) to be insufficient for personal circumstances, the Board finds it difficult to sustain a view that an Extension policy is anything less than a "basic" requirement.

MPI has a virtual monopoly with its Extension line of business; the evidence for this is both growing and extensive. The evidence includes the small writings of the private insurers still in the field. MPI possesses dominating advantages in the provincial motor vehicle insurance field – common administrative and claim processing platform, a vast agency network tied directly to MPI's computer centre, a mandatory monopoly Basic

product that ties all vehicle registrants and drivers to the Basic program, economies of scale, no income taxes, name recognition, ongoing advertising and communications, government support and ease of customer transactions.

Before and upon the administrative and operating functions of the former DVL of government being transferred to MPI, the Board had indicated its support for MPI taking on administrative responsibility for driver and vehicle licensing.

Driver and vehicle licensing, though the terms are mandated by government, are a "natural fit" with MPI's Basic monopoly, and assist with the potential fulfillment of the Corporation's objectives and interest in accident prevention and road safety. As well, the upcoming transition from the longstanding *bonus/malus* approach to motivating good driving behaviour to a new Driver Safety Rating program is expected to fit nicely into the widening and potentially increasingly effective reach of MPI.

The transfer of DVL operating responsibilities to MPI included a contract between the Province and MPI, one that still raises concerns for the Board. The objectives for the transfer were appropriate (as understood by the Board) and included sought-after customer service improvements, cost savings, increased efficiency, and the reduction of Basic/ DVL overlap and duplication.

The Board notes reported improvements in driver licensing, "one-stop" insurance, licensing and registration through brokers, and the new driver license format (soon to be one-part), and expects the DSR program to add to the list of major improvements based, in large part, on the amalgamation of DVL with MPI.

Yet, the Board has concerns related to the financial terms associated with the new responsibilities, and whether MPI is carrying too much of the overall costs of the venture. Regardless of the cost MPI incurs to develop and operate the driver licensing and vehicle registration functions (with the policy decisions made by government and with government, the recipient of considerable revenue flows from motorists and vehicle owners), the Province agreed to annually pay MPI $21 million, an amount not subject to

inflationary increases. MPI reported that its expenditures on DVL matters for 2007/08 exceeded $32 million.

Additionally, before the transfer of DVL responsibilities, the Province unilaterally ended the payment of approximately $6 million per year to MPI that had been annually credited to Basic operations to offset commission expenditures to brokers incurred by MPI (to pay for the services rendered by brokers related to the collection of vehicle registration fees). In short, vehicle registrations now flow to the Province through MPI's broker network with no cost for collection and remittance incurred by the Province.

MPI has reported plans to expend approximately $100 million on its Business Process Review, a good portion related to the integration of DVL functions and personnel within overall MPI (almost 300 former government employees were "transferred" to MPI, and this excludes further millions on capital expenditures related to operational changes.

MPI has suggested that administrative savings are expected to arise out of the BPR from eventual operating synergies to be identified by the review, though there is no indication in MPI's future forecasts that the losses now being incurred on DVL operations will be recovered. (MPI's staff complement is expected to reach 1,963 - a significant increase from pre-DVL days). .

BPR costs are being incurred on projects such as the PIPP infrastructure program, integrating DVL functions into overall MPI operations, and on actions related to government direction with respect to driver licensing and vehicle registration and personal identity cards. Some of these costs have and will be allocated to Basic, some will rest with Extension (and, presumably, some with SRE).

To the Board's knowledge (and at least to-date), other than the ongoing $21 million payment due from the Province on the DVL contract, reduced by $500,000 in the last fiscal year, none of the BPR costs have yet been billed to the Province. The Board will expect a full accounting of costs incurred on behalf of and to be recovered from the Province.

While DVL's connection to MPI's unregulated and competitive lines of business (SRE and Extension) is tangential in nature compared to the "cause and effect" relationship and importance to mandatory Basic Insurance operations, the linkages and interdependencies between Extension, SRE and Basic are tight. Neither of the competitive lines would be successful without the mandatory Basic program as the foundation. The contract with the Province, with its transactions sequestered within the Extension Division on the choice of MPI, could not exist without Basic. Action taken on any one element of MPI's programming has clear implications for the other elements.

If deductibles were raised for the Basic program, claims incurred would fall for Basic while Extension would realize additional revenue from the buy-down of deductibles. At this proceeding, as with last year's, CMMG noted that the maximum insured value for a passenger vehicle under the Basic program has remained at $50,000, while vehicle prices have, for some models, increased significantly; of course, a motorist can purchase extra protection through Extension.

MPI nevertheless placed DVL and the contract within its Extension division, with its then-Vice-President and CFO testifying that the placement was, in essence, to keep it out of the Board's purview.

MPI's operations (regulated and non-regulated) are integrated, and its investment portfolio represents the co-mingled proceeds of revenues flowing from Basic, Extension, SRE, investment earnings and government. As well, its fixed assets provide the operating framework for the integrated operation. Subsequent to the integration, the costs associated with former DVL functions have become increasingly difficult to identify.

Right now, with Basic the only operation that the Board has jurisdiction to review, the Board must rely on MPI to make allocations correctly and fairly, and that the expenditures on which the allocations are made are cost effective and reasonable.

While MPI's staff complement will (if the Corporation's forecasts prove accurate) have increased by 60% from 1994 and the Pre-PIPP years, and the General Division (which

wrote general property and liability policies) has been wound up, the Board is nonetheless assured by the Corporation that the complement "allocated" to Basic has not changed significantly, even with the Corporation deferring significant costs arising out of the BPR, for later amortization which presumably will be reflected in Basic's "books" through a cost allocation methodology that has not been updated from the years before the DVL transfer.

The Board, though driven by its mandate to seek and determine the public interest, is unable to oblige MPI to respond to questions on the Extension and SRE lines of business. Nor can the Board assure policyholders of fair and reasonable Extension and SRE rates, with those operations, along with DVL functions, behind a wall it cannot now breach. Accordingly, given the seemingly stark choice presented to it by MPI at last year's hearing (and maintained at this year's), the Board has to again count on MPI also being driven by the interests of its policyholders, while asking the government to change the "marching orders".

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

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

While the Board is provided oversight in order to give assurance to the Basic policyholders, that oversight has reduced value when so much of the Corporation operates in lines of business and major contracts that the Board cannot survey. The interveners to the recent proceeding expressed concern with the lack of transparency associated with the current regulatory arrangement; the Board reminds MPI and

government that the involvement of the Board came about as part of an effort to better assure policyholders that rates and fees are fair and reasonable, and to allow for a process that permitted for a meaningful review of MPI's operations.

The time has come to amend the situation and bring increased transparency to MPI operations by extending the scope of the Board's oversight of MPI.

4.6 Rate and Rebate Prospects

Before the Board will consider directing any further rate reductions or rebates, the following work should have taken place and been tested at a GRA proceeding:

1. Further MPI research into the implications of IFRS, with particular attention to the issue of "onerous contracts" and the treatment of development expenses, with the intention of providing additional assurance that the Corporation's overall and Basic financial position will not be significantly, and deleteriously, affected by the adoption of IFRS;

2. Completion and filing of MPI's cost allocation formulae review; and

3. A financial market recovery, followed by reasonable investment market stability.

In considering the potential for either a rate reduction and/or rebate, the Board will continue to consider the following:

a) RSR balances, actual, forecast and target range;
b) IIF balances, actual and forecast;
c) Issued quarterly results for Basic and MPI;
d) Basic net income projections for the current and future years;
e) Extension and SRE retained earnings, to last audited and interim statement dates available;

f) Extension and SRE net income prospects (MPI has withheld future forecasts related to these divisions, leaving only indications gleaned from quarterly unaudited statements);
g) The net deficit on DVL operations, past and projected;
h) MPI's intentions as to Extension and SRE retained earnings;
i) Experience with fluctuations and trends in annual Basic and overall net income;
j) Design amendments to policy benefit programs (involving retroactivity or not), if any;
k) Potential program changes raised in public forums (if any);
l) Investment portfolio balances, yields, and asset mix;
m) Unrealized gains or losses on investments (accumulated comprehensive income), experience and forecast (the Board's assumption that MPI has incurred a substantial unrealized loss on its equity investments through the market downturn largely contributed to the Board's decision not to direct a rebate be paid in 2009);
n) Reinsurance experience and amendments (at the hearing, MPI advised the Board that it had enhanced its reinsurance protection in the light of a major hailstorm loss);
o) Unpaid Claims - growth and variation between actual and projected;
p) Provision for Adverse Deviation (PfAD): balances, experience, changes in factors and underlying assumptions;
q) PIPP experience, trends and forecasts;
r) Budgeting approach; MPI's current approach is to budget for break-even operations, with premium increases or decreases proposed when the budget projects a loss or a sustainable and significant net income;
s) Views on RSR target range and methodology; and
t) Risk Analysis, VAR analysis, and MCT.

No one fact, factor or projection will determine the Board's decisions with respect to either rates or rebates. All factors are taken into account. MPI is an important Crown

Corporation operating a necessary insurance program; Board decisions must continue to reflect the complexity and significance of the operation.

Currently, and assuming an eventual investment market recovery and a return to annual investment yields at least sufficient to match development growth within the Unpaid Claims liability, the prospects for longer-term premium reductions, not counting on the ever-present possibility of a change of mind by MPI with respect to the transfer of excess Extension and SRE earnings to the RSR, are, similar to last year, reasonably good:

a) Substantial annual savings should arise over time as a result of a progressively more effective immobilizer program and, for now, the WATSS initiative;
b) Expected amendments to the investment portfolio's asset mix and diversification is expected to provide increased yield;
c) A well-designed DSR may be more effective than the current *bonus malus* approach in bringing about reduced accident and injury levels;
d) Completion of the PIPP infrastructure development program should lead to improved cost control and earlier rehabilitation of injured claimants, to assist with overall claims incurred and premium requirement;
e) Further planned research into the causal factors of accidents, to develop awareness of the annual costs of such matters as speeding, impaired driving, lack of driver and passenger restraints;
f) Completion of the Business Process Review and the integration of DVL functions within MPI and Basic operations should slow the growth in operating costs and personnel; and
g) Future road design and road upgrade improvements should reduce the incidence and severity of collisions.

With the stability of the current overall gross premium level reasonably assured by such factors as the annual vehicle upgrade and volume factors, evidence suggesting a degree of stability in PIPP development, and with an investment portfolio now committed to more

diversification, the Board confirms that there is room for optimism in terms of further reductions in premiums over the long term.

There are risks ahead as well, of course. In the absence of cost analyses, benchmarks and other performance indicators being developed, negative cost trends could worsen further, risking higher premiums. With the dearth of analyses now available, the Board's optimism is macro-based, with no indication that negative factors will appear.

Of course, premium levels would also be affected by changes to coverage and/or benefits. Some changes of this nature may affect Basic in one direction and Extension in the opposite. MPI has advised of no plans for future benefit or coverage changes of a material nature. Any proposals would best be first costed and then filed and discussed at a GRA, rather than implemented as a *fait accompli.* As well, retroactivity with respect to any future material change to policyholder benefits affects intergenerational equity, as it could involve costs (or savings) for which no premiums would have been collected or affected.

Neither MPI nor the Board can assure policyholders that there will never be a time when Basic rates will have to be increased or surcharged. Foreseen low probability events of high consequence, as well as unforeseen situations, do develop and can cause losses that reduce the RSR below the minimum acceptable level, leading to premium surcharges. This has happened in the past, and more than likely will happen again at some point in the future.

4.7 Other Matters

4.7.1 Corporate Reviews

MPI is involved in the PIPP Infrastructure project, preparing to present a DSR program to replace the bonus/malus system, and continues with the BPR and the integration of DVL into overall MPI administrative functions. The Board encourages and supports this work, toward achievement of:

a) customer service improvements;

b) eventual reductions in accident severity and frequency; and
c) restraining operating costs.

While MPI has suggested that its work on analyses and benchmarking would not be complete until 2013/14, the Board notes the engagement of a software development firm and looks forward to future progress, as the current continuing lack of an analytical framework and benchmarks for PIPP costs approaching twenty years into the program, is not meritorious.

In Order 148/04, the Board commented on the introduction of red light cameras in Winnipeg, and the fact that violations do not result in demerits and surcharges on the owner's license, though fines are imposed upon vehicle owners under the Highway Traffic Act. The Board looks forward to the planned spring 2009 hearing on the DSR, and anticipates that the relationship between red light camera infractions and questionable driving behaviour will be considered.

4.7.2 Investment Portfolio and Related Matters

Investment income is a major contributor to MPI's revenue and its ability to restrain potential increases to premium levels. With an investment portfolio now exceeding $2 billion, investment performance is a major determinant on MPI's financial results.

Underwriting losses are expected, with investment income providing for an annual Basic break-even result. In other words, MPI has no expectation that it will break-even in the future on Basic insurance operations without the investment income allocated from its portfolio.

Thus, the level of future investment income is of critical importance to forecasts of future premium levels, and the amended investment policy calling for increased diversification, and projected to produce additional annual yield, should be implemented.

The Board notes that the Corporation has amended its investment policy to provide for increased diversification, the changes based in large part on the modeling and recommendations of Aon. The new mix, upon implementation and assuming the

investments made in the new asset classes provided for are made for the sole purpose of increasing the investment yield without undue additional risk, will introduce a modest allocation to EAFE equities, Real Estate and Infrastructure investments (assuming also that investments in the Real Estate and Infrastructure classes provide for equity participation), and will provide further diversification of a portfolio now focused on bonds.

While the investment in bonds likely has greatly assisted in restraining the mark-to-market, and presumably unrealized, losses associated with current investment market conditions, long-term experience suggests and warrants increased diversification; while the risk of loss of the principal sum of an investment is reduced with government bonds, and liquidity is generally assured, low interest rates can lead to deficits given on-going inflation leaving aside the risk of increased inflation. An outcome of the recent investment market turmoil has been further reduction in the yields of government bonds, the yields on federal bonds with a duration of 2 years or less is now, at date of the issuance of this order, below that of the current annual inflation rate.

Based on Aon's modeling, the proposed changes are expected to provide for increased annual returns in the order of 75 basis points. It is important to note that Aon's modelling did not take into account present investment turmoil.

The Board notes that MPI has not adopted Aon's recommendation to transition away from Universe Bonds (bonds with maturities ranging from short to long term) to Long Term Bonds, though Long Term Bonds have historically yielded higher than shorter maturity Universe Bonds (particularly the case at this time). Aon had recommended that MPI move from the present weighting of 42% of the portfolio in Universe Bonds to having between 35% and 50% of the portfolio in Long Term Bonds.

MPI has amended its investment policy to allocate only 10% in Long Term Bonds while retaining 30% in Universe Bonds. The Board understands that MPI's reluctance to transition to Long Term bonds is because current yields on Long Term bonds are at recent historical lows and that the spread between Universe Bonds and Long Term Bonds

has also been very narrow. MPI also expressed a concern that a wholesale switch would result in high transaction fees.

The Board further notes that Mr. Bell advised that Long-Term Bonds be included in the recommended portfolio to mitigate risk rather than to achieve higher yields, and that a switch to Long-Term Bonds was in effect an insurance policy addressing the risk of falling interest rates. Mr. Bell also indicated that with Long Term bonds there was likely a chance for slightly higher yields than is the case with Universe Bonds, a position shared by Drs. Hum & Simpson.

Aon recommended that MPI transition from its Universe Bonds allocation as soon as possible, with an option to do so over a period of time as the spread between the yields on long term versus Universe Bonds changes.

The Board is of the view that MPI should monitor its holdings in Long-Term Bonds and revisit Aon's recommended strategy from time to time. The Board observes that approximately one-third of MPI's bond portfolio has been turned over annually, so a phased approach to a greater weighting in Long-Term Bonds warrants consideration towards mitigating risk.

That said, given the current turmoil in financial markets, MPI should act cautiously while not losing sight of the long-term financial well being of MPI (as compared to short term results and horizons). MPI is not a private insurer subject to the risks of loss of policyholders to other insurers or of OSFI capital assurance requirements. Its future is intended to be of infinite length. The risk of short-term fluctuations in market value should not drive MPI's investment strategy.

And, while the Board acknowledges that the Department of Finance, by virtue of legislation, has the 'final call" on MPI's investments policies and practices, it is reminded of the overall purpose of the Basic program, that of benefiting motorists.

4.7.3 Environmental Matters

Transportation emissions are a major contributor to overall greenhouse gas (GHG) emissions, and a recognized danger to the environment. *The Sustainable Development Act* (SDA) requires all public bodies, including the Board and MPI to pursue environmental objectives. Older vehicles emit multiples of the CO_2 emissions associated with newer vehicles, and vehicle weight and distance driven also are major factors with respect to the overall volume of emissions.

The potential involvement of the rate model to further environmental objectives may well be a contradiction of “basic insurance principles” and would be impossible (if not virtually impossible) to implement in the case of a competitive mandatory vehicle insurance market, but Manitoba is not such a market.

The Board notes that MPI participated in a workshop hosted by the Centre for Sustainable Transportation, and that the Corporation will be providing a response to the workshop’s recommendations dealing with sustainable transportation and the potential role of the insurance rate model. The Board will direct MPI to file a copy of its response with the Board at the next GRA.

MPI should conduct further research into this matter. As well, it would be helpful if government provided its view and direction to MPI (which should be shared with the Board at the next GRA).

4.8 Concluding Remarks

The Board was asked to approve an overall rate decrease of 1% for 2009/10, with no rebate and no change to other fees or transaction charges. The Board worked through the issues before concluding that the application would be approved as submitted.

Reaching that conclusion was made difficult not only due to very unsettled investment markets and MPI’s reliance on “reasonable” yields on investments to offset expected

ongoing underwriting losses, but also because of the Board's limited jurisdiction, with a great deal of MPI activity and expenditures being carried on outside the Board's purview, affecting not only Basic but the overall strength of the Corporation.

MPI declined to provide information and forecasts related to "competitive lines" (which include DVL). With the BPR being driven through Extension, and a lack of current cost allocation review or a new Risk Analysis, problems were presented. Accordingly, the Board cannot provide policyholders with assurance that MPI's operating expenditures, including those being deferred, are prudent, nor can it provide policyholders assurance that costs being incurred by MPI with respect to the BPR and the operations of its new DVL responsibilities (that should rightly be paid by the Province) are or will be billed to the Province.

On another topic, the Board wants to work toward achieving a consensus as to what constitutes a proper RSR reserve. The Board would also prefer to understand under what circumstances would MPI consider a return to transferring its excess Extension and SRE retained earnings to the Basic RSR. Reaching a consensus may be difficult, but an effort is justified; it is not in the public interest to have such a wide divide.

The route to future premium reductions, and the potential for improved benefits, largely rest with:

a) developing an improved understanding of PIPP experience – this is expected to follow the successful completion of the PIPP infrastructure project;
b) the implementation of the Driver Safety Rating program, to follow the scheduled April 2009 public hearing of MPI's to-be-released proposal;
c) further success from the anti-theft initiative;
d) further improvements to driver education and training, and further research into the causal factors of accidents;
e) completion of the BPR, and the development of benchmarking and comparative industry analyses related to claims incurred, operating costs and personnel complement levels, all geared toward enhanced operating efficiencies;

f) a transition to a more diversified investment portfolio, and, of course, the recovery of investment markets from the current and significant downturn, that recovery to include a return to “normal” bond yields vis a vis general price inflation;
g) consideration of future and, hopefully in advance of implementation, fully-costed coverage improvements and benefit enhancements;
h) continued consultation with policyholder and other interest groups between hearings on road safety, driver education and benefit design;
i) identification and resolution of policyholder equity issues across existing boundaries between Basic and the competitive lines;
j) improvements to MPI operating transparency with respect to the “competitive” divisions and the administration of the DVL contract; and
k) direction from government as to whether MPI’s rate setting model is to be employed to pursue environmental objectives.

The Board’s past concerns with MPI’s non-compliance with repeated Board directions and recommendations for cost analyses, benchmarks and comparisons were somewhat alleviated at this proceeding with MPI’s commitment to the PIPP infrastructure project and the on-going BPR.

However, with much of MPI’s operations outside the Board’s purview, the Board remains unable to fully assure itself of the appropriateness of current efforts. Understanding the factors that drive costs requires an understanding of the integrated nature of MPI’s operations on an overall basis; such a view is required and relates directly to the Board’s ability to form a complete and accurate perspective on the adequacy and fairness of rates.

5.0 IT IS THEREFORE RECOMMENDED:

5.1 THAT GOVERNMENT

5.1.1 Either bring forward legislation providing the Board with authority to review all aspects of MPI's operations, or direct MPI to share (in confidence, if necessary, with the Board) such information on non-Basic operations which the Board deems necessary to allow for an informed view as to the Corporation's financial position, prospects and transactions.

(Board staff and advisors would be assigned by the Board to work with government and MPI to devise regulatory options sufficient to meet the concerns of the Board, while providing adequate safeguards for information deemed competitively-sensitive by government and MPI.)

5.1.2 Direct Crown Corporation Council to conduct an operational review of MPI's operating costs and staff complement levels, looking back to the levels of expenditure and employee complement of pre-PIPP days, the changes associated with the wind-down of general insurance and reinsurance assumed, the effect on staff complement and operating expenses of the adoption of PIPP, and, subsequently the integration of former DVL operations, and such other changes associated with new or expanded areas of interest, and forward to projections for future years, while comparing and taking into account the 1990s and since experience of ICBC and SGI, and share the review with the Board at the next MPI GRA or, if deemed necessary by government, in confidence.

(The Board has experience with confidential filings, although, with respect to an operational review considering MPI's employee complement and operating cost levels, issues subject to the interest and testing of

interveners and the Board at the annual rate hearings, a case is yet to be made that confidentiality is either desirable or required.)

5.1.3 Provide MPI with its perspective and/or direction on the potential employment of the premium rate model to further government's environmental objectives.

5.2 THAT MPI

1. Support the Board's recommendation to government that the Board's regulatory oversight be expanded. – **continued recommendation from 2004, 2005, 2006 and 2007.**

2. Until and if a legislative amendment eliminates the right of an inter-provincial trucker to claim on MPI for a workplace motor vehicle accident, sufficient net income to cover the annual subsidy provided by Basic to inter-provincial truckers should be transferred to Basic out of the net income attributed to the inter-provincial trucking policyholder segment of SRE.

   Basic policyholders should not be providing subsidies to the inter-provincial trucking industry; that is a provincial responsibility if it is deemed necessary by government.

3. Proceed to implement the revised asset classes of the amended investment policy towards improving expected investment yields without unduly increasing overall investment risk.

4. Restrict or prohibit the selling of securities for the sole purpose of generating investment gains, only to repurchase the identical securities.

5. Seek direction from government concerning the potential use of the rate-setting model to further environmental objectives. – **continued recommendation from 2006 and 2007.**

6. List and consider potential improvements to Basic coverage, and develop analyses providing the premium and cost implications of options, and the potential impact on Extension and/or SRE, for discussion at the next GRA. – **continued recommendation from 2005, 2006 and 2007**.

6.0 BOARD DIRECTIVES:

BE IT ORDERED THAT:

1. MPI's proposal for Basic motor vehicle premiums and fees for the Basic Automobile Insurance Program for the year ending February 28, 2010 be and are hereby approved.

2. The RSR range for Basic Insurance for ratesetting purposes be reset to $76 million to $115 million for the 2009/10 fiscal year.

3. MPI file with the Board at the next GRA its response to the recommendations arising out of the Centre for Sustainable Transportation's environmental workshop.

4. MPI provide an update to the Board, on or before June 30, 2009, on:

   a) the Business Process Review and PIPP Infrastructure Project (including a full accounting of costs incurred on behalf of and/or to be recovered from the Province);

   b) further progress related to auto-theft initiatives;

   c) the Corporation's views on "bringing about a consensus" on Rate Stabilization Reserve issues; and

   d) responses to recommendations.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"
Chairman

"GERRY GAUDREAU, CMA"
Secretary

Certified a true copy of Order No. 157/08
issued by The Public Utilities Board

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Secretary

Appendix A

Glossary of Acronyms and Terms

Basic	Compulsory motor vehicle insurance
Bonus/Malus	Incentives/penalties to encourage good driving
BPR	Business Process Review
CAA	Canadian Automobile Association
CAC/MSOS	Consumer's Association of Canada/ Manitoba Society of Seniors
CMMG	Coalition of Manitoba Motorcycle Groups
DCAT	Dynamic Capital Adequacy Test
DSR	Driver Safety Rating (intended replacement for the Bonus/malus program)
DVL	Driver and Vehicle Licensing
ERP	Equity risk premium (equity investments)
EAFE	Europe, Australasia and the Far East
Extension	Optional motor vehicle insurance
GHG	Green House Gas
GRA	General Rate Application
IBC	Insurance Bureau of Canada
IBNR	Incurred but not reported
ICBC	Insurance Corporation of British Columbia
ICWG	Investment Canadian Working Group (MPI)
IFRS	International Financial Reporting Standards
IIF	Immobilizer Incentive Fund
MAR	List of vehicle makes/models of passenger vehicles most frequently stolen (i.e. Most at Risk)
MBA	Manitoba Bar Association
MCT	Minimum Capital Test
Monopoly	Policies that can only be sold by one corporation (MPI)
MPI	Manitoba Public Insurance Corporation
MUCDA	Manitoba Used Car Dealers Association
MUSH Bonds	Municipal, university, school and hospital bonds

Near monopoly	Description of market domination in a competitive market due to distribution and other advantages by an insurer (MPI)
No-fault	Accident benefits not related to the fault of the driver
Onerous contract	A IFRS-defined term signifying a contract that involves costs in excess of revenues, expressed in net present value
OSFI	Office of the Superintendent of Financial Institutions (federal)
PfAD	Provision for Adverse Deviation (an element of Unpaid Claims)
PIPP	Personal Injury Protection Plan
Police	RCMP and Municipal police services
RCM/TREE	Resource Conservation Manitoba/ Time to Respect Earth's Ecosystems
RSR	Rate Stabilization Reserve
SAAQ	La Société de l'assurance automobile du Québec -
SDA	Sustainable Development Act (Manitoba)
SGI	Saskatchewan Government Insurance
SRE	Optional Special Risk Extension motor vehicle insurance
Tort system	Benefits paid take into account the allocation of fault
Total no-fault	Benefit approach that does not account for the fault of the driver
VAR	Value at Risk
VIC	Vehicle Information Centre
WATSS	Winnipeg Auto Theft Suppression Strategy
WPS	Winnipeg Police Service

Appendix B

Appearances

Walter Saranchuk, Q.C. Candace Everard	Counsel for The Manitoba Public Utilities Board
Kevin McCulloch	Counsel for Manitoba Public Insurance Corporation
Gerry Kruk Donna Wankling	Representing the Canadian Automobile Association (Manitoba Division)
Raymond Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups
Byron Williams	Counsel for the Consumers' Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors
Robert Dawson	Counsel for the Manitoba Bar Association

Appendix C

Witnesses

for MPI

Marilyn McLaren	President and Chief Executive Officer
Keith Ward	Executive Director, Service and Safety Operations
Don Palmer	Vice-President Finance and Chief Financial Officer
Ottmar Kramer	Director of Finance & Controller
Jeremy Bell	Aon Consulting Inc
Robert Kowalchuk	KPMG LLP

for CAC/MSOS

Derek Hum	Professor of Economics, University of Manitoba
Wayne Simpson	Professor of Economics, University of Manitoba

Appendix D

Interveners

Canadian Automobile Association - Manitoba Division (CAA)

Coalition of Manitoba Motorcycle Groups (CMMG)

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

Manitoba Bar Association (MBA)

Presenters

Ruth Adams
Michael Law, President Manitoba Bar Association
Doug Houghton
Andrew Chimko
Hugh Arklie
Virgilio Ramos
Anita Bowden